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PROCEEDINGS OF A CONFERENCE HELD IN BOGOTA, COLOMBIA

Edited by
Shahid Javed Burki
Sri-Ram Aiyer
Rudolf Hommes

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POVERTY & INEQUALITY

ANNUAL WORLD BANK
CONFERENCE ON
Development in
Latin America
and the Caribbean
1996

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AND CARIBBEAN STUDIES
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Introduction

Keynote Address: Inequality and Economic Growth

FRANÇOIS BOURGUIGNON

IT IS A GREAT HONOR AND A GREAT PLEASURE TO HAVE BEEN ASKED TO GIVE THIS OPENING address of the second ABCD-LAC conference on the reduction of poverty and inequality. The honor, of course, is to address such a distinguished audience on such an important topic. The pleasure is to be back to Latin America and to Bogotá after many years and to see a number of old friends again. How could I ever forget that it was in Chile that I first became interested in income distribution issues and that it was in Colombia that I got into the development of income-distribution-oriented computable general equilibrium modeling approximately twenty years ago?

I must also confess that this invitation caused me a lot of embarrassment when the time came to decide what I would talk about. First, I had grandiose plans of surveying exhaustively the area of inequality and economic development, but I then realized this was better suited to academic lecturing in front of graduate students than to an after-dinner event. I then thought I would focus on pure evidence and policy issues, but the various attempts I made in that direction proved either trivially consensual or perilously controversial. Not surprisingly, I finally settled for the compromise and the midway solution, which consists of a quick tour of what economic researchers interested in income distribution have learned over the last ten years or so about the general relationship between poverty, inequality, and economic development, and then some policy implications of this progress—namely, the utmost importance of redistribution policy. I know this lacks originality. My only excuse is in the hope that such a perspective may be an efficient introduction to the discussion we will have during the coming two days.

The first important thing we have learned over the last ten years is that income distribution—shorthand for the dis-

tribution of economic resources—is alive, or, in other words, that it is capable of movements, and in some instances rather big and sudden movements. Curiously enough, this was not so obvious before, and economists specializing in income distribution issues often appeared to their colleagues like paleontologists working on fossils. Income distribution seemed essentially unchanging over time, or changing at an extremely slow pace. Redistribution was thus the important matter, and indeed it formed, under one form or another, the bulk of the literature on distribution in the 1970s.

This view of a rather rigid distribution of income had important consequences on the subsequent analysis of the relationship between inequality, poverty, and economic development, and in particular on the tendency to consider income distribution as fundamentally exogenous. It must now be realized that GDP growth and income distribution are two sets of endogenous variables that are part of a complex dynamic system still largely unexplored. Hence the considerable ambiguity of many economic modeling exercises articulated around distribution.

That the distribution of income is not constant and is capable of changes in relatively short periods of time has

been dramatically illustrated by the recent experience of the United States and the United Kingdom in the 1980s, and in Latin America by Argentina and Brazil during the same period. In all these countries, inequality—whatever way it is measured—increased enormously in a matter of a few years and reached levels unseen during several decades. It is now close to its 1950 level in the United States, and may have set an all-time record—since inequality data have been collected—in both Argentina and Brazil.¹

It is important to stress that I am referring here to income inequality and not to poverty as such, or more exactly, absolute poverty. The reason is that it is my belief that, to a large extent, changes in absolute poverty reflect primarily changes in the mean income per capita of a population and must therefore be handled with standard macroeconomic rather than distribution-specific analytical instruments. For instance, absolute poverty—as measured by the proportion of the population below US\$75 a month at 1991 prices—increased by 50 percent in the 1980s in Latin American countries.² But this is, before all, the result of a concomitant 10 percent drop in GDP per capita for the whole region, and must thus be analyzed in the first place as the negative social effect of a major recession, even though the cost of this recession in terms of poverty would have been less pronounced if, other things being the same, the initial distribution of income in Latin American countries had been more egalitarian and if efficient safety nets against extreme poverty had been put into place with enough time.

More important for my purpose is the evolution observed in Brazil, where GDP per capita remained approximately stagnant but absolute poverty increased because of a substantial worsening of the income distribution. I believe that it is more this kind of phenomenon that must be the subject of our attention here than the consequences of a recession or fluctuation in GDP per capita. Structurally, it is relative poverty that matters—that is, the proportion of people below some given fraction of the mean income, and therefore the whole distribution of income. This is so because relative poverty coincides with absolute poverty when GDP per capita is low or stagnant, because it will not automatically disappear with growth—as in the familiar trickle-down argument—and, finally, because it requires policy instruments very different from growth-oriented ones to be cured.

Time constraints prevent me from spending more time on the reasons why there has been such an increase in

inequality during the 1980s in the countries I mentioned before. There is a voluminous literature on this subject, which I cannot summarize here. Let me only stress that changes in the structure of earnings observed in both the United States and the United Kingdom across skills are only part of the story. Changes in family composition and other sociodemographic characteristics of the population also had a negative impact on the distribution in the United States—in particular, the increased proportion of single mothers. But the most striking phenomenon is that inequality seems to have increased in both the United States and the United Kingdom independently from all standard socioeconomic characteristics of individuals or households. In other words, whatever group one considers, however precisely it may be defined—for example, male workers aged 40 to 50 in manufacturing, or female white-collar workers aged 20 to 30 in services—inequality of earnings significantly increased during the 1980s.³ Interestingly enough I have the feeling that things are not that different in the case of Argentina and Brazil, but this needs to be checked more carefully. In any case, there is something new here that may modify our tendency to interpret changes in income distribution in macroeconomic rather than microeconomic terms, and that again tends to insulate the analysis of the evolution of the distribution of income from that of GDP and its structure. Policy instruments able to counteract such changes are also very different in both cases.

There is another feature in the evolution of the distribution of income in industrialized countries that is worth stressing because of the evidence it gives of the potential role of built-in redistribution mechanisms. The inequalizing factors observed in the United States and the United Kingdom were also present in other countries at the end of the 1980s. Increases in earnings inequality took place in countries like Sweden, Finland, Canada, Germany, and France. At the same time unemployment rose substantially in a number of countries. Yet the evolution of the distribution of disposable household income per adult equivalent showed almost no sign of worsening in these countries, unlike what was observed in the United States and the United Kingdom. Although there were certainly other factors at work, it is difficult not to think of the redistribution system operating in these countries—at a time where part of these systems were downsized in the United States and the United Kingdom—as responsible for this insula-

tion of the distribution of household disposable income from inequalizing phenomena related to the labor market.⁴

The implications of volatile income distribution may be serious if one accepts the hypothesis that a transitory increase in relative or absolute poverty may have substantial persistent negative effects on individual earnings abilities—for example, hysteresis effects. Hence the importance of built-in safety nets and redistribution devices of the type that may have been at work in continental Europe and Canada at the end of the 1980s. The same holds true of macroeconomic fluctuations in GDP per capita when they affect absolute poverty, even though recessions of the magnitude observed in Latin American countries during the 1980s were clearly calling for more ambitious poverty-reducing programs.

I now come to my second stop in my tour of the recent literature on inequality and economic development. Another thing we have learned during the 1980s is that, contrary to what was once thought, there is no systematic relationship between income inequality and the level of development. More interestingly, however, we seem now to be able to rationalize how the equality of the distribution of income and other resources may affect positively the long-run rate of growth of an economy. Although these are for the moment only tentative hypotheses, I believe they are important because they could possibly change radically the way to think about redistribution issues in a growth context.

The so called Kuznets Curve hypothesis says there is an inverted U-shaped relationship between the degree of inequality of the distribution of income and the level of development. In other words, inequality in a given country would first tend to increase as economic development proceeds and then would decrease after some threshold has been passed, thus accentuating trickle-down effects of growth on the poorer part of the population. Kuznets had derived this hypothesis from the observation of the long-run evolution of some proxy of the income distribution in the United States, the United Kingdom, and Germany. It was then extended to cross-sections of countries by F. Paukert, M. Ahluwalia, and others, with the implicit assumption that all countries would follow identical paths as far as GDP per capita and income inequality were concerned.⁵ Although there are good theoretical reasons to believe that such a relationship may exist for a given country, we are now convinced that their weight is very limited in comparison with many other mechanisms that may conceivably link the distribution of

income and economic development. Also, empirical attempts at checking something resembling a cross-sectional Kuznets Curve failed when the original data sample was extended so as to cover more countries or more recent years. Thus, we are now agnostic on the relationship between the degree of income inequality within a country and its level of development. All evolutions seem to be possible and have actually been observed at some stage in some country. Moreover, it must be kept in mind that redistribution may exogenously modify the distribution of incomes of any country at any moment.

It is precisely on the consequences of some particular redistribution of income and economic resources for growth that several economists have been working intensively over the last five years in the light of the “new” or “endogenous” growth theory. No definitive result has been produced so far, either on theoretical or empirical grounds. Yet several ideas have been put forward that I believe are worth taking into account because they may significantly renew the way we think about redistribution.

The basic idea of endogenous growth theory is that there are externalities in any economy that prevent the law of diminishing marginal returns to progressively slow down growth and possibly bring it to a stop. These externalities may be of different types: learning-by-doing technical progress, better coordination of automatic transmission of knowledge in a more educated labor force, the productive role of public infrastructure, etcetera. Thanks to them, it is possible to accumulate more and more physical and human capital without having the rate of return of these factors fall over time.

All this is fine, and as a matter of fact not really new, since it is well known that such hypotheses were at the heart of early thinking on growth and economic development. The nice thing is that this theoretical apparatus also ties in very simply with the inequality of the distribution of economic resources and poverty.

We know that in the presence of externalities, market mechanisms are inefficient because agents do not take these externalities into account in their economic decisions. So, entrepreneurs ignore the fact that by innovating their own business they will increase the productivity of competitors who will imitate them. Likewise, parents do not take into account the fact that by sending their children to secondary school they not only increase their future earnings, but also possibly the future earnings of the people they will work

with. In other words, markets do not send the right signals and agents do not make decisions that are socially efficient. Education should be paid more than it actually is, so that more parents would send their children to secondary school. Likewise, technical innovations should be paid more than they are, so that more entrepreneurs would invest in research and development. The consequence is that the economy is inefficient in the sense that the accumulation of factors responsible for growth is too slow and the resulting rate of growth is too low.

A way to fix things up is to modify market signals through taxes and subsidies. Factors whose accumulation produce externalities should be subsidized through taxes levied on other factors. But it is quite clear that these transfers will alter the distribution of income at the same time that the rate of growth is modified. Thus, we have identified here a direct way through which distribution, or maybe redistribution through taxes and subsidies, and economic growth may interfere with each other.

Part of the recent literature on this subject goes further by investigating the degree of redistribution likely to come out from some collective decision-making process on taxes and subsidies. Applying principles like that of the median voter then leads to the conclusion that the initial distribution of resources in the economy determines the extent of redistribution in it and therefore its rate of growth. In particular, some authors find with this type of reasoning that more egalitarian countries should enjoy, other things being equal, higher growth rates than others, a prediction that they prove is not informed by available cross-sectional evidence.⁶

I am personally not willing to go that far, and I fear that the evidence I just mentioned is not that robust. What I see as the important contribution of this burgeoning literature is essentially the formalization of the idea that, unlike what was common belief some twenty years ago, redistribution from some factors to others, and therefore from one part of the population to another, less well off, may enhance economic growth because of the original inefficiency of the economy due to unexploited externalities. It must also be stressed that the same conclusion obtains in slightly different context, where the inefficiency of the economy is not due to the presence of externalities but to market imperfec-

tions, especially credit-market imperfections preventing poor individuals from realizing potentially productive investments, a case that seems well adapted to less advanced countries. In both cases, redistribution thus appears to yield potential collective gains and the direct efficiency loss normally associated with any redistribution. It even becomes possible that such a distribution be accepted by a majority of the population: the beneficiaries, of course, but also some transferors who would be net gainers from faster growth in the long run. The main recommendation to be drawn from this recent literature is thus that there may be scope for progressive poverty-reducing and growth-enhancing redistribution. The difficulty is to identify precisely the transfers to be undertaken. But considerable efforts will be necessary to reach that goal and to put into evidence the efficiency gains to be obtained from redistribution.

On the contrary, and this will be my last (quick) point, we seem to have learned in the last twenty years or so that, unlike what was initially thought or hoped for, redistribution could be costly in terms of efficiency. The implicit recognition of this fact may be behind the wave of liberalism that has developed in many countries since the late 1970s. Indeed, in several countries redistribution was considered costly enough to justify a substantial reduction in its scale. This is true, of course, of the United States and the United Kingdom, but is also under discussion in several continental European countries. In Latin America and other regions, efficiency considerations also led to substantial cuts in transfer programs like food subsidies during the recent adjustment process.

It is always difficult to argue against such decisions, which clearly depend on the subjective weight given to inequality-reduction and poverty-alleviation versus efficiency costs, as well.

Notes

1. See Bourguignon and Morrison, 1994, for the first statement, and Morley, 1995, for the second.
2. See Morley, 1995.
3. See Levy and Murnane, 1993; and Juhn, Murphy and Pierce, 1993.
4. See Gottschalk, 1994; OECD, 1995.
5. For a critical survey see Anand and Kanbur, 1993.
6. See Bourguignon, 1996, for a survey.

Opening Statement: Dismantling the Populist State

S H A H I D J A V E D B U R K I

GOOD MORNING, LADIES AND GENTLEMEN. I AM DELIGHTED TO HAVE THE OPPORTUNITY TO welcome you all to the Second Annual Bank Conference on Development in Latin America and the Caribbean: ABCD-LAC, for short. You will recall that we inaugurated this series of conferences last year in Rio de Janeiro, Brazil. The theme of the conference last year was a broad one. It dealt with the structural changes that had occurred in the countries of the region over the last several years, the reforms that needed to be pursued with vigor and determination, and the opportunities that were available to the countries of the region for increasing the rate of growth of their economies. Professor Sebastian Edwards and I wrote a background paper for last year's conference. We gave it the title "Quickening the Pace," and we presented three basic themes in that paper.

One, the reforms aimed at achieving macroeconomic stability that were undertaken by several countries had produced remarkable results. That notwithstanding, it was important that no slackening took place in the pace of reforms. Like Alice in Wonderland, Latin America and the Caribbean have to run twice as hard to keep their place in the global economy.

Two, we suggested that it was important for the region to pay special attention to alleviating poverty. Quickening the pace of economic growth was an important prerequisite for addressing the problem of poverty and income distribution.

Three, there was no reason why the Latin American and Caribbean Region could not, over time, double the rate of growth it had achieved in the years 1991 to 1994. We identified a number of policies that needed to be adopted to achieve this objective. We were of the view that within a decade, by the year 2005, the Latin American and Caribbean Region could achieve rates of growth comparable to those that were commonplace in East Asia.

Professor Edwards and I have written another paper to serve as a background for this year's conference. We call it "Dismantling the Populist State." Let me take a couple of minutes to present the main conclusions of this new paper, in order to set the stage for the deliberations scheduled for today and tomorrow.

I would like to emphasize the following five conclusions that we reach in this document:

First, we suggest that the Mexican crisis of December 1994 and its impact on some countries of the region has not changed in any significant way the growth calculus we presented in our first paper, "Quickening the Pace." The Mexican crisis may have set back the region by a year or two, but there is no reason to believe the Latin American and Caribbean Region cannot grow at rates of two to two-and-a-half times the rate of increase in their population. Rates of growth of this order could be achieved in the first decade of the twenty-first century.

Second, even though the Mexican peso crisis is not likely to have a significant effect on the medium-term

prospects of the Latin American and Caribbean Region, it is important that the countries in the area protect themselves against the pressures that produced difficulties for Mexico in the first place. To do this, we recommend that these countries should proceed with what we called the "second-generation reforms" in our first paper.

Third, we argue that the successful implementation of second-generation reforms would require taking full cognizance of the political and social consequences. These reforms are likely to pose difficult adjustment problems for those groups of people who stand to benefit from the preservation of the status quo. Labor unions, unions of professionals, and teachers' and medical workers' associations, for instance, are likely to be hurt over the short term as countries begin to dismantle the populist state. They are bound to resist this change and work for the preservation of the populist state.

Fourth, we suggest that dismantling the populist state is a necessary condition, not only for achieving high levels of sustained growth, but also for improving income equality. Without a significant improvement in income equality, it would not be possible to efficiently translate growth into significant poverty alleviation.

Fifth and finally, we believe that the dismantling of the populist state would result in the creation of a new type of state. What is required is a fundamental change in the role of government—from being an owner and operator to being a policymaker and a regulator. The reformed state would work closely with the private sector to develop a competitive, outward-looking, and employment-generating economy.

Let me now turn more specifically to the theme of this conference: the prospects for reducing poverty and improving equality in Latin America and the Caribbean. To start us off, it might be useful to enumerate a few changes, a few things that we know about poverty and income distribution in the region. I would like to emphasize the following points:

One, Latin America is one of the two developing regions in the world, the other being sub-Saharan Africa, in which the incidence of poverty has increased over the last ten years. Not only has the number of people living in poverty increased, the proportion of the poor of the total population has also risen. The World Bank has calculated that in 1987 the Latin American and Caribbean region had 91 million people living in absolute poverty. The poor then constituted

22 percent of the total population. In 1993, six years later, the number of poor had increased to 110 million and the proportion of the population had grown to 23.5 percent.

Two, the Latin American and Caribbean Region has the most pronounced income disparity of all developing regions in the world. To give you a couple of examples: In Brazil, the bottom 20 percent of the population accounts for only 2.5 percent of total income; in Peru, the income of the wealthiest 10 percent of the population is 80 times the income of the poorest 10 percent.

My third point: With every passing year, poverty in Latin America and the Caribbean, or LAC, is becoming a predominantly urban phenomenon. Some 75 percent of the population of the region live in urban areas and some 60 to 65 percent of the poor live in the region's cities.

Four, the crises in Mexico and Argentina have demonstrated in a vivid way that economic shocks can have severe consequences on both income distribution and the incidence of poverty. The belief that trends in income inequality are not subject to certain change has been squarely challenged by what we know about the social consequences of the Mexican and Argentine downturns.

Five, poverty in the Latin American and Caribbean Region has pronounced regional, ethnic, and gender dimensions. If we were to identify groups that need assistance, we would include among them indigenous people living in the southern states of Mexico, in Central America, in the highlands of the Andean states, and in the Amazon region. The list would also include women, particularly female heads of households in the region's megacities, and it would certainly include the street children, also in the region's large cities.

I have presented these facts about poverty in the region to indicate that we know enough about this phenomenon. Our information base is robust enough to warrant state and policy action. It is my expectation that this conference will shed important light on what kind of initiative policymakers should take to address the problem of poverty and extreme income inequality in the region.

Before concluding, let me announce that the Third Annual Bank Conference on Development in Latin America and the Caribbean will be held in Montevideo, Uruguay about this time next year. It will focus on trade, both emerging trends in the region's imports and exports, and the impact of organizational changes that are taking place.

Uruguay is an appropriate place to discuss this subject. After all, the Uruguay Round of trade negotiations resulted in many fundamental changes in international commerce and the way nations trade. We will take stock of the

implications of these changes for the region of Latin America and the Caribbean in our conference in Uruguay next year. Thank you very much.

Welcoming Address: Poverty in Colombia

R U D O L F H O M M E S

I WOULD LIKE TO GREET ALL PARTICIPANTS AND WELCOME THEM TO BOGOTÁ IN THE NAME OF the University of Los Andes. When Javed Burki asked me some months ago if the University of Los Andes could sponsor this conference, together with the World Bank, I was enthused by the idea of holding it here in Bogotá. That is because Colombia has a grave problem of rural and urban poverty, probably its most serious social problem of all, and because the University of Los Andes has committed itself, as one of its priority activities, to contribute actively to resolving our country's social problems.

It also seemed to me to be an opportune moment to hold the conference because the orientation and effectiveness of social spending is currently a subject of intense debate. A seminar of this caliber, for its scope and the nature of the topics to be dealt with, the international experience of the speakers, and the wealth of information they provide, is going to be extraordinarily helpful in refining the debate regarding social policy.

A recent World Bank study on poverty in Colombia¹ shows a declining trend in poverty between 1978 and 1992. This tendency was accentuated in 1993 and 1994, when significant reductions occurred in the percentages of urban population living below both the poverty line and the indigence line. This more accelerated alleviation is possibly due to the unprecedented increase in public social spending that took place in the four-year period from 1990 to 1994, and to changes in relative prices that facilitated poor people's access to the most basic products. Nevertheless, poverty levels in Colombia are very high, and differences between the rural and urban sectors have grown. With respect to income distribution, studies done by independent researchers show that income distribution suffered

in 1991 and 1992 (due to severe macroeconomic adjustment, and to adjustment in the minimum wage and salaries in the public sector) but that it recuperated after 1992 and concentration indicators once again showed a tendency to decline in 1993 and subsequent years.

These are plausible results that are consistent with what occurred with the figures on poverty, unemployment, and real salary during the four-year period from 1990 to 1994, during which poverty declined, labor participation in aggregate value increased, unemployment decreased, and real salaries rose in the industrial sector.

There are still no data to certify what has happened since 1995, but the recession in the construction sector and the contraction of the service sectors, and the vertical fall in private investment, have caused an increase of over 2 percentage points in urban unemployment. This increase in unemployment is disproportionately affecting the less qualified labor force. As a result the poverty level has probably increased considerably once again during the past year and a half.

Poverty levels in Colombia are unnecessarily high because it is possible to significantly improve the situation

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of poor families without appreciably increasing the level of public spending. A novel, detailed study by Carlos Eduardo Vélez, which unfortunately was not included in the program for this seminar, but which recently has been published by the National Planning Department in a book, estimates that it is possible to increase access to basic educational and health services among the poorest groups to the same levels enjoyed by the richest groups in this society, with an investment of only 1.3 percent of GNP per year. It is important to understand that the problem of attending poverty is not due to lack of state resources, but to the fact that available resources have not been focused on programs that transform the condition of life of the poor.

The problem is one of administrative capacity and, above all, of political will. In fact, with the money from disguised parliamentary subsidies, with what is wasted in clientelism through the Solidarity Network, which was destined to grease the machinery in the Chamber of Representatives, plus that which is used for indiscriminate subsidies for electric power for consumers, it would be possible to take an impressive leap forward in equity and social progress. But this is only possible if resources are destined to priorities such as the expansion of basic services of health, education, social security, and welfare of the poor, and on the condition that there is strict control of unitary costs and professional, well-organized administration of the programs.

In rural areas it is also necessary to implement an effective agrarian reform, above all in the rich but unproductive regions that are in the hands of large landowners, to improve the rural development programs, to increase taxes on land holdings, and to find an effective institutional form of distributing rural credit in such a way that it reaches the poor rural population effectively.

It seems that the problem is not the money, but the need to spend it well, on the programs that contribute most to increasing human capital and welfare of the poor, and to ensure that the resources and programs reach them first, rather than the most privileged on the income scale.

If it is this simple, why has nothing more effective been done to reduce poverty? In the first place, because we are only now beginning to understand the problem in Colombia. It is only in very recent years that professionals of the highest technical level have dedicated themselves to understanding the problems of poverty in Colombia and the link the solutions will have with a focused and effective social-

spending policy. This is the reason for the importance of this seminar and of the most recent studies on poverty in Colombia.

But there is also an impediment of essentially political origin. One of the great obstacles to alleviating the problem of poverty has been that the populist political sectors in Latin America have appropriated the question of poverty as if it were part of their patrimony and have managed to make it perdure. They want the population to believe that they are the only ones who care about poverty and equity and that the rest of the political world is indifferent to or even enemies of the poor. This has had very negative consequences that prevent the progress of the poor, primarily because these groups need the poor for their political survival. The electoral system based on clientelism and patronage requires the perpetuation of a large group of citizens with restricted access to the basic services that are only provided for them drop by drop and quite sporadically by the electoral barons.

For the same reasons, the populist political system prefers assistance programs that nourish clientelism, to the detriment of more effective programs that would contribute in a focused way to eradicating extreme poverty.

In addition, the alliances they have with government workers' unions induce populist politicians to oppose reforms in state institutions. Such reforms would be the very thing that would contribute to increasing the effectiveness of public social spending and the administrative efficiency of social programs. Opposition on the part of political sectors closely related to government workers' unions condemns the state to inefficiency and wastefulness.

The ideological conclusion perpetuated in Latin America by these sectors has created a false dichotomy between social policy and growth. This is the position of inadvertently blind intellectuals who adhere to outdated economic theories and lead our self-proclaimed "politicians with a heart" to make people believe that social policy on the one hand, and opening and modernization of the economy on the other, have objectives that are antagonistic in themselves. They mistakenly think that to eradicate poverty it is sufficient to offer assistance programs and that it is necessary to close the economy, to return to government interventionism, and to stick a thumb in every pie. They forget that we spent almost five decades doing exactly that, and that the result was a shameful situation of poverty and concentration of income compared with other countries that in

1950, and even as late as 1960, were much poorer than ours.

Government intervention and protection of domestic markets served much more to favor the rich than to reduce poverty among the population. They also frequently forget that the best antidote to poverty is per capita income growth, and that growth has been primarily the result of increased production resulting from increased labor participation, increases in the relation of investment to GNP, improved educational standards and coverage in the educational system, and the transfer of the rural population to sectors with high aggregate value per worker.

In Hong Kong, the proportion of the working-age population with secondary schooling rose from 27 percent in 1966 to 71 percent in 1991; in Korea, it rose from 27 percent in 1966 to 75 percent in 1990; and in Taiwan, it rose from 26.5 percent in 1966 to 68 percent in 1990. In the meantime in Colombia we still maintain an extremely high proportion of the working-age population with extremely low educational levels: an average level of 5.7 years of schooling and only 2.8 years among the poorest families, while rural workers who migrated to the cities are mainly employed in activities with very low aggregate value. Furthermore, neither the relation between investment and GNP nor the proportion of the manufacturing sector in aggregate value has grown significantly; instead, both have remained relatively stable for many years. We should therefore not be surprised to find that poverty has remained at such high levels in Colombia.

The new ideas that are arising from empirical work and from renewed interest of economic science in economic growth have changed perceptions and political attitudes toward social spending. Economists are demonstrating that in many countries, especially in Latin America, low growth is accompanied by high levels of inequality, while in others, particularly in East Asia, growth and greater equity march hand in hand.

In addition, an ever-increasing number of professional economists are convinced that investment in education and health, certain policies that improve income distribution, the education of women, and the reduction of poverty are factors that will contribute positively to economic growth and modernization, and that this in turn will favor social investment.

This vicious circle is a vigorous argument in favor of giving priority to social spending and to eradicating poverty in any economic program whatsoever. The new consensus has overcome the false social dichotomy between social spending on the one hand and modernization and growth on the other, that has been created by the populists to give themselves importance, since well-conceived economic policies, even those of the extreme right, would have a program of development and social spending, and would give greater priority to primary and secondary education, to health programs, to rural development, and to creating stable, competitive conditions in order to increase private investment and industrial production.

The main difference between a liberal or social-democratic program and a populist one lies, therefore, in the fact that populists would try to remain in favor with the rich even while they talk of poverty, and they would foment assistance programs in order to maximize their own political benefit, while the most modern political sectors would concentrate their efforts on making sure programs reach the poorest population and on balancing access to basic social services in such a way that different social classes have the same probability of acceding to these services with comparable levels of quality and preferably at a low cost.

I am certain that this seminar will contribute to clarifying these topics and that it will help us to elucidate which social policies are the ones that can really contribute to improving the conditions of equity and social justice within a model of growth.

I do not want to end this presentation until I express my thanks, as president of the University of Los Andes, for the support this seminar has received from *El Tiempo*, *Portafolio*, the Bank of the Republic, the Bank of Colombia, the Ganadero Bank, and COMCEL, whose generous financial contributions have made it possible to carry out the seminar in Colombia. In the name of the University of Los Andes, I extend my most cordial welcome and wish you great success in your deliberations. Many thanks for your attention.

Notes

1. May, Ernesto (Coordinator General), *La Proeza en Colombia: Un Estudio del Banco Mundial*, TM Editores y Banco Mundial, Santafé de Bogotá, Colombia, 1996.

I. The Challenge of Poverty

Poverty and Public Challenges in Colombia

JUAN CARLOS RAMÍREZ

AVERY GOOD MORNING. PLEASE ALLOW ME TO WELCOME ALL OF YOU TO COLOMBIA, TO Bogotá, and to this conference, on behalf of the National Planning Department and the national government of Colombia.

National Planning wishes to emphasize the importance for our country of the Second Annual World Bank Conference on Development in Latin America and the Caribbean, on the topic of the reduction of poverty and inequity, which means so much to us.

Since the middle of the 1960s Colombia has placed the improvement of living conditions among the poorest population and the increase of equity among its expressed planning objectives. This country has been a pioneer in establishing innovative programs in the struggle against poverty—in education, health, and housing—and since the early stages, has accompanied the theoretical reflection on the modern human capital revolution.

From this theoretical reflection, and through its execution of these ideas, Colombia has been convinced of the importance of investing in human capital. Examples of this are experiences of internationally recognized value, such as the SENA, the Escuela Radiofónica de Sudatenza, the Escuela Nueva, and the Hogares de Bienestar, among other things. Recently, social security health reform, decentralization, and cofinancing have been transforming experiences that seek to solve the problems of poverty and inequality.

Poverty

Understanding about the quality of people's lives has grown from the simple consideration of sufficient income to guarantee physical survival to recognizing the need to satisfy all human necessities, including affection, liberty, participation, and protection.

The measurement of poverty used in Colombia since 1986 has been the index of unsatisfied basic needs, which mainly measures infrastructure conditions, plus indicators of economic dependence and school attendance. The evolution in the reflection on the problems of Colombian society and the experience of the United Nations Development Programme in its annual reports on human development have shown the importance of complementing the measurement with other factors, such as income and human capital. Likewise, recurring problems of flooding and mud slides in poor neighborhoods, along with endemic characteristics of the violence afflicting the country, indicate the importance of incorporating considerations of the urban environment, peaceful coexistence, and citizens' safety in the analysis of poverty.

The formulation of medium-term investment projects have been oriented toward improving the conditions measured by these indicators. The introduction of new variables that improve information about and policy definitions of the living conditions of the population cannot be postponed.

National Planning, through the Social Mission, has been developing a new index of living conditions. This index integrates into the measurement the principal factors

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describing the level of welfare: basic physical infrastructure of housing, educational characteristics and social security affiliation, sanitation, and demographic distribution of employment and income.

Urban poverty

In the urban sector, for the year 1993, the living conditions index classified the population into four groups according to their levels of poverty: people living in misery, which made up 5 percent of all families; the poor, covering 15.5 percent, for a subtotal of 20.5 percent; the so-called Stratum III, with 31.5 percent of all families; and, finally, the non-poor, who make up the remaining 48 percent (see Figure 1).

Colombia has advanced in providing acceptable housing for a high percentage of the population. Only about 10 percent of urban families live in housing considered less than adequate. Given this situation, it is more efficient to concentrate spending in this area.

With respect to provision of sanitation services for housing and neighborhoods, the country has also improved the

supply of water via aqueducts in urban areas, to the extent that 95 percent of all families now receive this service, although we still have a 15 percent deficit in sewerage and garbage removal. It is clear that environmental sanitation should be given priority in spending (see Table 1).

The human capital and social security factor lags considerably behind. The average number of years of education of persons 12 years of age or older does not yet meet the basic education standard that the Constitution of 1991 hopes to attain for all Colombians. Average education among the poor is almost five years less than among the non-poor, which means that differences in access to education is one of the country's greatest inequalities. Education spending is one of the most strategic elements for improving equity and this, together with its recognized effect in improving productivity, makes it essential in public-spending programs. The lag and inequity in social security are also evident in urban areas. Forty-one percent of all urban families had some type of social security, but only 7 percent of the poor had any such coverage.

FIGURE 1

Evaluation of Poverty in Colombia 1993, 1985, 1978–1995

SOURCE	INDICATOR	POVERTY			MISERY		
		URBAN	RURAL	TOTAL	URBAN	RURAL	TOTAL
CENSUS 1985	ICV*	24.9	56.3	34.4	6.7	26.7	12.8
CENSUS 1993	ICV*	17.5	43.3	23.7	4.6	22.9	9
CASEN, 1993	ICV*	20.5	55.6	30.4	5	22.9	10
CENSUS 1973	NBI	58.9	88.4	70.5			
CENSUS 1985	NBI	32.3	72.6	45.6			
ENH 77 1992	NBI	24.4	62.2	35.5			
CENSUS 1993	NBI	22.1	52.8	26.7			
	POVERTY LINE*						
ENH, June 1978	DNP, Poverty Group	48.2	73.1	59.1	14.7	38.5	25.1
ENH, Sep. 1988	DNP, Poverty Group	44.7	71.4	59.2	12.1	39.9	27.2
	DANE	47.8	71.4	60.5	11.2	39.9	26.9
ENH, Sep. 1991	DNP, Poverty Group	47.3	71.9	57.7	13.8	36.9	23.6
	DANE	50.9			13.9		
ENH, Sep. 1992	DNP, Poverty Group	45.4	70.4	55.9	15.1	39.1	25.2
	DANE	50.3			14.5		
ENH, Sep. 1993	DNP, Poverty Group	43.6	74.5	56.4	11.6	39.8	23.3
	DANE	42.8					
ENH, Sep. 1994	DNP, Poverty Group	42.5	71.1	54.4	10.7	34.9	20.8
	DANE	43.5			10.4		
ENH, Sep. 1995	DNP, Poverty Group	42.6	72.8	55.1	10.4	34.3	20.2
	DANE	42.7			10.2		

Source: ICV: Calculations Social Mission based in CASEN, 1993 and sample of 1 percent of the census of 1985 and 1993.

LP: Calculations DNP, Grupo de Pobreza, 1996.

NBI: 1985, DANE, 1993, Preliminary calculations Social Mission and DANE.

TABLE 1

Profiles of Poor Urban Families. CASEN 1993 (% of families)

VARIABLE	CATEGORY	MISERY	POVERTY	MISERY AND POVERTY	THIRD STRATUM	MISERY, POVERTY, AND THIRD STRATUM	NON- POOR	TOTAL
FACILITIES	None	33.8	16.9	21.0	7.1	12.6	1.9	7.4
	3 basic with washroom	60.5	69.2	67.1	71.4	69.7	66.2	68
	4 basic with washroom	5.7	13.3	11.5	20.1	16.7	21.5	19
	3 or 4 with washroom		0.5	0.4	1.4	1.0	10.4	5.5
WALL MATERIAL	No walls or vegetable	7.5	3.1	4.1	0.3	1.8	0.0	1.0
	Zinc, cloth, cardboard	4.5	1.7	2.4	0.0	0.9	0.0	0.5
	Rough wood	23.5	6.1	10.3	1.1	4.7	0.2	2.5
	"Bahareque"	18.7	11.5	13.2	4.5	7.9	0.9	4.6
	Mud wall	7.0	4.5	5.1	3.5	4.2	1.5	2.9
	Block, brick, stone	38.9	73.1	64.9	90.6	80.4	97.3	88.6
TYPE OF FLOOR	Dirt	44.2	11.5	19.4	2.5	9.2	0.2	4.8
	Rough wood	10.1	8.9	9.2	7.4	8.1	4.8	6.5
	Concrete	44.3	68.5	62.7	49.7	54.8	17.4	36.8
	Tile, vinyl, small board	1.3	10.9	8.6	39.5	27.3	73.6	49.6
	Carpet, hardwood	0.0	0.1	0.1	0.9	0.6	4.0	2.2
TYPE OF ROOF	Straw or cane	17.1	2.4	5.9	7.0	2.8	0.3	1.6
	Waste, cardboard	8.4	2.9	4.2	5.0	2.0	0.2	1.1
	Zinc, asbestos, without ceiling	42.9	35.3	37.1	28.0	31.6	16.3	24.2
	Tile roof, stone, zinc with ceiling	31.6	59.4	52.7	70.8	63.7	83.3	73.1
SANITATION	Do not have sanitary services	42.5	5.1	14.1	0.7	6.0	0.1	3.1
	Latrine	14.6	5.5	7.7	1.4	3.9	0.2	2.1
	Unconnected toilet	11.9	9.2	9.9	2.8	5.6	0.5	3.1
	Toilet connected to septic tank	16.0	11.7	12.7	5.4	8.3	1.5	5
	Toilet connected to sewage system	15.0	68.4	55.5	89.7	76.2	97.8	86.6
WATER SUPPLY	River or stream	2.2	0.1	0.6	0.0	0.3	0.0	0.1
	Public source or another service	18.7	2.5	6.4	0.5	2.8	0.1	1.5
	Well without pump	21.4	5.4	9.3	1.4	4.5	0.5	2.6
	Water tank	3.3	1.3	1.8	0.6	1.1	0.2	6
	Well with pump	0.8	0.6	0.6	0.3	0.4	0.1	0.3
	Aqueduct	53.5	90.1	81.3	97.3	91.0	99.1	94.9
GARBAGE COLLECTION	Thrown in the patio, ditch or river	75.2	27.1	38.7	7.6	19.9	2.4	11.5
	Taken to a collection point	5.9	6.3	6.2	4.9	5.4	2.6	4
	Picked up by sanitary services	18.9	66.6	55.1	87.5	74.7	95.0	84.5
AVERAGE SCHOOLING OF PEOPLE 12 AND ABOVE	No years	11.4	6.2	7.5	1.9	4.1	0.1	2.2
	Between one and four years	58.9	44.6	48.1	18.9	30.4	2.9	17.2
	5 years	15.6	21.9	20.4	18.1	19.0	5.9	12.7
	Between 6 and 10 years	13.9	26.8	23.7	58.4	44.7	55.3	49.8
	11 years	0.1	0.4	0.4	2.5	1.6	16.0	8.6
	Between 12 and 15 years		0.0	0.0	0.2	0.1	16.6	8
	16 years				0.0	0.0	2.6	1.3
	More than 16 years						0.6	0.3
	Educational average	3.96	4.84	4.64	6.54	5.78	9.34	7.51

(Table 1 continues on next page)

TABLE 1 (CONTINUED)

VARIABLE	CATEGORY	MISERY	POVERTY	MISERY AND POVERTY	THIRD STRATUM	MISERY, POVERTY, AND THIRD STRATUM	NON- POOR	TOTAL
SCHOOLING OF MAJOR RESPONDENT								
	No education	35.9	19.8	23.7	7.9	14.1	0.6	7.6
	Incomplete primary education	39.3	42.8	41.9	27.0	32.9	7.3	20.6
	Complete primary education	14.9	21.6	20.0	28.2	24.9	16.7	21
	Incomplete secondary education	9.2	14.0	12.8	29.8	23.1	29.5	26.2
	Complete secondary	0.7	1.8	1.5	6.6	4.6	25.1	14.5
	Incomplete superior		0.1	0.1	0.5	0.3	9.3	4.6
	Complete superior		0.0	0.0	0.1	0.1	8.5	4.1
	Postgraduate and doctorate		0.0	0.0	0.0	0.0	3.0	1.5
	Average rate of education	2.93	3.91	3.67	5.59	4.81	9.32	7.00
SOCIAL SECURITY MAJOR RESPONDENT								
	None and works alone or unemployed	61.0	59.3	59.7	42.6	49.4	13.8	32.2
	None and works in a business that employs 2 to 9 persons	30.6	25.6	26.8	27.9	27.5	13.8	20.9
	None and works in a business that employs > 10 employees	5.3	7.0	6.6	6.5	6.5	4.7	5.7
	Has social security and works alone or unemployed	1.0	3.2	2.7	9.5	6.8	17.2	11.8
	Has social security and works in a business that employs 2 to 9 persons	1.3	1.6	1.6	5.0	3.6	15.0	9.1
	None and works in a business that employs > 10 employees	0.9	3.2	2.7	8.4	6.2	35.5	20.3
CROWDING (PERSONS PER ROOM)								
	H <= 0.20	26.2	13.7	16.7	4.6	9.4	0.6	5.1
	0.20 < H <= 0.30	17.1	14.3	15.0	6.9	10.1	0.9	5.7
	0.30 < H <= 0.40	22.0	19.7	20.2	15.1	17.1	4.1	10.8
	0.40 < H <= 0.70	23.8	32.2	30.2	35.1	33.2	21.0	2703
	0.70 < H <= 1.00	8.7	15.8	14.1	27.9	22.4	43.5	32.6
	1.00 < H <= 4.00	2.2	4.2	3.7	10.0	7.8	29.6	18.3
	4.00 < H		0.0	0.0	5.0	0.1	0.3	0.2
PROPORTION OF CHILDREN <= 6 YEARS								
	0.65 < Prop	4.1	2.4	2.8	1.6	2.1	0.2	1.2
	0.00 < Prop <= 0.65	57.5	48.8	50.9	43.7	46.5	33.5	40.2
	0.00 = Prop (w/out children)	38.4	48.8	46.3	54.7	51.4	66.3	58.6
PROPORTION OF EMPLOYED								
	Prop <= 0.30	48.8	47.6	47.9	38.0	41.9	21.5	32.1
	0.30 < Prop <= 0.60	42.1	42.0	42.1	47.2	45.1	47.5	46.3
	0.60 < Prop >= 0.90	5.6	5.8	5.7	8.4	7.3	17.0	12
	0.90 > Prop	3.5	4.6	4.4	6.5	5.6	14.0	9.6
	No. of dependents per employee	2.98	2.96	2.97	2.77	2.85	2.40	2.63

In the factor that deals with the demographic distribution of employment and income, overcrowding qualifies the achievement of having obtained housing built with adequate materials for 90 percent of the urban population. More than half of all poor families have three or more persons per room in their homes. Poor households are formed by younger couples who have a greater number of children

under 6 years of age. Sixty-six percent of the non-poor do not have small children. Poor families have incomes four times lower than those of non-poor families. Each poor worker must support close to 3 people, whereas the non-poor only have to support 2.4 people.

In synthesis, the living conditions of the urban population in 1993 show that the country has advanced more rapidly in

TABLE 1 (CONTINUED)

VARIABLE	CATEGORY	MISERY	POVERTY	MISERY AND POVERTY	THIRD STRATUM	MISERY, POVERTY, AND THIRD STRATUM	NON- POOR	TOTAL
INCOME PER CAPITA IN UNITS OF MINIMAL SALARY USM OF 1993								
	USM <= 0.15	36.8	23.6	26.8	8.3	15.6	0.8	8.5
	0.15 < USM <= 0.25	27.5	24.4	25.1	9.3	15.6	0.6	8.4
	0.25 < USM <= 0.35	15.3	17.5	17.0	13.8	15.0	1.7	8.6
	0.35 < USM <= 0.50	11.0	20.1	17.9	26.3	23.0	8.3	15.9
	0.50 < USM <= 0.75	6.8	9.8	9.1	24.9	18.6	19.1	18.8
	0.75 < USM <= 1.00	2.1	2.8	2.6	10.2	7.2	18.9	12.8
	1.00 < USM <= 1.25	0.3	1.2	1.0	4.2	2.9	13.0	7.8
	1.25 < USM <= 1.50	0.0	0.2	0.2	1.1	0.7	9.1	4.8
	1.50 < USM <= 2.00	0.1	0.2	0.2	1.2	0.8	11.1	5.8
	2.00 < USM <= 3.00		0.2	0.1	0.6	0.4	8.9	4.5
	3.00 < USM <= 4.00		0.0	0.0	0.1	0.1	4.2	2.1
	4.00 < USM		0.0	0.0	0.1	0.0	4.3	2.1
	Average income in USM	1.11	1.31	1.27	2.08	1.74	5.13	3.47
PERSONS PER FAMILY								
	1	4.7	7.2	6.6	5.7	6.1	7.0	6.5
	2	14.4	16.2	15.8	19.8	18.2	18.6	18.4
	3	16.7	19.7	19.0	20.5	19.9	24.7	22.2
	4	18.0	18.3	18.3	22.3	20.7	24.7	22.6
	5	17.2	15.7	16.1	16.2	16.1	13.6	14.9
	6	13.3	11.3	11.8	8.1	9.6	7.5	8.6
	7	7.7	6.4	6.7	3.8	5.0	2.6	3.8
	8	3.9	3.0	3.2	1.9	2.4	0.7	1.6
	9	2.3	1.2	1.5	1.8	1.0	0.4	0.7
	10	0.8	0.6	0.6	0.3	0.4	0.1	0.3
	11	0.7	0.2	0.3	0.1	0.2	0.2	0.2
	12	0.2	0.0	0.1	0.2	0.2	0.0	0.1
	13	0.0	0.0	0.0	0.0	0.0	0.0	0
	14	0.0	0.0	0.0	0.2	0.1	0.0	0.1
	15	0.0	0.0	0.0	0.0	0.0	0.0	0
	16		0.0	0.0	0.0	0.0	0.0	0
	17		0.0	0.0	0.0	0.0	0.0	0
	18		0.1	0.1	0.0	0.0	0.0	0
	Average family size	4.45	4.08	4.18	3.93	3.96	3.61	3.80

attending the physical conditions of welfare than in forming human capital and in providing access to social security.

Poverty in rural areas

The situation is more difficult in the rural sector. Twenty-three percent of rural families live in misery and 32.7 percent live in poverty, for a subtotal of 55.7 percent; 34.2 percent are in Stratum III; and 10 percent are non-poor in the rural sector (see Figure 1).

Around 40 percent of families in rural areas still do not have housing built with adequate materials, and the breach between the poor and non-poor is larger than in urban areas. The lack of sanitation services is dramatic: 75 per-

cent of the poor have no sanitation services at all, only 18 percent of the poor have any water supply in their homes, and garbage collection is virtually nonexistent for the poor (see Table 2).

Education is one of the factors that most differentiates the urban and rural sectors. Rural families have an average of 3.3 years less education than those in the urban zone. This is the product of two inequities: The poor are less educated, and the proportion of the poor in the countryside is almost triple what it is in the cities. Social security affiliation in the countryside is four times lower than in the cities.

The rural poor have practically no social security—less than 2 percent. The investment and focus needed in human

TABLE 2

Profiles of Poor Rural Families. CASEN 1993 (% of families)

VARIABLE	CATEGORY	MISERY	POVERTY	MISERY AND POVERTY	THIRD STRATUM	MISERY, POVERTY, AND THIRD STRATUM	NON- POOR	TOTAL
FACILITIES	None	80.8	49.3	62.3	18.2	45.5	5.2	41.4
	3 basic with washroom	18.7	48.0	35.9	72.7	49.9	73.5	52.3
	More than 3 basic	0.5	2.7	1.8	9.1	4.6	21.3	6.3
WALL MATERIAL	Straw, cane, other vegetable	17.1	1.5	8.0	0.3	5.0	0.1	4.5
	Zinc, cloth, cardboard	0.2	0.2	0.2	0.3	0.2	0.0	0.2
	Mud wall, adobe, "bahareque"	57.7	40.6	47.7	21.0	37.5	3.7	34.1
	Rough wood	20.7	26.1	23.9	13.7	20.0	4.7	18.4
	Block, brick, stone	4.3	31.6	20.3	64.7	37.2	91.5	42.8
TYPE OF FLOOR	Dirt	84.2	35.8	55.8	6.6	37.1	0.5	33.3
	Rough wood	8.4	13.9	11.6	12.3	11.9	3.6	11
	Concrete	7.4	48.1	31.3	68.2	45.4	44.6	45.3
	Tile, vinyl, small board	0.1	2.2	1.3	12.2	5.5	47.7	9.8
	Carpet, hardwood				0.6	0.2	3.6	6
TYPE OF ROOF	Straw or cane	45.4	7.2	23.0	2.0	15.0	1.0	13.6
	Waste, cardboard	3.3	1.0	2.0	0.4	1.4	0.2	1.3
	Zinc, asbestos, no ceiling	29.2	45.0	38.5	39.2	38.8	25.6	37.4
	Tile roof, stone, zinc with ceiling	22.1	46.7	36.6	58.4	44.9	73.2	47.7
SANITATION	Do not have sanitary services	89.6	64.5	74.9	15.4	52.5	1.2	47
	Latrine	5.6	9.8	8.1	5.4	7.1	0.8	6.4
	Unconnected toilet	3.5	13.9	9.6	17.8	12.7	3.9	11.8
	Toilet connected to septic tank	1.2	11.1	7.0	33.3	17.1	18.3	17.2
	Toilet connected to sewage system		0.7	0.4	28.1	10.9	75.9	17.5
WATER SUPPLY	Water tank	0.6	1.4	1.1	0.9	1.0		0.9
	Public source or another service	11.8	5.5	8.1	1.6	5.6	0.1	5
	Well without pump	50.7	35.8	42.0	12.1	30.6	4.1	27.9
	River or stream	32.9	26.7	29.2	11.2	22.4	1.5	20.2
	Well with pump	0.8	2.2	1.6	3.6	2.4	1.1	2.2
	Aqueduct	3.3	28.5	18.1	70.6	38.1	93.2	43.7
GARBAGE COLLECTION	Thrown in the patio, ditch or river	99.3	97.7	98.4	85.5	93.5	43.6	88.4
	Taken to a collection point	0.6	1.2	0.9	3.6	1.9	4.4	2.2
	Picked up by sanitary services	0.1	1.1	0.7	10.9	4.6	52.0	9.4
AVERAGE SCHOOLING OF PEOPLE 12 AND ABOVE	No years	15.6	7.1	10.6	3.5	7.9	0.3	7.1
	Between one and two years	75.1	72.1	73.3	49.6	64.3	11.2	58.9
	5 years	6.8	12.9	10.4	20.6	14.3	13.7	14.2
	Between 6 and 10 years	2.6	7.8	5.6	25.4	13.2	56.0	17.5
	11 years		0.1	0.1	0.8	0.3	10.5	1.4
	Between 12 and 15 years					0.0	6.2	0.6
	16 years					0.0	1.7	0.2
	More than 16 years					0.0	0.2	0
	Educational average	3.2	3.8	3.5	4.9	4.1	7.9	4.44

TABLE 2 (CONTINUED)

VARIABLE	CATEGORY	MISERY	POVERTY	MISERY AND POVERTY	THIRD STRATUM	MISERY, POVERTY, AND THIRD STRATUM	NON- POOR	TOTAL
SCHOOLING OF MAJOR RESPONDENT								
	No education	41.1	26.2	32.3	15.1		2.6	23.4
	Incomplete primary education	48.5	55.4	52.6	48.2		18.6	47.6
	Complete primary education	8.3	14.1	11.7	22.7		26.0	16.9
	Incomplete secondary education	2.0	3.8	3.0	11.3		28.0	8.4
	Complete secondary	0.2	0.5	0.4	2.6		15.0	2.6
	Incomplete superior				0.1		4.3	0.5
	Complete superior						3.1	0.3
	Postgraduate and doctorate						2.4	0.2
	Average rate of education	2.3	3.0	2.7	4.0	0.0	7.3	3.61
SOCIAL SECURITY MAJOR RESPONDENT								
	Has social security and works alone or in a business that employs 2 to 9 persons	97.3	93.8	95.2	80.7	89.7	44.2	85.1
	None and works in a business that employs > 10 employees	2.5	3.5	3.1	5.3	3.9	7.5	4.3
	Has social security and works alone		1.0	0.6	4.3	2.0	8.6	2.7
	Has social security and works in a business with 2 to 9 employees	0.1	0.9	0.5	5.0	2.3	15.3	3.6
	Has social security and works in a business with > 10 employees	0.2	0.8	0.6	4.7	2.1	24.4	4.4
CROWDING (PERSONS PER ROOM)								
	H <= 0.30	42.0	23.2	30.9	12.0	23.7	3.5	21.7
	0.30 < H <= 0.60	43.0	42.8	42.9	42.7	42.8	27.8	41.3
	0.60 < H <= 1.00	13.4	26.9	21.3	33.6	26.0	42.7	27.7
	1.00 < H <= 4.00	1.6	7.1	4.8	11.5	7.4	25.0	9.2
	4.00 < H				0.1	0.0	1.0	0.1
PROPORTION OF EMPLOYED								
	Prop <= 0.30	47.6	33.8	39.5	29.2		21.2	34.1
	0.30 < Prop <= 0.60	40.8	43.2	42.2	45.7		46.2	43.8
	0.60 < Prop >= 0.90	6.1	11.9	9.5	14.1		14.6	11.6
	0.90 > Prop	5.5	11.1	8.8	10.9		18.0	10.4
	No. of dependents per employee	3.0	2.7	2.8	2.6	0.0	2.4	2.67
INCOME PER CAPITA IN UNITS OF MINIMAL SALARY USM OF 1993								
	USM <= 0.15	52.0	28.0	37.9	10.8	27.6	1.7	25
	0.15 < USM <= 0.25	25.9	24.7	25.0	17.1	22.0	4.0	20.1
	0.25 < USM <= 0.35	10.6	17.9	14.9	17.5	15.8	7.5	15
	0.35 < USM <= 0.50	6.4	14.5	11.1	21.0	14.9	14.0	14.8
	0.50 < USM <= 0.75	3.4	9.1	6.8	18.1	11.1	28.0	12.8
	0.75 < USM <= 1.00	1.2	3.0	2.3	6.1	3.7	15.7	5
	1.00 < USM <= 1.25	0.2	1.4	0.9	3.8	2.0	8.2	2.6
	1.25 < USM <= 2.00	0.4	1.3	0.9	4.1	2.2	11.0	3.1
	2.00 < USM <= 3.00		0.2	0.1	0.9	0.4	4.9	0.9
	3.00 < USM <= 4.00		0.1	0.0	0.2	0.2	3.5	0.5
	4.00 < USM		0.1	0.1	0.3	0.1	1.6	0.3
	Average income in USM	1.0	1.4	1.2	1.9	0.0	3.1	1.71

(Table 2 continues on next page)

TABLE 2 (CONTINUED)

VARIABLE	CATEGORY	MISERY	POVERTY	MISERY	THIRD	MISERY,	NON-	TOTAL
				AND	STRATUM	AND THIRD		
PERSONS PER FAMILY	1	5.8	6.2	6.1	6.5		8.3	6.4
	2	14.1	16.7	15.6	16.7		23.3	16.8
	3	13.4	18.8	16.6	22.1		22.8	19.1
	4	18.0	17.9	17.9	19.8		20.9	18.9
	5	15.3	13.2	14.1	14.9		13.8	14.3
	6	12.3	11.9	12.1	10.5		6.0	10.9
	7	8.1	6.8	7.3	5.5		2.8	6.3
	8	6.5	4.3	5.2	2.2		1.2	3.8
	9	3.6	2.4	2.9	0.9		0.5	2
	10	1.6	0.9	1.2	0.4		0.4	0.8
	11	0.8	0.3	0.5	0.2		0.0	0.3
	12	0.2	0.5	0.4	0.2			0.3
	13	0.0	0.2	0.1				0.1
	14	0.3		0.1				0.1
	15	0.0		0.0				0
	16	0.0		0.0				0
	17	0.0		0.0				0
	18	0.1		0.0				0
	Average family size	4.7	4.3	4.5	4.0	0.0	3.5	4.20

capital and social security in the rural sector are among the main measures needed to combat poverty, as they should be.

The size of rural families is a bit larger than in the cities. However, there are on average no important differences in the number of dependents per employed individual in the urban and rural areas. In the countryside, poverty is more related to the quality of work and of employment than to being employed or not.

Overcrowding, in contrast, manifests itself more as an urban phenomenon than as a rural one. The proportion of families that must use one room for more than three persons is lower in all groups in rural areas.

The average income of rural families is half that of urban families. The difference in comparison with urban areas is greater among the non-poor than among the poor, which suggests that the cause of inequality in income lies in sources other than salaries. In any case, the rural population is very unprotected in terms of housing, education, and social security.

Evolution of poverty levels

The evolution of poverty in Colombia shows a clear decrease since 1978, with whatever index is used. Between

1978 and 1987 the real income of the two deciles of the poorest population increased while the average income of the country decreased throughout that period. From 1988 to 1991 the percentage of urban poor remained almost the same, and the rural poor decreased by four points and later increased by two points for 1992.

There has been serious stagnation since 1993 as a consequence of economic policies and unfortunate developments in foreign relations. This situation has maintained the differences between the cities and the countryside, where the population below the poverty line is 30 points higher than that of the cities.

The study done by Carlos Eduardo Vélez shows that, by income quintiles, the winners in terms of improvement in real income with the accumulated effect between 1974 and 1992 were those in the third quintile, whose real income grew at an annual rate two times higher than that of the first quintile.

Income distribution measured by the GINI coefficient, before taking subsidies into account, declined very slowly between 1978 and 1993. However, when the effect of the subsidies implicit in social public spending are taken into account, it is evident that the historical tendency to decline

continued. Furthermore, the effect on income distribution of national fiscal transfers to territorial entities for social investment implies significant reductions of the GINI coefficient, around 8.4 percent on the national level.

Past and recent reforms in the orientation and management of public social spending are advancing in the right direction, and instruments like stratification, beneficiary selection, reform of public services subsidies, increased education and sanitation expenditures, etcetera, should contribute to increasing the distributive impact of public spending and to radical improvement in living conditions.

Individual levels of consumption and social conditions depend directly, although not exclusively, on available income, but higher income also depends on greater skills. Thus, a vicious circle of inequality in both income and skills is generated. The population with the highest income enjoys higher educational levels that permit greater participation in the profits flowing from the total income of the economy.

While poverty has been reduced in Colombia, income distribution in the major cities has worsened as a result of the deterioration of relative salaries of unskilled workers, due to the increase in labor demand of the latter, which has been the product of technological changes and restructuring of the productive sector and international trade.

In Colombia, the GINI coefficient showed a worsening of income distribution starting in 1992. Between 1990 and 1994 the GINI increased by 10 percent. Although efforts have been made to achieve greater flexibility and less government intervention in the labor market, salary policies have been linked to the reduction of inflation and the balance of trade. The labor market has been marked by the participation of the most educated, with accelerated growth of supply between 1976 and 1982, with a fall in their relative salaries. Recently, between 1982 and 1994, although the supply of the educated increased less than in the previous period, the increase in demand led to an increase in salary differential among the more educated and the less educated. The changes in relative demand were due to technological changes, prices of non-labor factors of production, which have induced firms to change their decisions regarding their use, and intensification of the factors of production.

Salary increases among the most qualified explain the opposite directions that income distribution and poverty have taken. This shows the importance of investing in

human capital, with the objective of achieving better levels of life and producing reversal of the tendency toward the concentration of income. The highest levels of formal schooling presented the greatest increase in real salaries between 1982 and 1994. Sixty-six percent of those with primary education were concentrated in the first two quintiles, while 90 percent of the employed with higher education were concentrated in the two highest quintiles.

Greater human capital investment in industrialized countries and in the so-called "Asian Tigers" illustrates its importance for the economy and development of the country. Most studies have focused on education, as a measure of human capital, and have found a positive relation between personal income and education, and a high contribution of the latter to economic growth. Given the fact that those who have achieved higher levels of education have higher average income, and that unemployment is lower among the most educated than among the non-qualified, there are great individual and collective incentives for investing in education.

Profitability of education is greater in less developed countries, possibly because of greater educational inequality. Educational coverage by income quintiles clearly shows the inequality between the poorest and the richest groups: The higher the income level, the greater the coverage. Educational policies have greater impact on income in poor households for the purpose of cutting, or even overcoming, the differences existing among income quintiles.

Although it is not a rule, the most educated generally have higher incomes, while the children of the least educated attend school less, thus generating a vicious circle of poverty and inequality. Public spending is therefore required to intervene, and it should be focused on the lowest-income homes to achieve equity.

Contribution of public social spending

Between 1974 and 1992, public social spending rose to 4.7 percent in real terms. In this period, the effect of social spending was clearly redistributive. Subsidies represented more than 60 percent of income in the first decile and more than 20 percent for the second and third deciles. As Carlos Eduardo Vélez has expressed it, subsidies represent 8 percent of household income and manage to reduce the GINI coefficient by 9.4 percent. He also affirms that the effect of public social spending on income distribution between 1974 and 1992 was approx-

imately equal to the impact of two decades of growth on economic inequality.

The evolution of poverty (measured by the Quality of Life Index) demonstrates that there were undeniable successes in the way Colombia has allocated social spending recently. Maintenance of specific revenues has permitted sustained growth of social spending, with defenses in moments of recession. Although negatively affected by the mid-1980s adjustment, it received clear institutional support in the Constitution of 1991. Social spending reached 9 percent of GNP and 35 percent of public spending in 1992. Between 1980 and 1992 it grew at an annual rate of 4.7 percent, which was higher than the growth rate of both the GNP and the population.

In education, which represents 46 percent of all subsidies, spending is progressive at the primary and secondary levels, but it is regressive at the university level. Seven million new places have been created in the educational system in the past two decades, with greater expansion in secondary and higher education. The total amount of subsidy tripled, but the average subsidy per household increased only 30 percent.

Subsidies for public services to domiciles constitute 28.5 percent of total subsidies, and they are progressive in potable water and sanitation and regressive in electric power.

Subsidies for health programs represent 20 percent of the total and, although the poorest 40 percent of the population receives 57 percent of the subsidy, due to non-progressive coverage it has less effect on redistribution, even less than the Social Security Institute and the Colombian Family Welfare Institute.

Special rural programs such as DRI (Integral Regional Development), PNR (National Rehabilitation Plan), Incora (Colombian Agrarian Reform Institute), and Caja Agraria (Agrarian Credit Institute), which represented 4.1 percent of subsidies in 1992, were the programs with greatest redistributive potential.

Subsidies for "social interest" housing through the entity known as Inurbe had low redistributive potential: The poorest 40 percent received 39 percent of the subsidy.

Public social spending between 1974 and 1992 was clearly redistributive, and the way the Colombian government channeled resources toward the poorest proved successful in many ways. A large component of the redistribution was due to spending in health and education, despite

the fact that the participation of education in GNP declined between 1984 and 1991, and is only now recovering the levels of 1980. Electric power and higher education were the outstanding exceptions. With respect to the latter, increasing coverage of secondary education suggests that the poor will have greater access to higher education in the near future.

It is necessary to keep in mind the fact that the unitary costs of offering services have been growing in all sectors, which means that it is necessary to make an effort to improve efficiency in social spending.

Our challenges

Colombia faces great problems today which must be attended simultaneously in fields that are vital for development and to which government and civil society must dedicate their efforts: the struggle against poverty and inequity; improvement of infrastructure conditions so as to increase competitiveness in the international setting and among sub-national regions; and improvement of the conditions of safety and justice in the face of threats to social coexistence and the economy. These three fronts demand the dedication of public resources in a situation characterized by restrictions on increases in public spending and enormous inflexibilities for the handling of existing resources.

One of these inflexibilities has arisen from the new decentralization model. There is agreement on the main defects of the initial situation and on the advantages of the new model when it is totally implemented: more decentralization, with greater participation on the part of civil society, and with preference for demand subsidies more than supply subsidies in the search for greater efficiency and effectiveness in social development. Nevertheless, provisions regarding the transition process were deficient and led to imbalances that must now be corrected, caused by the lack of necessary synchronization of the transfer of resources, transfer of responsibilities, and preparation of the government agencies that must assume the new responsibilities.

In this context, priorities must be defined once again and efforts must be made to improve efficiency and efficacy in social spending, taking account of the fact that increasing the financing of one critical sector affects the resources destined for another equally critical sector. Furthermore, it has been recognized that the exclusive redistributive capacity of economic growth has been exhausted, at least in the short term.

In recent decades Colombia increased both total and per-household social spending. There does not seem to be any possibility of substantially increasing public financing for the social sector in the future. Therefore, the basic challenge is to maintain the present level of fiscal effort and to improve the efficiency and efficacy of spending. Achieving total coverage in health and education, as long as focus and efficiency improve in public spending, may signify an increase of close to 1 GNP point. It is necessary to point out the increasing diversity of government management instruments that have arisen in response to the recently developing awareness of the heterogeneity of the population. Action should be increasingly differentiated according to programs and target populations.

The increasing cost of social services, due to social recognition of the workers in the sector, to improved quality and integrality, to increased demand without sufficient supply, and to sectoral inefficiency require great effort on the part of the government in order to develop productivity and efficiency in this field.

Some of the challenges arise from analysis of the Living Conditions Index. In housing, subsidized governmental action should focus very carefully on improving living conditions in already existing housing in rural areas. In urban areas, efforts should focus on improving the housing of the 10 percent of families who do not yet have homes built with adequate materials, on preventing housing settlements in hazardous conditions, on promoting conditions of infrastructure, safety, and endowment of community property (parks, libraries, etc.), and on directing housing programs to the sectors of the population most affected by overcrowding.

The major priority in services are the solutions of basic sanitation problems, which implies finding cost-efficient technologies in the rural areas.

In education the policy will have to be a mixture of different criteria and instruments in order to achieve efficient allocation. In basic education it is necessary to reinforce the growth of coverage of the first five grades, which has stagnated in the past ten years, and to improve internal efficiency and achievement. Decentralization or increased autonomy of the educational institution, and increasing use of better accounting procedures are indispensable goals at this level.

Use of capitation in the allocation of transfer resources that finance the sector is a tool for improving efficacy in spending and efficiency in the sector, especially in rural areas, with a great effort at geographical focus.

It is also necessary to achieve greater coverage in intermediate education and to improve students' preparation for future integration into the world of work, the scientific community, or the professional or artistic world; to prepare them for work rather than for a job; and to integrate their education with universities to facilitate the transition to higher education.

In higher education the main criterion for allocation of resources should be quality, in the formation of a scientific and technological base that will improve conditions of competitiveness and establish goals in the improvement of basic education levels and in the preparation of graduates with high professional qualifications and ethical standards. At this level the best service that can be done for the poor, other than improving quality, is to broaden the possibilities of financing education and of providing economic support for students during their school years.

In social security—in health—the recent reform (Law 100 of 1993) changes the modality from one of supply subsidies to one of demand subsidies, which is desirable. But serious difficulties have been encountered in implementing the change. The challenge here is to carry out a really feasible transition with provisions that are better documented.

The rural sector continues to present the greatest volume of deficiencies and, therefore, requires greater attention both now and in the future. The Colombian experience in the past two decades has had positive impact that recent restructuring has concealed. Basic education, territorial cofinancing (particularly the DRI), the form of community participation and mobilization promoted in the past by the National Rehabilitation Program and presently by the Solidarity Network, and Caja Agraria programs have had high redistributive impact. The structure of production in rural areas of Colombia requires the distribution of the main productive assets: human capital, land, technology, and credit at reasonable costs. Many economic, social, and political analysts recognize solid reasons for our growing violence in these aspects.

All of us here recognize the economic potential and virtues of markets, but the cost of inequality of access to meritorious social goods must be assumed in a social form. For this reason, the facile formulas of competition pass, in the light of equity and collective human welfare, through the very filter of equity as political conviction.

The struggle against poverty and the search for a more equitable society are two different phenomena, although

both strategies belong to the long-term social agenda the Colombian government has maintained during the past two decades. The way the change in real income has taken place shows, for the Colombian experience, that improvement in living conditions has not necessarily meant an improvement in income distribution. Colombia should, therefore, persist in diminishing its poverty indexes, but it must also equally, or perhaps more intensely, make enormous efforts to multiply the productive capacity of its resources—the main one being its people, our people.

Violence is a factor that has not traditionally been measured to establish conditions of poverty, but it is necessary to integrate it into the reflection and measurement in the coming years. The different types of violence that have appeared in Colombia have signified an extra cost for development due to increased spending on security and justice, to murders that affect peaceful coexistence and economic and social development of different cities and regions, and to the destruction—for terrorist purposes—of the physical infrastructure necessary for development. The costs of armed conflict between 1990 and 1994 represented close to 4 percent of annual GNP, including government spending as a result of guerrilla actions, private spending directly assumed by private citizens and entrepreneurs, and the costs in human capital, which represented the loss of 820,000 years of life.

The economic and social costs of the new factors of violence have yet to be established. The nature of these new factors has not been totally determined, but the factors seem to correspond more to a reaccommodation of illegal accumulation of wealth and the struggle for territorial dominion for the purpose of illegal trafficking than to traditional subversive violence. Colombia today is paying the price of the difficult situation generated by the high revenues and profitability of an illicit international commerce.

We Colombians have not been able to explain our enigmatic and tragic cross of violence. We have recognized the

fact that poverty is a factor of violence, but today we also know that the spirit of violence brings us material and spiritual impoverishment. It is true that poverty has been reduced, but our commitment to equity still requires much more effort. At the same time, however, violence and insecurity, which strike at the heart of human dignity, have increased. Economics has not found the necessary solution to this great national dilemma, despite its important and controversial contributions. Colombian friends, Latin American friends, and friends from all over the world: Colombia wants more and better life. Welfare and peace are our challenges.

In these circumstances, we Colombians confront an urgent, threefold demand: the first, historically assumed, to achieve economic stability; the second, to achieve greater efficiency in public spending; the third, to redefine its orientation. We can hardly defeat poverty and violence simultaneously and in the short term, but we must recognize that meeting these challenges demands firm commitment.

A final note on information is in order. Borrowing a phrase from Rob Vos, there is a poverty of knowledge about poverty. Indeed, in addition to the difficulty of grasping the fact itself of the level and evolution of living conditions, the measurements of poverty and equity have undeniable political attraction. This has resulted, on no small number of occasions, in the use of supposedly academic analyses as arms for particular political purposes. It is necessary for academics in Colombia to strive for objectivity as they dedicate their efforts and potential to the creation of indicators of living conditions that transparently differentiate facts from interpretation. In the struggle in favor of greater welfare, each and every one has a legitimate field of work: Academics, in their efforts to create the instruments, formulate hypotheses, and verify their theories empirically; and politicians to propose to society a mission to create more autonomous, freer communities, with greater human and physical capitalization in the quest for development.

Latin America's External Finance: Old and New Uncertainties

ELIANA CARDOSO

PUBLIC OPINION ON LATIN AMERICA SWINGS BETWEEN TWO EXTREME VIEWS: IT IS ALL BLACK or all white. Gradations of gray have been ruled out by a long tradition of sharp judgments about this region, where extreme volatility prevailed. Reality, however, is much more complicated in a region of lights and shadows and remarkable heterogeneity of geography, races, traditions, incomes, and economic institutions. Incomes vary widely among countries and among population groups in a country, legislation is eclectic, and a single government shelters many interest groups colored by the shades of their ideologies. And it is impossible to deny that volatility and uncertainty are at the center of the region's economic history.

In the early 1980s, bouts of economic instability originating in external overborrowing and ending in hyperinflation led economists to describe regimes in power during the past decade as populist. Definitely Sarney, Alfonsín, García, and the Sandinistas have overseen inflation caused by budget deficits and balance-of-payments crises. The macroeconomic imbalances of these governments show strong similarities to the economic record of Perón, Vargas, and Goulart, three leaders traditionally identified as populists. Nevertheless, both Sarney and Alfonsín fell short of the charisma of a populist leader. Their stabilization plans reflected their inability to impose contraction on any constituency.

The late 1980s and early 1990s marked a fundamental turning point in the perception of the way Latin America was conducting its economic affairs. The consensus among institutions and opinion leaders converged on the need to liberalize trade, privatize state enterprises, and balance government budgets. Investment bankers and finance ministers looked first at Chile and then at Mexico as the models for the new regime. Recent administrations in Argentina, Brazil, and Peru have pursued economic strategies that dis-

play considerable heterogeneity and are quite distant from past populism, even if they have failed to rein in budget deficits. But in contrast to the leaders of the 1980s, the heroes of the 1990s, such as Menem and Fujimori, seem to fit the description of a populist leader. They strongly criticize State institutions, and their leadership relies on their charismatic personalities. Certainly, current reforms have corrected the aggressive antimarket orientation of old populism. Yet, the current economic regime could become unsustainable for the same reasons that the classical populist agenda failed in the past; that is, because of fiscal imbalances and overvaluation of domestic currencies.

The 1994 Mexican crisis put an end to excessive optimism and raised questions about the limits of market reforms and the role of capital flows in emerging markets. All told, the 1994 Mexican crisis teaches us more about poor management of monetary and exchange rate policies than about long-run development prospects. The Mexican crisis does not make us doubt the need for reform, but adds a word of caution about the efficacy of reform in rapidly transforming a developing economy into a sum of well-functioning markets. Like Mexico, many countries in Latin

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America, having stopped inflation, have failed to address three important sources of uncertainty: the use of exchange rates in price stabilization, fiscal imbalances, and the neglected agenda of social justice.

This paper concentrates on the role of exchange rate overvaluation on balance-of-payments crises and on the role of capital flows in sustaining the overvaluation. The focus is on the repercussions of the combination of poor macroeconomic policies and global financial integration. The following sections look at some undesirable side effects of capital flows and at wrong and right uses of the exchange rate in a stabilization program. The discussion of the role of capital flows for macroeconomic management and the lessons from stabilization experiences based on the exchange rate anchor is aimed at emphasizing the central role of the real exchange rate in promoting a dynamic economic environment.

The Mexican crisis

The positive results of the last ten years of economic reform in Mexico are outstanding. Fiscal discipline, tax reform, financial liberalization, liberalization of trade and foreign investment, and privatization contributed to increased productivity. Nonetheless, these market reforms were limited by flawed macroeconomic management that produced overvaluation and low domestic savings.

The boom in foreign portfolio investment in Mexico initially helped the reform by allowing interest rates to come down after the 1989 stabilization. But, in the end, by supporting the exchange rate overvaluation, it brought about the collapse of the economy. The boom in capital flows was induced, in good measure, by financial conditions abroad, and helped mask the current account deficits and the decline in private savings. As capital continued to flow in, it further sustained the peso overvaluation and clouded policymakers' perception of the maturing crisis.

The problem with exchange rate overvaluation is that it is often associated with a boom in consumption involving a very large increase in imports and a decline in private savings. An overvalued exchange rate encourages agents to bring forward imports that they fear may become more expensive later. Moreover, when this takes place at the same time as trade liberalization, its effects are multiplied, leading to a jump in imports as controls are dismantled. If reforms face a credibility problem, firms and households doubt that trade liberalization will be maintained, and they

go on a precautionary import binge. For these reasons a boom in imports has often been a characteristic of periods of economic reform. Nonetheless, current account deficits are not tolerated indefinitely by international capital markets. And the problems created by overvaluation will not disappear without devaluation. The longer the correction is postponed, the worse the delayed adjustment will be.

The guise under which the Mexican crisis appeared may look different from other currency collapses, but the problems leading to the crisis were well known beforehand. The crisis had a long gestation. Mexico's mounting economic problems were the subject of considerable scrutiny well before the December 1994 balance-of-payments crisis (Dornbusch and Werner, 1994). The real overvaluation of the peso, the large current account deficit (financed by massive capital inflows), and the declining trend in private savings were unsustainable.

The main lesson from the crisis is not that understanding the problems at hand was difficult. The issues were technically very simple. As observed by Naim (1995), the difficulty emerged from implementing the right measures because they were politically difficult to apply.

Few governments will resist the temptation to let the real exchange rate appreciate as long as money is flowing in and financing their current account deficits. They will argue that productivity in the tradable goods sector is growing enough to justify real appreciation and that the current account deficit is being used to finance capital goods imports that will generate more than enough exports tomorrow to pay for the accumulated liabilities. The hard truth is that productivity growth would have to be well above what is credible to justify the size of real appreciation that occurs at the beginning of exchange-rate-based stabilization programs.

In the end, correcting overvaluation always leads to painful adjustment. What was new in the Mexican crisis was how deeply and widely the shock waves of the crash were felt. This had more to do with the transformation of the international financial system than with Mexico's domestic policies. When the crisis erupted, the initial reaction of investors suggested that the Mexican financial crisis was going to compromise all emerging markets. As stock prices plunged, particularly in Argentina and Brazil, currencies weakened in developing countries from Thailand to Bulgaria, and foreign portfolio investment disappeared. The IMF joined the United States in the rescue

operation. The United States committed US\$20 billion from the Exchange Stabilization Fund, and the IMF pledged US\$17.8 billion to support Mexican reform. They successfully insulated financial markets from the crisis. But Mexico's domestic problems persisted and the economy continued its downward spiral with an 8 percent decline in economic growth in 1995, confirming that the excessive capital inflows of the previous period were problematic.

Why capital inflows can be problematic

The heavy inflow of foreign capital into emerging markets in the 1990s was motivated mostly by relatively low interest rates in industrialized countries rather than by broadly based economic reform in emerging markets. Fernandez-Arias and Montiel (1995) conclude that formal evidence indicates that falling U.S. interest rates have played a dominant role in driving capital to developing countries. The strongest arguments for change in country-specific factors rely on the variation in the distribution of capital inflows. But this argument is problematic because flows were not restricted to countries with good reform records. The implications are worrisome because if capital inflows depend more on external factors than on reform, they may not be sustainable and can turn around suddenly, forcing costly adjustment in the recipient countries.

Capital inflows have made a significant contribution to strengthening the role of markets and complementing domestic savings, thus promoting growth. The case of the Republic of Korea between 1960 and mid-1980s provides a striking example of a transition toward a high saving rate, financed by initial external borrowing. Between 1960 and 1969, foreign savings equal to 9 percent of GDP financed half of investment. A growing per capita income increasingly provided the resources to finance investment, and by 1986–1989 the savings/income ratio had reached 35 percent, the current account had turned toward surplus, and debt started to be retired. Korea was able to make the transition from a low savings ratio to a high savings ratio thanks to accelerated growth and an aggressively competitive exchange rate policy.

Capital flows can have harmful effects because of domestic microeconomic distortions and the implications for macroeconomic stability. Microeconomic distortions (such as incomplete financial markets, improperly priced implicit government insurance, speculative bubbles, and imperfect competition) can lead to the use of capital inflows for con-

sumption of low-social-value or low-yielding projects at the expense of future consumption, which will have to be sacrificed to service the accumulated liabilities. More worrisome are the macroeconomic problems associated with volatile capital inflows, such as loss of domestic monetary control, real appreciation, and increased instability. The most serious problem induced by short-term capital flows is the real appreciation of the exchange rate that opposes the long-term goals of reform. As long as the commitment to an exchange rate anchor is held, it will encourage investment in domestic financial assets with high exchange-rate-adjusted profits. But once markets come to doubt the anchor, the inflows quickly reverse themselves.

The most widely cited examples of problems posed by capital flows concern the experiences of Latin American countries during the periods 1978–1982 and the mid-1990s. During these two periods, a number of countries experienced a strong real currency appreciation, followed by balance-of-payment crises. Economists have interpreted the real appreciation in two distinct ways. Harberger (1986), for example, highlights the sudden abundance of foreign borrowing and the resulting pressure of capital inflows on the real exchange rate. In this view, capital flows lead to real appreciation, and in that way bring about an inward transfer of resources.

The alternative explanation notices that, in all the early 1980s and mid-1990s cases of real appreciation in Latin American countries, the monetary authorities followed a conscious policy of using reduced rates of exchange depreciation (or even fixing the exchange rate to achieve disinflation, as in Chile in 1979–1981). The combination of reduced expected depreciation and high domestic interest rates in relation to U.S. interest rates attracted capital inflows. The real appreciation in turn led to current account deterioration. In the end of each of these experiences, the real appreciation cases turned out to be very costly, as illustrated by Mexico's 1994 crisis.

The situation is also complicated because relatively high domestic rates induce banks to incur open foreign exchange positions by financing local currency lending with foreign currency borrowing. Even when rules limit their foreign currency positions, banks still become indirectly exposed to the risk of devaluation. When the use of the exchange rate as a nominal anchor leads to relatively high interest rates, combined with little immediate prospect of devaluation, enterprises are encouraged to take

up foreign-currency-denominated loans. In cases where the borrowers' revenues are mostly denominated in the domestic currency, the quality of foreign currency loans can also deteriorate in the event of a domestic currency devaluation.

The desire to counteract the pressures on exchange rate appreciation in the face of large capital inflows and to limit inflows that are likely to be reversed has led to central bank intervention. In the 1990s a decline in nominal interest rates after stabilization in Latin America was not followed by a decline in real interest rates. Interest differentials vis-à-vis industrial countries exceeded expected currency depreciation in the short run and thus preserved the incentive for short-run capital inflows. Capital inflows were in part absorbed into an increase in reserves. To avoid the monetary expansion induced by such increase, inflows were in part sterilized.

But both partial and complete sterilization are problematic. Incomplete sterilization increases commercial banks' liquidity, which may permit an excessive expansion of bank credit that will be difficult to undo in the event of foreign capital withdrawal. A clear example is the recent difficulties experienced by the Mexican banking system.

On the other hand, sterilization can create significant fiscal costs in financing high levels of reserve holding. Costs borne by the central bank depend on the scale of the operations and the size of the interest differential vis-à-vis U.S. dollar rates (or rates in other reserve centers). The rise in monetary authorities' gross foreign assets in relation to the increase in the monetary base suggests that sterilization operations were very large in Brazil in the 1990s.

Sterilization tends to preserve an incentive for inflows, because it keeps interest rates high. Relatively high domestic interest rates induce banks to incur open foreign exchange positions by financing local currency lending with foreign currency borrowing. Even when rules limit their own foreign currency positions, banks still become indirectly exposed to the risk of devaluation. When the use of the exchange rate as a nominal anchor leads to relatively high domestic interest rates combined with little immediate prospect of devaluation, enterprises are encouraged to take up foreign-currency-denominated loans. In cases where the borrowers' revenues are mostly denominated in the domestic currency, the quality of foreign currency loans can also deteriorate in the event of a domestic currency depreciation.

The instability caused by heavy inflows and the costs of sterilization seem to give government a reason to control

capital flows. Perhaps one of the most convincing arguments in favor of the use of capital controls was advanced by Dooley (1996). He argues that large private capital inflows to developing countries have reflected a chain of official guarantees consisting of a commitment to an open capital account, the adoption of a fixed exchange rate (or limited flexibility), and the guarantee that the authorities will help stabilize the domestic financial system during a crisis. The financial system guarantees include a lender of last resort provision, bank deposit insurance, and interventions in equity markets to limit price declines. Given the incentives created by these guarantees, the size of the capital inflow will be related to the country's perceived net worth (the value of its net international reserves, the credit lines it can obtain from private markets, and the resources that are likely to be available from international financial institutions). If the guarantees lead to inflows into a poorly supervised financial system, poor quality investments may occur. The solution to this problem lies in breaking the chain of guarantees offered to international investors. Dooley regards a threat to withdraw the guarantee of the bank deposits or the solvency of the banking system as not credible. This leaves either changing the exchange rate regime or imposing capital controls as the only options, if countries do not want domestic interest rates to be determined in international markets.

The costs of capital controls

Controls on capital flows take the form of restrictions on the assets transactions or restrictions on payments related to the acquisition of assets. Restrictions on assets transactions include direct capital controls, such as quantitative limits or prohibition of certain transactions by imposing minimum maturity limits. Price-based capital controls take the form of taxes or reserve requirements.

Recent experiments with controls on capital outflows and inflows have covered a wide variety of instruments. In response to mid-1990s capital outflows, Venezuela introduced comprehensive exchange controls to limit current and capital account transactions. Romania responded to the balance of payments crisis of early 1996 by effectively closing foreign exchange markets. South Africa postponed the elimination of remaining exchange controls on residents' capital outflows following a run on the currency in early 1996. In response to Mexico's crisis in late 1994, Brazil prohibited prepayment of foreign loans and relaxed certain capital inflow controls.

Examples of direct controls by countries that experienced recent surges in capital inflows include among others Brazil's prohibition of some nonresidents' transactions (inflows to futures and option markets) in 1995, and Chile's one-year minimum maintenance period for nonresidents' capital inflows. These countries also used price-based controls. For instance, Brazil raised the financial transaction tax to discourage inflows in the 1990s. Chile introduced a stamp duty in mid-1990 and extended the tax base to all foreign loans.

Financial regulatory measures and prudential measures can also affect capital movements. China, India, Korea, and Thailand differentiate their reserve requirements between resident and nonresident deposits in a way that can influence capital movements in some cases. Prudential regulations applied for the purposes of controlling banks' open net foreign currency position may include a capital control element. Brazil, responding to capital outflow surges in 1995, raised banks' short position limit and lowered their long position limit.

Along with arguments that justify the use of capital controls, a strong tradition argues that government intervention does not accomplish the controls' stated objectives. There is the question of whether the costs and distortions generated by controls outweigh potential benefits. These costs include the possibility of retaliation by other countries, evasion, administrative costs, and the inability to quantify the needed tax on capital flow. There is also the risk that controls established to mitigate a temporary distortion may originate interests of its own and outlive its purpose.

Whether controls are welfare improving or welfare reducing is an empirical question. Dooley (1995) surveys the empirical evidence on industrialized and developing economies and concludes that controls have influenced yield differentials across countries but that there is no evidence that controls have helped governments achieve policy objectives, such as avoiding real appreciation, or that controls have enhanced welfare as suggested by theory.

Using panel data for industrialized and developing countries, Johnston and Ryan (1994) and Grilli and Milesi-Ferretti (1995) find that data does not support the hypothesis that control programs affect economic variables, such as the volume and composition of private flows, changes in international reserves, or the level of exchange rate.

Chile is generally used as an example of effective use of capital controls, but Soto and Valdes-Prieto (1996) find

mixed results. Looking at the econometric evidence between 1987 and 1995 they show that capital controls were not evaded in Chile where substantial levels of tax revenue were levied on capital market participants. As a matter of fact, the ability to collect tax revenue on capital flows increased over time as the Chilean authorities closed loopholes, and the selective capital controls have significantly discouraged particular classes of short-term credits. The results show that the taxed short-term flows were smoothly substituted by other short-term flows without measurable changes in total short-term credits. The taxes were borne by participants that were unable to substitute flows. The authors also find that selective capital controls have failed to achieve other objectives of Chilean monetary authorities, such as delaying real exchange rate appreciation or improving the mixture of foreign financing between long- and short-term credits.

Reinhart and Smith's (1996) findings are consistent with the results mentioned above. After analyzing stylized facts of several recent episodes in Asia, Eastern Europe, and Latin America they agree that capital controls had little effect on consumption, the current account, or the real exchange rate, but that in most cases the measures were capable of reducing the overall volume of inflows, and in some cases of even altering their maturity profile over the short run.

The evidence seems to be that capital controls can provide temporary breathing room in dealing with balance-of-payments difficulties and help reverse capital outflows if combined with policy tightening involving higher interest rates. Controls can also discourage potentially destabilizing short-term capital flows and reduce countries' vulnerability to shifts in market sentiment. But capital controls seem ineffective in preventing sustained outflows of savings or avoiding crises induced by inconsistent macroeconomic policies. Enforcing capital controls over extended periods can be a hopeless task in a world of highly integrated international capital markets. A practical difficulty is that controls can often be circumvented in a number of ways, such as by arranging finance and payments abroad and manipulating trade invoicing. Over time, private financial operators find one loophole after another.

In conclusion, neither capital controls nor sterilization can overcome the macroeconomic problems induced by excessive short-term capital inflows caused by interest rate differentials. The only solution is to get fundamentals in place by balancing budgets, bringing down interest rates, and avoiding overvaluation.

The costs of real exchange rate appreciation

The Mexican crisis shows that the effects of real appreciation compound slowly, and that export growth is not a sufficient test of overvaluation. If private savings are falling and the economy is not growing, the real exchange rate is probably out of balance. At that point, reducing inflation below 20 percent should no longer be a priority for policy-makers, and the use of an exchange rate anchor to control inflation must be reviewed.

The costs of real appreciation compound slowly.

The run on the Mexican peso highlighted the volatility of many forms of capital movement and the risks that arise when capital inflows sustain exchange rate overvaluation and large current account deficits. The crisis took years to develop because the risks and costs of overvaluation grow slowly and explode suddenly. As long as reserves and capital flows are available, the temptation to continue to use the exchange rate to keep inflation under control seems irresistible. This phenomenon of accumulated real appreciation can be detected in three Latin American stabilization programs that used the exchange rate as a nominal anchor: Chile from 1976 to 1981, Mexico from 1987 to 1993, and Argentina from 1990 to 1995.

Mexico in the 1990s had much in common with Chile during the late 1970s and early 1980s. Chile also used the exchange rate to reduce inflation. It experienced real appreciation, sizable capital inflows, large external deficits—and in 1982, a big devaluation and recession.

Mexico and Argentina recently followed a similar stabilization path, reducing inflation by using an exchange rate anchor, building up fiscal surpluses, pursuing trade liberalization, and supporting privatization. Both countries also enhanced productivity by reforming goods and labor markets. But fiscal adjustment and productivity growth are not enough to counterbalance an overvalued exchange rate, because overvaluation encourages a decline in savings as residents substitute present for future consumption. Mexico's exports were growing strongly in 1994, but national savings had declined to very low levels (13.7 percent of GDP). Overvaluation in Chile between 1978 and 1981 was also characterized by a low level of savings, averaging just 10 percent of GDP (see Milesi-Ferreti and Razin, 1996). Overvaluation also hinders economic activity because of the high interest rates needed to maintain the capital inflows that support the exchange rate. As growth dwindle,

savings decline further, leading to a vicious circle of low savings and low growth.

The accumulated real appreciation of the Mexican, Chilean, and Argentine domestic currencies during times of crisis is shown in Tables 1, 2, and 3. The accumulated real appreciation is the area between the line representing domestic inflation and the line representing foreign inflation in domestic currency. In a given year the rate of real appreciation is equal to

$$\{(1 + p) / (1 + p^*) (1 + e)\} - 1$$

where p is the domestic inflation rate, p^* is the inflation rate in industrialized countries, and e is the rate of nominal depreciation.

The three tables have some common patterns. In each table inflation drops quickly after the introduction of a sta-

TABLE 1

Accumulated Real Appreciation of the Mexican Domestic Currency During Times of Crisis

YEAR	(1+P)	(1+P*)(1+E)
1987	2.3183	2.336947826
1988	2.1416	1.715463148
1989	1.2001	1.135185628
1990	1.2665	1.20433898
1991	1.2266	1.118565854
1992	1.1551	1.056412493
1993	1.0975	1.036385731

TABLE 2

Accumulated Real Appreciation of the Chilean Domestic Currency During Times of Crisis

YEAR	(1+P)	(1+P*)(1+E)
1976	3.1181	2.811262648
1977	1.9194	1.756832113
1978	1.4012	1.582359027
1979	1.3336	1.309187017
1980	1.3514	1.188554476
1981	1.1969	1.1032

TABLE 3

Accumulated Real Appreciation of the Argentine Domestic Currency During Times of Crisis

YEAR	(1+P)	(1+P*)(1+E)
1990	24.1396	12.14079518
1991	2.7167	2.038362487
1992	1.249	1.069683813
1993	1.1061	1.0295
1994	1.0418	1.0261
1995	1.0338	1.0281

bilization program based on the exchange rate anchor. Real appreciation increases in the first year of the program; after the first year the rate of change in real appreciation declines significantly. Although inflation quickly converges with foreign inflation in domestic currency, it remains above it during the years that precede the crisis, leading to accumulated overvaluation. In all three cases the crisis takes time to develop because the effect of real appreciation comes after a lag. However, the current account deficit increases as real appreciation accumulates.

In the end, the economic problems created by overvaluation manifest themselves in dramatic ways. In Chile in 1982 and Mexico in 1994, the peso collapsed, leading to difficult adjustment measures. In Argentina in 1995, 20 percent of the labor force were unemployed.

The question in everybody's mind today is whether Brazil will face a similar crisis as it enters its third year of low inflation, and the dangers of real appreciation are waiting ahead. But policymakers may have absorbed the lessons from Argentina, Chile, and Mexico. At the start of the program they chose institutional flexibility and adopted a regime of exchange rate bands. These bands have already been adjusted four times since the program began. Real appreciation accumulated in 1994 was partially corrected in 1995, and in the end Brazilian pragmatism may well prevail.

There are bad and good uses of the exchange rate anchor in stabilization programs.

Brazil has yet to learn that sustained stabilization depends on fiscal equilibrium. But fiscal austerity is difficult to achieve and requires time-consuming reforms. Thus it is essential to develop a short-term strategy when making the transition from high inflation (with periods marked by large fiscal and quasi-fiscal deficits, capital flight, and mechanisms that perpetuate inflation) to low inflation (consistent with small and sustainable deficits).

The wrong way. The exchange rate must be used during the first stage of easing four-digit annual inflation because it synchronizes expectations and stops mechanisms (such as formal indexation) that tend to perpetuate inflation. After inflation has been brought down to double digits, however, continued use of the exchange rate produces serious distortions.

To sustain external equilibrium and reduce trade deficits as the real exchange rate appreciates, policymakers often use monetary policy to reduce aggregate demand. The difference between domestic and foreign interest rates

increases external borrowing and sustains real appreciation. But Sargent and Wallace's 1986 unpleasant arithmetic has shown that tight monetary policy cannot kill inflation where persistent budget deficits are present. Furthermore, high real interest rates make fiscal adjustment even more difficult because they increase public debt servicing. They also contribute to the deterioration of bank portfolios and increase the need for subsidies to recapitalize banks. It is not easy to reduce real interest rates without generating more inflation; it requires a boost of confidence that can only be achieved with a realistic exchange rate policy and an improvement in fiscal and current account balances.

The right way. It is difficult to make the public and policymakers accept the truth that inflation will not disappear completely because of inertia and remaining fiscal unbalances. But trying to force inflation down to single-digit levels by using monetary and exchange rate policies reduces domestic savings and creates unsustainable current account deficits. Thus, correcting current account deficits through tight monetary policies that reduce demand for both domestic and foreign goods is not a solution to the problem. Such an approach kills growth, and when growth disappears, so do private savings. Accepting inflation between 10 and 20 percent may ease necessary adjustments.

In Brazil, with the recent sharp decline in inflation, banks lost the revenue from the inflation tax on demand deposits, which amounted to more than US\$9 billion in 1993, according to calculations from the Central Bank. Furthermore, high real interest rates have contributed to the deterioration of commercial bank portfolios. The number of banks grew from less than 190 in 1988 to more than 270 in 1994; some of these will have to disappear or merge. From 1994 to 1996, the Central Bank had already liquidated seventeen small banks and intervened in five state banks and three private banks. Keeping interest rates too high and liquidity tight to force inflation down may produce gains in inflation reduction that are later lost in a banking crisis. Therefore, the constraint imposed by a group of unsound banks must be taken into account when formulating inflation targets.

Lower real interest rates would also contribute to the fiscal adjustment, as would privatization. Using privatization to reduce public debt permits a less painful path by reducing debt service. It also boosts confidence and helps reduce the difference between domestic and foreign interest rates. Brazil introduced its privatization program in 1981. In

1995 the central government still controlled about 100 enterprises. Among these, twenty-nine are in telecommunications, five in electricity, thirteen in oil, and fourteen are part of the Company of the Vale do Rio Doce; the rest are small transport enterprises, hospitals, and data-processing enterprises. Despite opposition from labor unions and some political forces the privatization program is moving ahead. A privatization council directly under the president and the National Bank of Development coordinates the program. The auctions are conducted on Brazil's stock exchange. Once fundamentals are put in place, the program could be accelerated, helping the transition to a better fiscal position.

The challenges ahead

Sustainable stabilization requires small current account deficits financed by nonvolatile capital flows. At full employment this can only be achieved by the combination of fiscal austerity and a competitive exchange rate. To reconcile a small current account deficit with the capital investment needed for growth, domestic savings must increase. Increased savings can be achieved by reducing government deficits and creating an environment that encourages private savings. (This includes a competitive exchange rate to sustain growth in the open economy without recurrent crisis.)

A central question hangs on the choice of the exchange rate regime. Many economists favor a freely floating exchange rate regime that would move the exchange rate risk to private portfolios. Would such a move be credible in Brazil and other countries in Latin America? In an economy where inflation exceeds international inflation by a wide margin, where the fiscal adjustment is far from being complete, where intervention in the financial sector is a well-known tradition, where stable institutions are lacking, commitment to a free float would not be credible. It would also add to uncertainty and volatility. Volatility of real exchange rates would hurt exports and further increase uncertainty.

On the other hand, if the government targets the exchange rate (or uses an exchange rate band system), overvaluation has to be avoided. The exchange rate overvaluation in Brazil has implied a subsidy on investment with import content and a subsidy on imports of durables as much as it did in the experiences of Mexico, Chile, and Argentina, discussed in the previous section. In Brazil, as in these three countries, the capital account surplus in part reflects the distortion-induced current account deficit.

Overvaluation, brought about by the persistent use of the exchange rate to reduce inflation, has led to a shift to imported goods. The current account is financed by foreign borrowing. Should the policy response be to limit the current account deficits and real appreciation? The answer is yes if one bears in mind the adjustment costs once the capital flow boom subsides.

Large capital inflows to finance the acquisition of public enterprises that are being privatized in Brazil (and also to finance a boom in mergers and acquisitions) are bound to continue in the near future. But these flows will return to normal levels in a couple of years. Even if these flows are long term, they will stabilize and firms will want to pay dividends abroad. If the exchange rate is overvalued, adjustments will be costly. Moreover, if the private sector in Brazil overestimates its debt service ability (as happened in Mexico), the country will have to face a costly adjustment. Thus, we should be concerned about cumulative foreign capital inflows that allow real exchange rates to move far away from the level that is sustainable in the medium run. No doubt, capital controls will become less and less effective. If a country has to choose between freely floating exchange rates or domestic interest rates that are determined in international capital markets, the second option would seem to be a better choice in Brazil today, when the most important policy action is to start a gradual correction of an overvalued exchange rate.

Stabilization programs that use the exchange rate as an anchor usually lead to an increase in real wages, a boom in consumption, and a temporary decline in poverty ratios. These developments are loudly advertised but short lived. Fleeting increases in real wages are ineffective in overcoming poverty. Far from providing a compelling claim of redistribution, unsustainable wage hikes make conspicuous the paucity of genuine redistribution efforts. Solutions to poverty in Latin America lie in a concerted effort to tax and redistribute revenue to support programs that aim at the poor and include an agrarian reform in the case of Brazil.

In Brazil, as in the rest of Latin America, there are a number of positive developments today: ideology has changed; protectionism has become an ugly word; trade liberalization has made progress; foreign direct investment has increased. Overall growth prospects have improved. Even if political convenience may dictate actions that contradict mainstream economic doctrine, policymakers have learned the lines that buy them applause in polite com-

pany, and all of them, from right to left, preach commitment to balanced budgets. In the end, they will have to give up populism and follow up on their words in the real world and not just in Washington meeting rooms.

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The Uneven Coverage of Social Services and the Redistributive Potential of Social Spending in Colombia

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STUDYING THE EFFECT OF OVERALL AND SECTORAL GOVERNMENT SOCIAL SPENDING IS INHERENTLY relevant because it facilitates determining, to some extent, the redistributive impact of social spending as a whole, and comparing redistributive efficiency among various social sectors. In addition, this type of analysis can be used to orient expenditure allocation policy with respect to reducing poorly targeted subsidies.¹ Nevertheless, this tool does not lend itself to indicating the path to be followed to increase expenditure, because potential users who are not currently covered and who would benefit from a possible increase are not necessarily in the sectors where the subsidies have had the greatest redistributive impact. Moreover, such users may be distributed among income groups very different from those covered at any given point in time. Consequently, the questions arise:

What is the redistributive potential of expanding basic social services as a function of public need? Is the current intersectoral distribution of government social spending adequate? How is this sectoral potential differentiated in terms of size and targeting? And, to what extent are such goals feasible without jeopardizing fiscal equilibrium?

The following is an attempt to answer these questions by proposing a method of determining the optimal increase in expenditure in each sector at each level of aggregate expenditure, in accordance with efficiency and equity criteria. As a corollary, we will see that the indicators derived from the model are easily implementable. For this purpose, Optimum Sectoral Expansion Paths are derived for basic education (two levels), health, and child care in Colombia. The exercises discussed reveal that optimal expenditure alloca-

tion requires that the greatest efforts be made in the child care, health, and secondary education sectors—in that order. However, taking a longer view, when the problems of promotion and dropping out in primary education have been solved, secondary education exhibits the worst indicators and becomes a priority sector for expansion and targeting. It seems that ambitious goals in terms of satisfying social service needs can be achieved equitably, without unduly compromising fiscal equilibrium. It also seems that the redistributive effect of marginal social spending with such goals as these is greater than was achieved by government social spending in 1992.²

The first section presents background information on measuring the redistributive impact, and then in the second section the Frontiers of Expansion Possibilities (FPE) are constructed. In the third section equity criteria are specified and Optimum Expansion Paths (SEO) are derived

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for each sector. In the fourth section the results of the two preceding sections for the social expenditure aggregate are obtained and its total marginal redistributive impact is established with respect to alternative goals. The fifth section reassesses the social sectors' achievements in terms of alternative welfare goals, contrasting them with the first section. The sixth and final section summarizes the primary results and conclusions.

Background: Measuring the overall and sectoral redistributive impact of social spending

As reported by Vélez (1994, 1996), the overall amount of the subsidies assessed for their impact on income distribution in Colombia in 1992 is significant for the total number of households in the Colombian economy: 2.06 thousand billion pesos, or 7.9 percent of available household income, 6.2 percent of GDP, and 24.1 percent of total government expenditure.

The *distribution* of the subsidy through government social spending is *moderately progressive* from the viewpoint of households, and almost egalitarian and slightly progres-

sive from the viewpoint of individuals (Figure 1A and 1B and Table 1): The average subsidy per household is 288,000 pesos annually, households in the first nine deciles receiving amounts close to the average, and the wealthiest 10 percent receiving 44 percent of the average subsidy, or 127,000 pesos annually. Likewise, in the first nine deciles a mildly progressive distribution is observed: While the second decile receives 12.5 percent of the total subsidy, and the maximum annual subsidy per household (359,000 pesos), the ninth decile receives 244,000 pesos annually per household, or 8.5 percent of the total subsidies.

The *relative weight* of these subsidies in the income of the poor deciles is quite pronounced: It represents 64 percent of average income per household in the first decile, and more than a fifth for households in the second and third deciles.³ The enormous progressive impact that the scope and targeting of the current social policy have on the welfare of all Colombian households is obvious, especially on the poorest 20 percent.

In 1992, *the effect of government social spending on income distribution in Colombia was clearly redistributive*. Assess-

TABLE 1

The Impact of Subsidies of Public Social Expenditures in the Gini Coefficient of Household Income, Colombia, 1992 (1992 \$)

SECTORS	SIZE OF SUBSIDY		TARGETING				REDISTRIBUTIVE EFFECT		
	\$ THOUS. MILL.	(%)	PARTICIPATION		PROGRESSION		DISMINUTION OF THE GINI COEFFICIENT		ERRE
			THE POOREST 20%	THE POOREST 40%	LESS PS%	CS	LESSGINI	(%)	
Education	963	46.6%	23.1	45.0	52.2%	-0.081	0.018	44.2%	0.95
Primary	339	16.4%	39.3	65.6	78.9%	-0.347	0.010	23.5%	1.43
Secondary	367	17.8%	20.6	47.3	56.6%	-0.124	0.008	18.3%	1.03
University	256	12.4%	5.1	14.4	10.8%	0.334	0.001	2.4%	0.20
SSPPDD	588	28.5%	17.9	38.1	43.7%	0.004	0.009	22.6%	0.79
Energy	464	22.5%	15.6	34.1	37.2%	0.070	0.006	15.2%	0.68
Ac.y Alc.	125	6.0%	25.8	52.8	67.3%	-0.231	0.003	7.4%	1.22
Gas	-0.8	0.0%	-35.2	-45.9	-100.9%	1.450	0.000	0.1%	-1.83
Health	413	20.0%	29.1	57.3	69.9%	-0.258	0.010	25.4%	1.27
ISS	81	3.9%	14.4	47.7	78.7%	-0.345	0.002	5.6%	1.43
SAP	220	10.6%	27.4	53.0	60.8%	-0.166	0.005	11.7%	1.10
ICBF	112	5.4%	42.0	67.5	81.6%	-0.374	0.003	8.1%	1.48
Rural	84	4.1%	54.6	81.0	95.2%	-0.510	0.003	7.1%	1.73
DRI	21	1.0%	45.7	68.8	82.8%	-0.386	0.001	1.5%	1.50
PNR	23	1.1%	46.8	71.5	86.2%	-0.421	0.001	1.8%	1.57
INCORA	35	1.7%	62.3	94.1	106.5%	-0.624	0.001	3.2%	1.93
Ag. Acct.	5	0.3%	72.3	85.3	108.6%	-0.645	0.000	0.5%	1.97
(URBAN)	16	0.8%	14.5	38.9	48.6%	-0.045	0.000	0.7%	0.88
Total	2,065	100.0%	24.1%	47.1%	55.1%	-0.109	0.041	100.0%	1.00

Notes: Csi: Concentration of coefficient of subsidy of sector i.

Psi: Coefficient of progression of sector i is equal to the difference between the coefficient of concentration of subsidy of the sector and the Gini coefficient of income.

Gini: Contribution of sector i to the change in the Gini coefficient.

ERRE: Relative Redistributive Efficacy. Equal to the sectoral quotient of the participation in the change in the Gini coefficient and the participation in the total subsidy.

Source: Vélez (1996), Table 3.1.

FIGURE 1A
Distribution of the Total Subsidy of Public Spending by Household and Person and the Concentration Curve, 1992

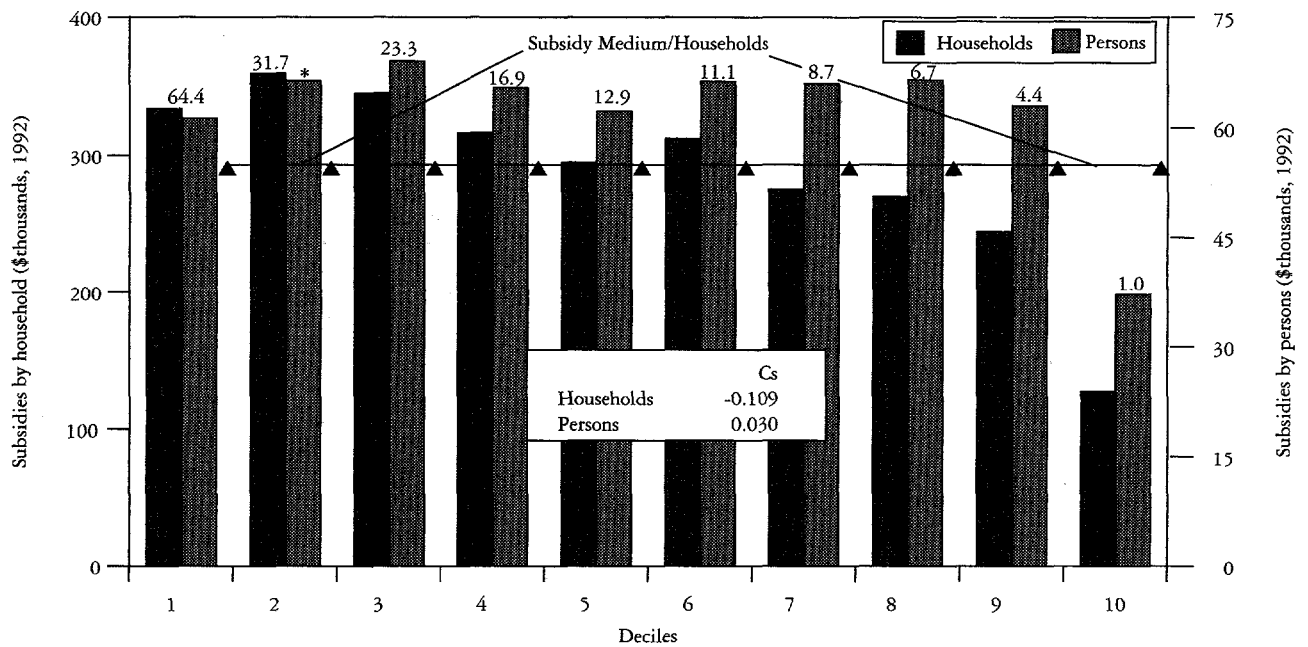
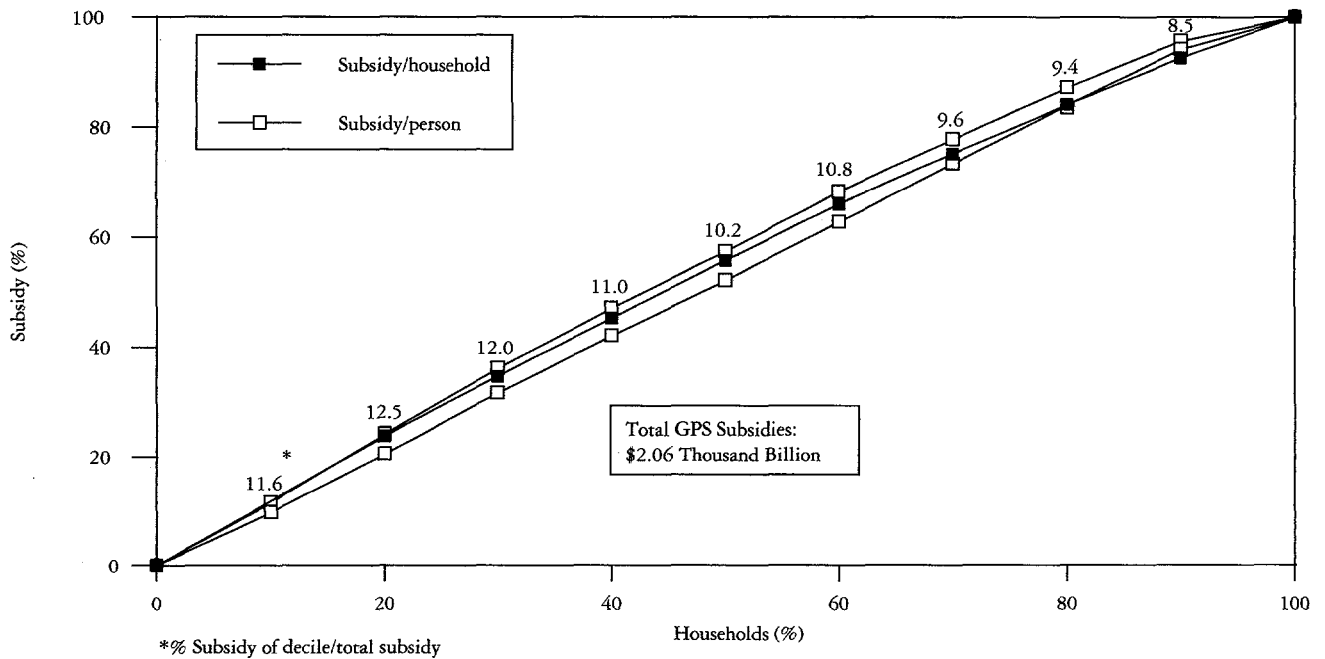


FIGURE 1B



ing the Gini coefficient of available household income *plus the subsidies* received through government social spending reveals that it decreases 42 thousandths, from 0.442 to 0.400. This marginal effect on equity—9.4 percent of the Gini coefficient—is a direct function of two basic parameters: the relative size of social expenditure, measured by the

share of said subsidies in available household income—8.0 percent—and the targeting or progressivity in the supply thereof, measured by the *progressivity coefficient*, $P = -0.552$, which is the difference between the Gini coefficient of income distribution and the coefficient of concentration or quasi-Gini coefficient of these subsidies, $C_s = -0.109$.

Interpretation of the aggregate redistributive effect

What *order of magnitude* does the effect of government social subsidies have on income distribution, according to *the recent trend of the Colombian economy*? For example, in terms of the downward phase of the *Kuznets curve* of the Colombian economy since the 1960s:

*Government Social Spending in 1992 can be interpreted as an instrument which, ceteris paribus, anticipated by nearly two decades the benefits that economic growth would have "generated" in the coming years.*⁴

Moreover, based on estimates of the elasticity of poverty vis-à-vis the inequality and growth of average income, it is possible to obtain a measurement of the effects that changes in inequality have on the levels of poverty. For example, using the data of Fresneda (1994), it is possible to calculate that *the redistributive effect of the subsidies, which reduces the Gini by 9.4 percent, would be equivalent to a decrease of 3.6 percent in poverty and of 21.4 percent in indigence*. Likewise, based on World Bank data (1994), the equivalent changes *in poverty would be even greater, 8.0 percent*, although similar in the case of indigence, 18.6 percent.⁵

Sectoral breakdown and relative redistributive efficiency

A sectoral analysis of the various programs that channel government subsidies to households shows how their *equitable effect on income distribution* depends not only on the *size* of the subsidies delivered by each program, but also on the *progressivity* or *targeting* of such subsidies. In other words, the ranking of the sectors of government social spending according to size is not the same as a ranking based on the targeting or sectoral redistributive effect of such sectors. For example, despite the fact that the public utility subsidies are in second place based on size, their redistributive effect is inferior to that of the health sector, which costs a third less than the former (Table 1).

The overall redistributive impact of government social subsidies breaks down as follows: 44 percent for education, 25 percent for health, 22 percent for public utilities, 7 percent for special rural programs, and less than 1 percent for low-cost housing. The education sector has the greatest redistributive impact, as it is responsible for 44 percent of the overall reduction of 42 thousandths in the Gini coefficient. This value is the result of *its large share* of expendi-

ture and a *slight progressivity* in the subsidy, which ranks third after rural programs and health. The contribution of the health sector, which is second in order of magnitude, is 25 percent of the total change and reflects its greater progressivity with respect to the average of all subsidies, and, therefore, exceeds its share in the total amount of subsidies, which is 20 percent. In third place are residential public utilities, which, despite their large share of total subsidies (29 percent), contribute only 23 percent to the overall change in the Gini coefficient, owing to their high relative regressivity. In fourth place are rural programs, which are exactly the reverse of utilities: Despite their small share of expenditure (4 percent), they contribute 7 percent of the improvement in the Gini coefficient. Lastly, the family housing allowance contributes less than 1 percent (0.8 percent) to the change in the inequality coefficient, which is slightly less than its share of total subsidies.⁶

However, in terms of their *relative redistributive efficiency*, *ERRE*, that is, their contribution to equity relative to the size of expenditure, the most prominent sectors are—in the order listed—special rural programs, health, and education, while the results with respect to low-cost housing and residential public utilities leave much to be desired.⁷

A *disaggregated examination of the thirteen subsectors* analyzed for their effect on income distribution reveals that *their relative redistributive efficiency* (*ERRE* index) is markedly uneven (Table 1). On average, an increase of 20 percent in government social spending, or approximately 400 thousand billion pesos, would improve income distribution and lower the Gini coefficient—*after subsidies*—by 1 percentage point. However, given the unevenness of the targeting, one additional peso of expenditure in each sector “buys” improvements in equity of very different magnitudes. The additional expenditure on special rural programs has an *ERRE* index of 173 percent, or, in other words, it brings about a reduction in inequality 73 percent greater than if it were distributed evenly in all sectors, and almost three times that achieved when equal increases are made in the residential electrical energy subsidies, the index of which is only 68 percent. The *ICBF* and *ISS* subsidies also have high *ERRE* indices with values of 148 percent and 143 percent, followed by those of primary education, water and sewerage, and health (*SAP*), with indices of 143 percent, 122 percent, and 110 percent, respectively. Secondary education has an *ERRE* index very close to the average, 103 percent, and only three subsectors have

indices below the average (100 percent): low-cost housing, 88 percent; electrical energy, 68 percent; and higher education only 20 percent. Thus, if, by way of example, the current levels of targeting are maintained, a decrease in the electrical energy subsidy hypothetically transferred to the ICBF, ISS, or the primary education subsidies would have more than twice the redistributive effect obtained in the former subsector, or if transferred to another public utility sector such as water and sewerage, nearly twice the redistributive efficiency of the former would be achieved.

How are the needs distributed? The Frontier of Expansion Possibilities for services in each social sector

The sectoral breakdown of the redistributive effect of social expenditure, discussed in the first section, logically leads to *exploring the redistributive potential of expanding social services based on the needs of the population examined*. The answer to this mystery includes the solution of *two problems*: first, determination of all the *possibilities for expanding* such services and targeting that completely or partially satisfies such needs, and, second, the *ranking of expansion options*, in terms of the social welfare associated with each.

The upper limit of the possibilities for expanding any social service is determined by the needs thereof. From this perspective, the following examines, across income groups,

the sectors of primary, secondary, and higher education, child care, health services, and housing.

Primary education

Considering children 6 to 12 years of age who have not completed primary education as the *potential users*—or target population—to be covered by this level of education, the *needs* for this service are determined by the number of children in this cohort who have had no primary education, plus those not attending this level because they dropped out before completing it. Of a total of 4.7 million children aged 6 to 12 who fit this description and therefore constitute the potential demand for primary education, the public system covers a large number (3.24 million), and with a progressive coefficient of concentration relative thereto: *minus* 0.355 versus *minus* 0.245 (Table 2). Discounting public and private coverage leaves a relatively small remainder (14 percent) highly concentrated in the low-income groups: 664,000 children aged 6 to 12 who lack this service⁸ (Tables 2 and 3), and whose difficulties in gaining access to primary education increase with the level of poverty. In fact, while coverage in the first decile is 77 percent, for the wealthiest 30 percent it exceeds 95 percent. If the foregoing is coupled with the greater concentration of the target population in the low-income groups ($C = -0.281$), it is found that of

TABLE 2
Total Deficits and Coverage by Decile in Colombia, 1992

SECTOR	UNITS	POTENTIAL USERS OR OBJECTIVE POPULATION ^a		TOTAL SERVICE ^b		PUBLIC SERVICE		LACKING SERVICE	
		Q	C	Q	C	Q	C	Q	C
Education	Students								
Primary	Age 6 to 12	4,752	-0.281	4,089	-0.245	3,239	-0.355	664	-0.506
Secondary	<age 19	4,027	-0.042	2,924	0.011	1,934	-0.128	1,104	-0.183
University	<age 25	1,398	0.293	473	0.444	180	0.301	926	0.216
Child care	Age 2 to 6								
Total		3,658	-0.252	1,252	-0.115	870	-0.299	2,405	-0.323
ICBF						665	-0.348		
Health SAP	Attending patients	98,666	-0.016	83,360	0.021	20,034	-0.196	15,306	-0.217

Notes: a. Potential users of 1. primary: children from 6 to 12 years who do not finish primary, 2. secondary: minors age 19 and under who finish at least primary but not secondary, 3. university: those under age 25 who finish at least secondary but did not finish university, 4. child care: children age 2 to 6 who did not enter primary school.

b. Public and private services. (c) Coefficients of concentration and quasi-Gini.

Q: Quantities in thousands.

Source: National Household Survey, Stage 77, 1992. Author's calculations.

the total *potential students not in primary school*, 214,000 (32 percent!) are in the first decile (more than half of the poorest 20 percent of households!), and less than 7 percent are in the two highest quintiles. Thus, the coefficient of concentration of overall needs is highly progressive and equal to *minus* 0.506.

What targeting options are derived from this distribution of needs and what is the cost of the various alternatives? The *Frontier of Marginal Expansion Possibilities* (FPEM) (Figure 2A) encompasses all the possible combinations of *additional spaces* (and expenditure) in primary education and their respective targeting.⁹ If *all* of the 664,000 children not attending school were covered, the cost would be 58 thousand billion pesos and the coefficient of concentration *unique*: $C = -0.506$. However, for 300,000 additional spaces (*which is less than half the maximum number*), the cost of which amounts of 26 thousand billion pesos, there are *various options for distribution among the various income groups*, and, therefore, the coefficients of concentration can range from *minus* 0.128 to *minus* 0.843. As the marginal expansion contracts, the distribution options become more diverse and, therefore, with minimal expansions—1,000 spaces, for example—they can be allocated in their entirety to a single decile. Consequently, these targeting alternatives generate a wider range of coefficients of concentration: from *minus* 0.900 when all the spaces are assigned to

the poorest decile, to *plus* 0.900 if they all go to the wealthiest decile. The coefficient is zero when the same number of spaces is allocated to all of the deciles.¹⁰ In short, all of the possible pairs for expanding the spaces in (and expenditure on) public primary education and the respective targeting alternatives are found *between* the vertical axis and the FPEM (Figure 2A). And, obviously, as its name suggests, the Frontier of Marginal Expansion Possibilities (FPEM) defines the *extreme marginal expansion options*.

What is the size and targeting of the service resulting from *adding the marginal expansion options*—defined by the FPEM—to the *original or preexisting situation* of public primary education? The *Frontier of Expansion Possibilities* (FPE) of public primary education provides the response (Figure 2B). As seen in Figure 2B, the *initial situation* of public primary education in 1992 is represented by the service provided to 3.24 million children at a cost of 286 thousand billion pesos, or 0.9 percent of GDP, with a coefficient of concentration of *minus* 0.355. If to this we *add the total* children not covered, the number of spaces rises to 3.9 million at a total cost of 345 thousand billion pesos, or 1 percent of GDP, and an improvement in targeting ($C_s = -0.385$) is achieved, equal to the *weighted average* of the original coefficients of concentration ($C = -0.355$) and the marginal expansion ($C = -0.509$).¹¹ For any marginal expansion of spaces *less than the maximum*, the result in terms of size is a

INITIAL COVERAGE OF POTENTIAL USERS (%)

MED	MIN	MAX	BY DECILE										MAX/ MIN	MAX/ MEDI
			1	2	3	4	5	6	7	8	9	10		
86	77	96	77	82	86	86	87	91	93	96	96	95	125%	112%
73	51	87	51	72	70	67	72	73	75	79	87	84	171%	119%
34	18	56	18	23	19	18	21	26	33	36	40	56	312%	165%
34	27	68	27	29	28	32	33	35	38	48	52	68	255%	199%
84	65	93	65	72	74	75	83	82	88	89	92	93	143%	110%

TABLE 3

Social Services Deficits by Decile, Colombia, 1992

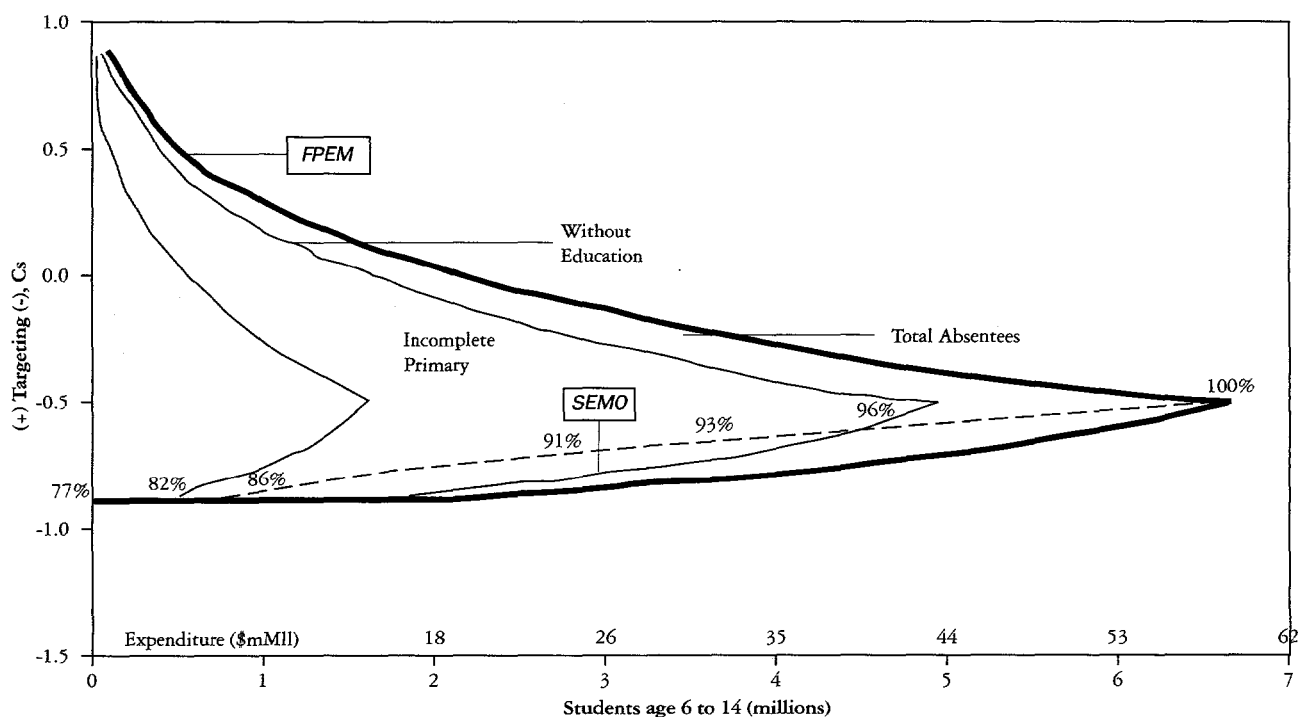
SECTOR	UNITS	TOTAL DEFICITS BY DECILE (THOUSANDS)										TOTAL
		1	2	3	4	5	6	7	8	9	10	
Education	Students											
Primary	Age 6 to 12	214	144	86	74	59	38	20	11	8	9	664
Secondary	<age 19	163	112	140	153	131	141	96	81	48	39	1,104
University	<age 25	32	39	44	83	92	122	124	144	153	92	926
Child care	Age 2 to 6	478	427	341	285	242	211	175	115	86	45	2,405
Health SAP	Attending Patients	2,621	3,007	2,661	2,396	2,449	1,858	1,811	1,434	1,182	614	20,034
Home	Households of Y<4 SML	0.9	1.5	1.7	2.3	2.1	2.3	2.4	1.8	1.0	0.3	16.3

SECTOR	UNITS	DISTRIBUTION OF DEFICITS BY DECILE (PERCENTAGES)										TOTAL
		1	2	3	4	5	6	7	8	9	10	
Education	Students											
Primary	Age 6 to 12	32.3	21.7	13.0	11.1	8.9	5.7	3.0	1.6	1.3	1.3	100.0
Secondary	<age 19	14.7	10.1	12.7	13.9	11.9	12.8	8.7	7.4	4.4	3.5	100.0
University	<age 25	3.4	4.2	4.7	9.0	9.9	13.2	13.5	15.6	16.5	10.0	100.0
ICBF												
HCB	Age 2 to 6	29.4	16.1	14.0	13.0	9.0	8.0	4.6	2.3	2.4	1.0	100.0
Health SAP	Attending Patients	13.1	15.0	13.3	12.0	12.2	9.3	9.0	7.2	5.9	3.1	100.0
Home	Households of Y<4 SML	5.6	8.9	10.5	13.9	13.1	13.8	14.8	11.3	6.1	2.0	100.0

Source: National Household Survey, Stage 77, 1992. Author's calculations.

FIGURE 2A

Frontier of Possible Marginal Expansion (FPME) and the Path of Marginal Optimal Expansion (SREM) in Primary Education (Quotas and Expenditures)



matter of simple addition, the coefficient of concentration is calculated similarly (as a weighted average), and the breadth of the targeting range depends on the options defined by the FPEM and the size of the increase in spaces.¹²

Secondary education

Compared with primary education, the secondary gap is much larger and, although, as in the former level, it also primarily affects the low-income groups, it is concentrated with less intensity among the poorest. Of 4 million young people under age 19 who completed primary school and have not completed secondary school, that is, the *potential users*, 1.1 million, or 27 percent, do not attend secondary school, either because they never entered it or because they dropped out (Table 2).¹³ The rates of coverage increase with income, and range from a minimum of 51 percent in the first decile to 87 percent in the ninth. From this perspective, the inequality is more pronounced than in primary education as the ratio of the rate of maximum and minimum coverage goes from 1.25 to 1.71 between the primary and secondary levels. Given the slightly progressive distribution of the target population, more than a fourth of the

absolute needs come from the first income quintile (Table 3), more than half of the poorest 40 percent, and only 8 percent of the wealthiest quintile. Consequently, the coefficient of concentration of the overall lack of spaces in secondary education is progressive: $C_s = -0.184$.

The Frontier of Marginal Expansion Possibilities (FPEM) defines the possibilities for the growth and targeting of secondary education (Figure 3A): Minor increases can be made by allocating all of the spaces to any of the income deciles, so that the coefficients of concentration range from the most progressive, minus 0.900, to the most regressive, plus 0.900. As the number of additional spaces increases, the possibility of concentrating supply at the extreme ends of the income distribution is more restricted; consequently, for an expansion of 600,000 spaces, which would cost 104 thousand billion pesos, the coefficients of concentration vary from a maximum progressivity of $C = -0.573$ to an extreme regressivity of $C = 0.202$. This inverse relationship between the targeting range and the size of the increase in spaces culminates in the maximum marginal expansion of 1.1 million spaces at a total cost of 192 thousand billion pesos, the coefficient of concentration of which is unique: $C = -0.184$.

FIGURE 2B

Frontier of Possibilities of Expansion (FPE) and Path of Optimal Expansion (SRE) in Primary Education (Quotas and Expenditure)

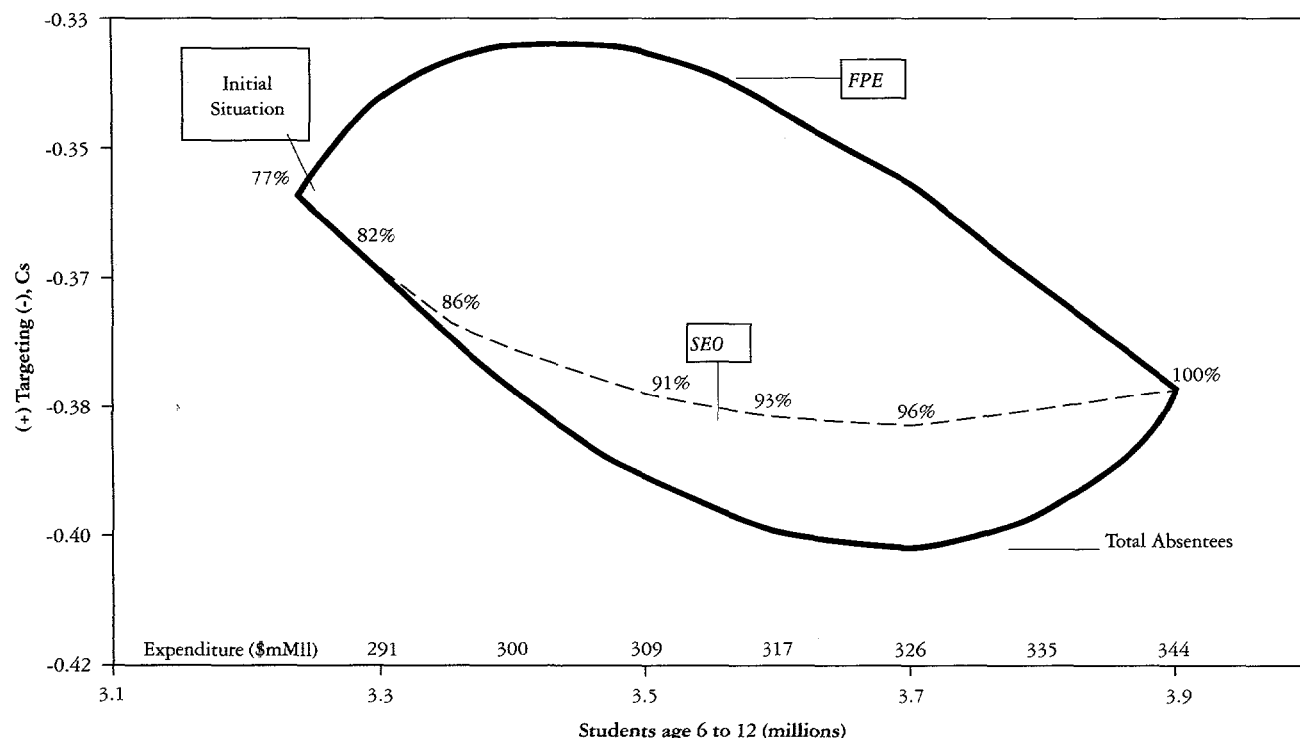
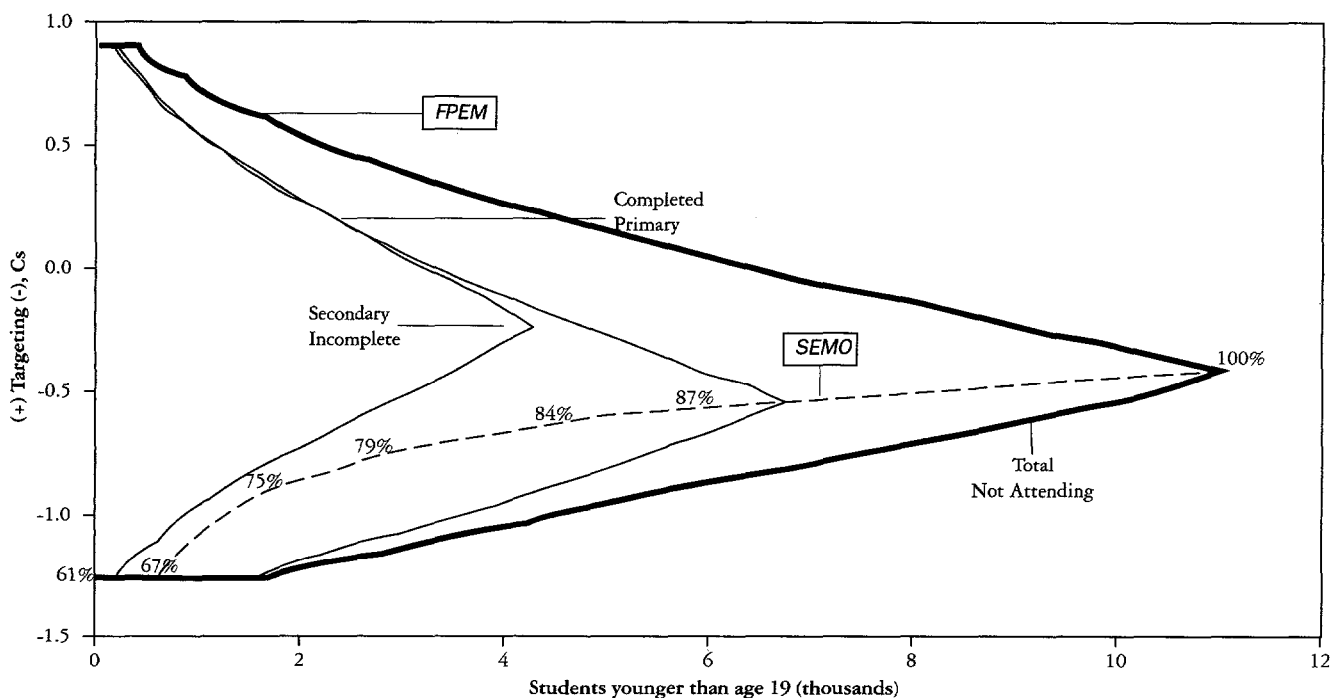


FIGURE 3A

Frontier of Possibilities of Marginal Expansion (FPEM) and the Path of Optimal Marginal Expansion (SEMO) in Secondary Education (Quotas and Expansion)

Adding the secondary growth options contained in the FPEM to the initial 1992 supply yields the secondary FPE (Figure 3B), which assumes extreme values—in terms of size—ranging from 1.9 million spaces at 336 thousand billion pesos (0.31 percent of GDP) and $C_s = -0.128$, to 3 million spaces for a total amount of 528 thousand billion pesos (1.6 percent of GDP) and an improved progressivity of $C_s = -0.160$. For amounts close to 2.5 million spaces, the range of variation in targeting is maximal and the coefficient of concentration ranges from *minus* 0.047 to *minus* 0.235.

University education

Assuming that the potential demand for university education consists of young people under 25 years of age who completed secondary school and have not entered or have not completed one level of higher education, 1.4 million young people are in this category, most of whom belong to the middle- and high-income groups, $C = 0.293$ (Table 2). More than two-thirds are not continuing their university studies and the differences in probability of attendance by income level are even more pronounced than in primary and secondary education: Of the poorest half of households, only one of every five potential students is receiving a higher edu-

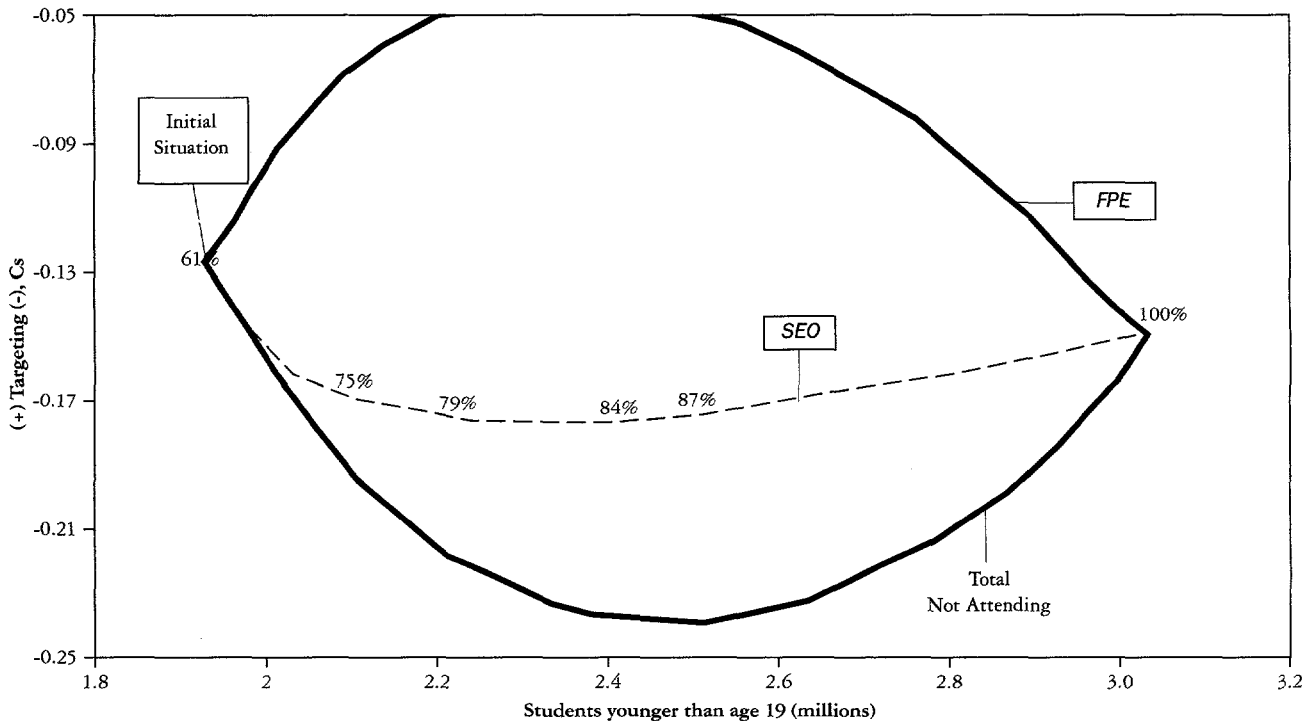
cation. This latter ratio increases with income and peaks at 56 percent in the tenth decile. Therefore, the ratio between the maximum and minimum attendance rates is 3.12 times!

Given that the overall needs—926,000 spaces—are distributed regressively ($C_s = 0.216$), they are concentrated primarily (69 percent) in the wealthiest half of the Colombian population (Table 3): Only 8 percent belong to the first income quintile, while the two highest quintiles (fourth and fifth) account for 29 percent and 27 percent, respectively. A total of 180,000 spaces in public universities would satisfy 13 percent of the overall potential demand, with a level of regressivity ($C = 0.301$) very similar to that of the potential users.

The FPEM for higher education is derived from the demand not satisfied by public and private universities. It assumes extreme values with respect to minimal expansions, and becomes sharper as the targeting options become more limited with greater marginal expansions. At its peak, 926,000 additional spaces are required at a cost of 952 thousand billion pesos (2.9% of GDP) and a unique regressive coefficient of concentration, $C = 0.216$. This is a considerable sum, and it is so largely because the unit costs of public higher education are six times higher than those

FIGURE 3B

Frontier of Possibilities of Expansion (FPE) and Path of Optimal Expansion (SEO) in Secondary Education (Quotas and Expansion)



of secondary education, and twelve times higher than those of primary education.

Adding these options to the services provided initially (1992) by public universities yields the FPE. The great contrast (1 to 6) between the magnitude of the service initially provided and the potential maximum is striking. For this same reason, the targeting amplitude of the marginal expansion, FPEM, has a major effect on the targeting amplitude of the FPE: For an expansion of 400,000 spaces, the coefficient of concentration can vary between 0.566 and minus 0.127.

In comparing the FPEM and the FPE of higher education with those of the other two educational levels, it is worth noting that in the former, most of the allocation options for higher education assume a regressive distribution, both at the margin and overall: Almost all of the points are above $C_s = 0.0$. This is a clear reflection of the improbability of the poor groups arriving at the doors of a university; that is, if they cannot even successfully complete the prior levels, entering a university is not a possibility.

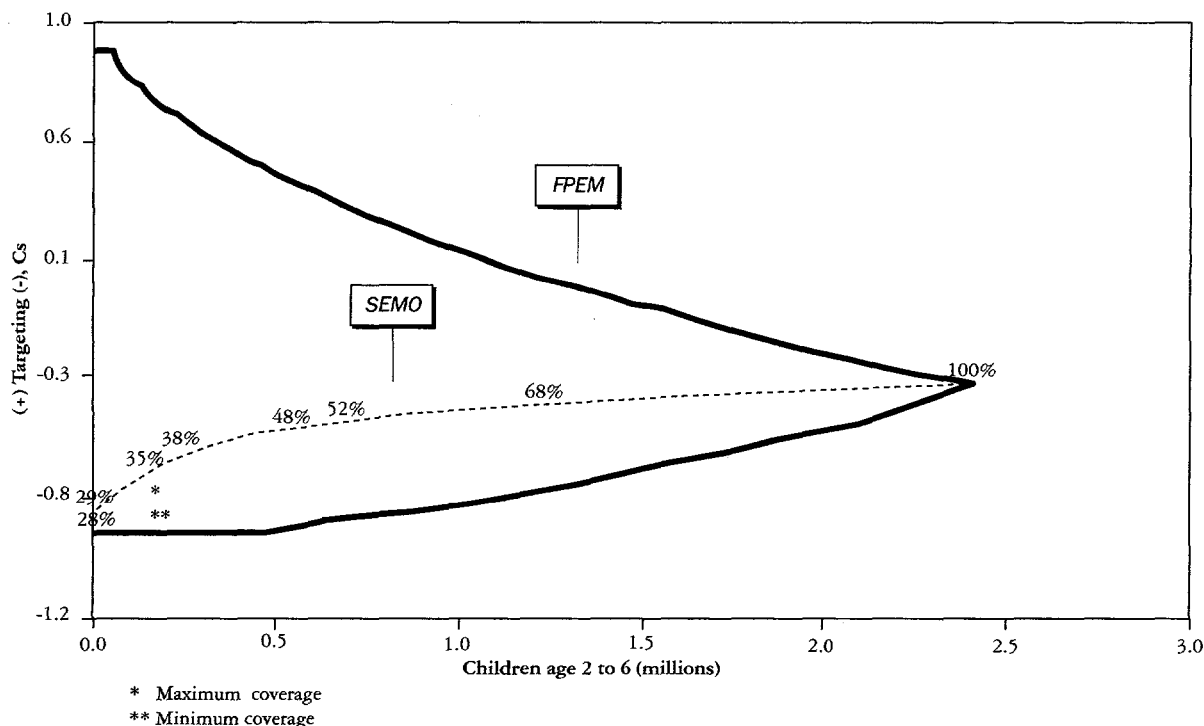
Child care HCB-ICBF

The potential demand for preschool and day care services in Colombia comprises 3.7 million children aged 2 to 6 who

are very progressively distributed ($C = -0.252$) (Table 2). A third of these children have access to some private or public service of this type. *Public services predominate (24 percent) and are progressive ($C = -0.299$) vis-à-vis potential demand.*¹⁴ Their use increases with income level: The rates of attendance vary from a minimum of 27 percent in the first decile to a maximum of 68 percent in the tenth. Consequently, the *population in need* of this service amounts to 2.4 million children, who come primarily from the low-income groups (Table 3): 29 percent in the first decile, 60 percent from the poorest 30 percent of households, and only 10 percent from the wealthiest 40 percent. Therefore, despite public efforts, the coefficient of concentration, $C = -0.323$, is more progressive than that of potential demand.

The FPEM for child care is based on children with needs and reaches peak expansion at 2.4 million spaces at a cost of 340 thousand billion pesos (1 percent of GDP), with a very progressive targeting of $C = -0.323$ (Figure 4A). In addition to its usual wedge shape, the FPEM in this case is very "downward oriented" (*"corrida hacia abajo"*) toward the progressive field of the distribution, because, as we have just seen, most of the potential users with needs are in that field.

FIGURE 4A

Frontier of Possibilities of Expansion (FPEM) and the Optimal Marginal Expansion Path (SREM) with Respect to Child Care HCB-ICBF (Quotas and Expenditures)

The FPE summarizes the additions of the marginal expansions starting with the initial provision in 1992 of the ICBF (Figure 4B): The maximum expansion requires *quadrupling* the size of public day care centers with a very similar degree of targeting. Note that in almost none of the cases do the overall public service targeting options become regressive again ($C > 0$).

Health, Public Assistance Subsystem (SAP)

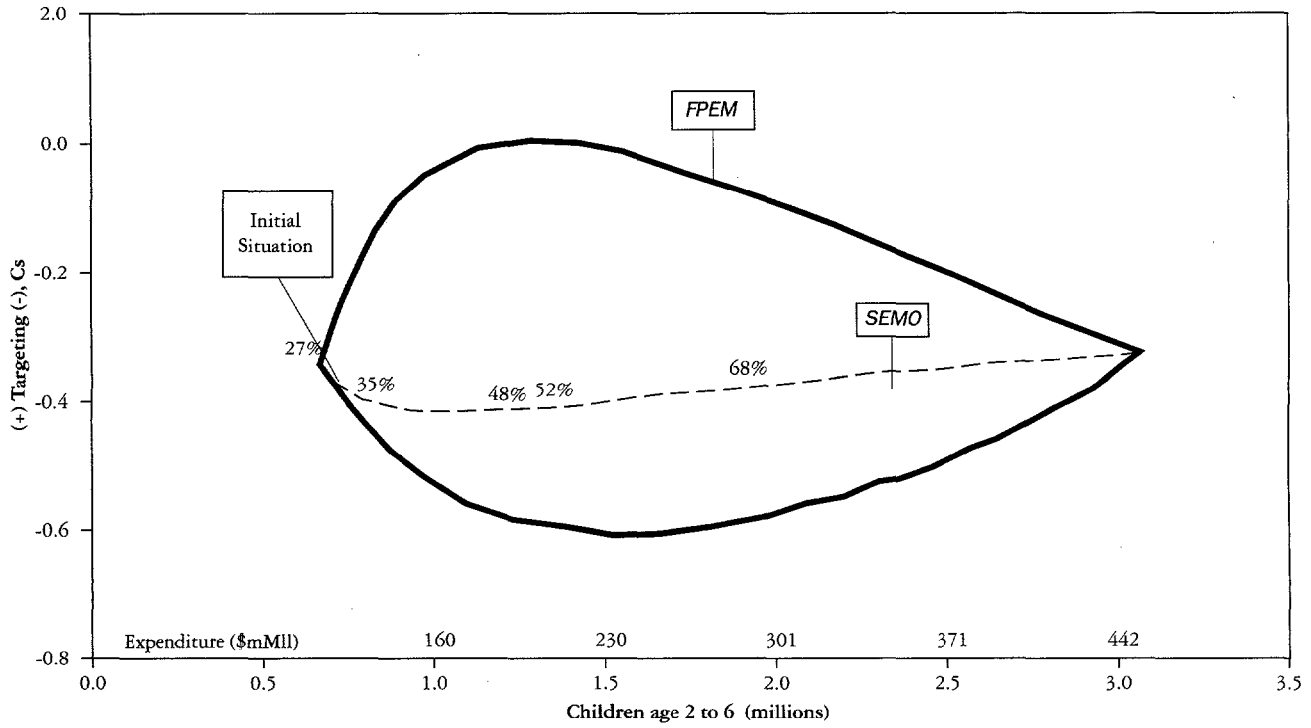
Colombians needed a total of 99 million health treatments in 1992, 84 percent of which were covered through public and private services. The public assistance subsystem, SAP, provided 20 million treatments with relative progressivity (Table 2).¹⁵ The total supply of health services—private, public, and social security—resulted in a higher rate of care for the high-income groups, although the differences are less pronounced than in the social sectors examined above, except primary education. While in the first decile the probability of treatment is minimal, and one out of every three patients receives no health care, in the tenth decile, only 7 percent of patients lack health care.¹⁶

Subtracting private, public, and social security services from total potential users in 1992 leaves a balance of 15.3 million treatments for patients distributed primarily in the low-income groups ($C = -0.217$): 28 percent are in the poorest 20 percent of households, a fourth are in the second income quintile, and only 9 percent are in the wealthiest decile (Table 3).¹⁷

In the case of a *heterogeneous service* such as health, which includes outpatient consultations, dentistry, maternity care, surgery, and hospitalization, the construction of the FPEM involves some additional complications: First, *the FPEMs for each type of service* (in “physical” units, Figure 5A) are established and then, using the unit costs, a health FPEM as their aggregate in monetary units (Figure 5B). In Vélez (1996), Chapter 4, the differences by income group in the health care packages required by patients are clearly illustrated; therefore, in this expansion simulation, the progressive distribution of the patients to be treated changes the overall demand for each service. After the increase in patient care (Figure 5A) in the various deciles, the percentage of outpatient consultations expands, with dental care ranking second, followed by hospitalization, and then surgery and maternity care.¹⁸

FIGURE 4B

Frontier of Possibilities of Expansion (FPE) and the Optimal Marginal Expansion Path (SRE) with Respect to Child Care ICBF (Quotas and Expenditures)



Totaling the FPEMs of each service *valued* at their unit cost yields the health FPEM in units of expenditure that peak at 172 thousand billion pesos (0.5 percent of GDP), with a coefficient of concentration less regressive than the distribution of patients, $C = -0.169$ (Figure 5B).¹⁹ Adding these expenditure increase and targeting options to the initial level of the SAP yields the health FPE (Figure 5C), indicating expenditure options ranging from 0.7 percent to 1.2 percent of GDP, or 20 to 35 million patients per year, with a slight improvement in targeting. The peak targeting amplitude is reached for a level of expenditure of 300 thousand billion pesos (0.9 percent of GDP), with a range of *minus* 0.022 to *minus* 0.307.

Housing

According to Giraldo and Torres (1993), 878,000 households in the major cities, with incomes less than four legal minimum wages, do not own the housing they live in. Unlike the other social sectors examined above, “living in a house one owns” does not appear to be an ordinary benefit, as there is no systematic and increasing relationship with the level of income. On the contrary, the highest ownership

rates appear in the low-income groups—63 percent, 59 percent, and 60 percent in the first three deciles—while varying between 58 percent and 56 percent in the fourth through eighth deciles, and falling to 49 percent and 44 percent in the two highest deciles. There is, then, a slight decreasing tendency “to live in a house one owns” with the level of income, reflecting a decision about the composition of net worth, but certainly not about consumption, as housing of varying quality and price can be lived in regardless of whether or not it is owned. As discussed in greater detail in the next section, this situation makes it easy to foresee that “not living in a house one owns” is not a guide for resource allocation in terms of welfare and equity in housing. For this reason, no FPEM or FPE is constructed for this sector.

Excluding differences in quality

It should be noted that the analysis of the coverage of potential users of the other social services did not consider *differences in quality*. This can conceal much of the inequality among income groups or cause it to be underestimated if, as demand theory suggests, the highest quality levels are positively correlated with the income and coverage levels.

FIGURE 5A
Frontier of Possibilities of Marginal Expansion (FPEM) in Health SAP (Units of Service)

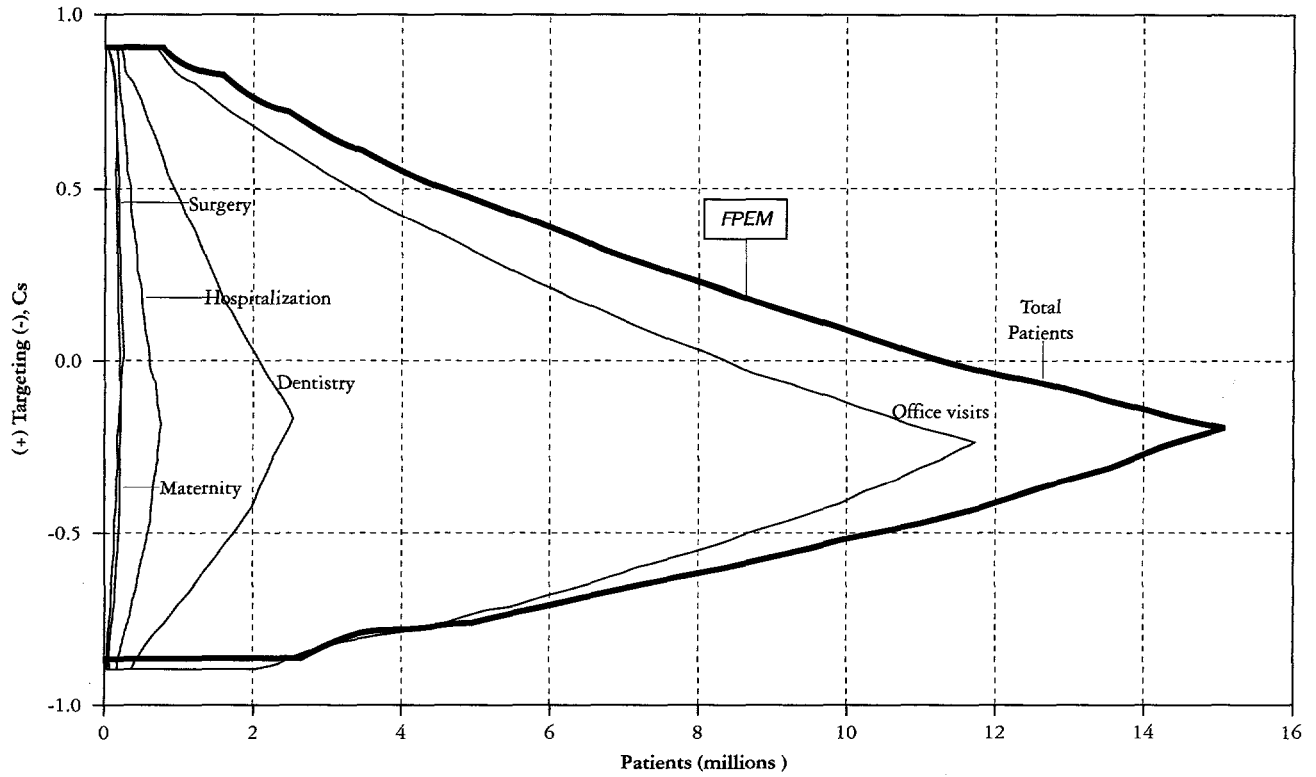


FIGURE 5B
Frontier of Possibilities of Marginal Expansion (FPEM) and the Optimal Marginal Expansion Path (SEMO) in Health SAP (Expenditure)

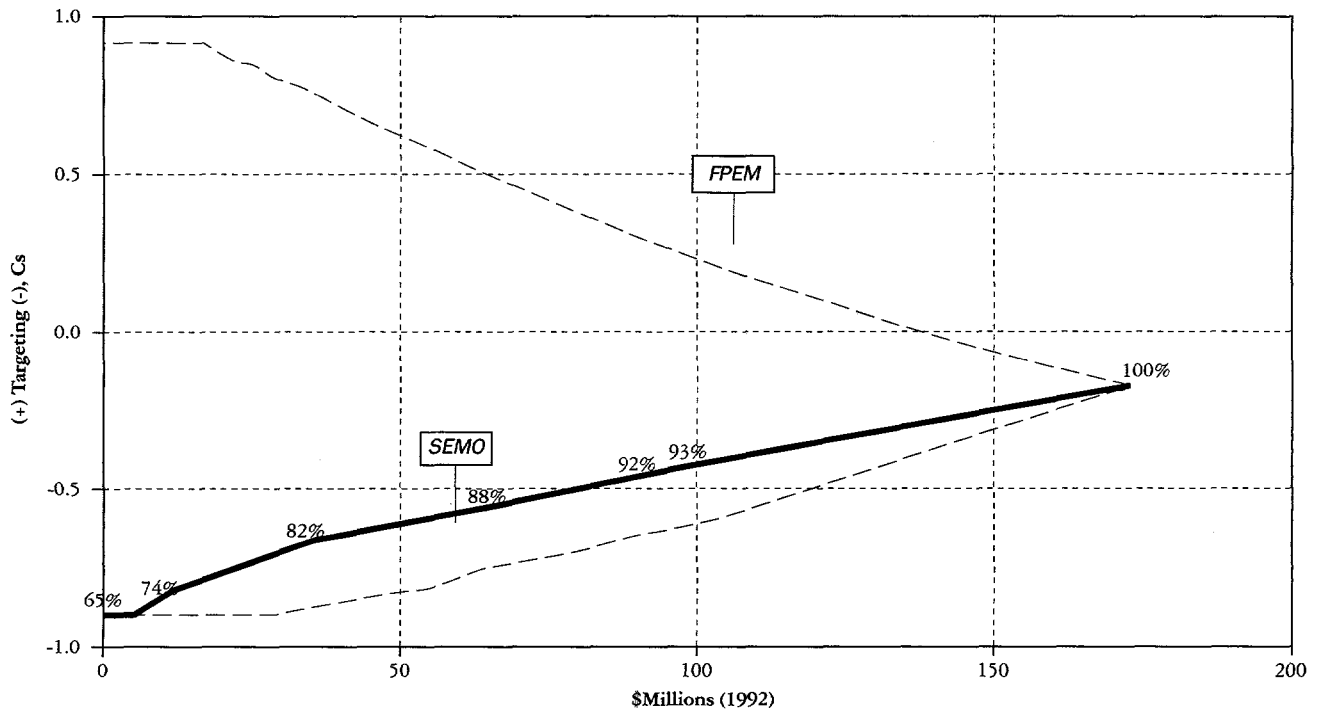
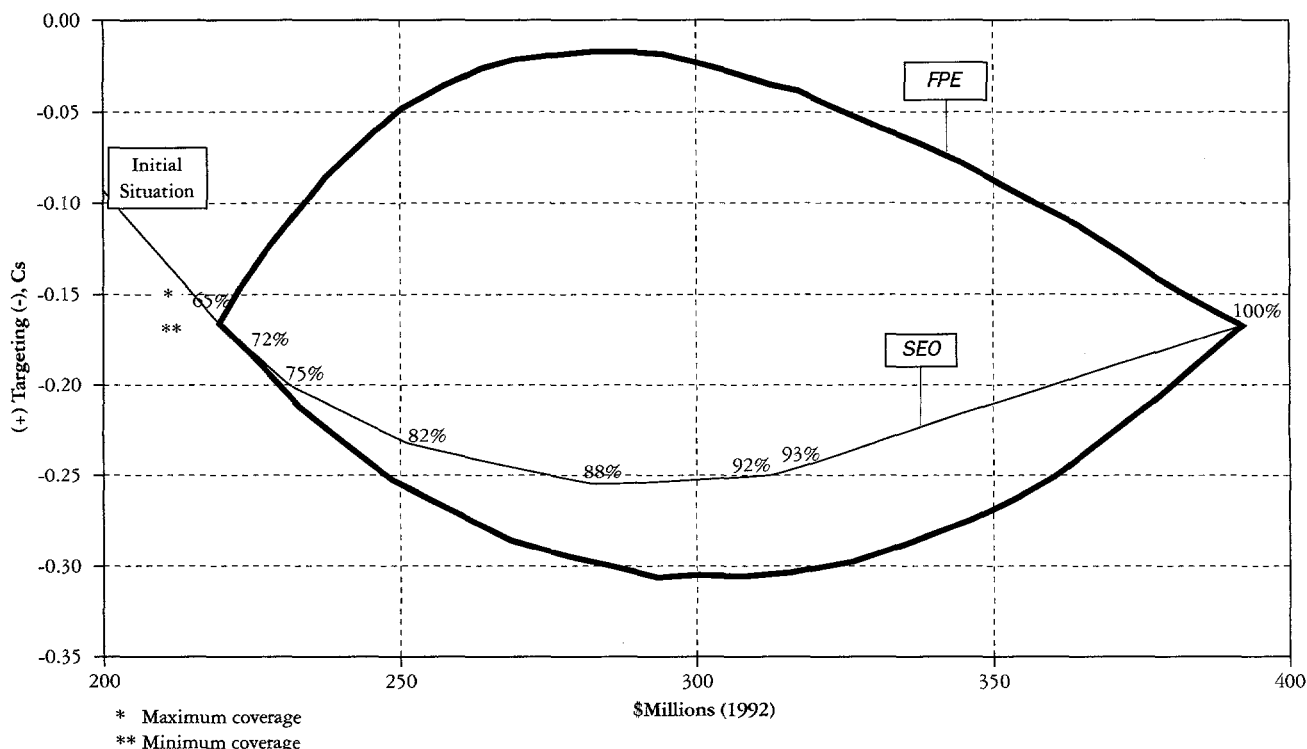


FIGURE 5C

Frontier of Possible Expansion (FPE) and the Optimal Expansion Path (SEO) in Health SAP (Units of Expenditure)

The quality indicators are revealed indirectly—albeit crudely—in problems such as the high drop-out rate coupled with inequity in basic education.

It can be argued that when supply conditions permit greater variability in the quality of the service, the demand options are consequently eased and, therefore, a larger percentage of low-income groups can access private services as the cost of trading decreases in quality for a price within their reach. If this were more feasible with respect to health services than with respect to secondary education, it would go a long way toward explaining why extremely poor households have a higher rate of access to the former—although of the poorest quality—than the latter. However, such behavior also reflects the relative preferences of households to have a sick person treated (a contingency) vis-à-vis the desire to enroll a young person in secondary school who has already completed primary school, in contrast to their relative prices.

Sectoral expansion criteria: The Optimum Expansion Paths (SEO)

Based on the need for social services in Colombia, each sector's FPME and FPE define a series of hypothetically feasi-

ble options for expanding its activity, with a certain targeting range encompassing more or less equitable alternatives. What would be an *equitable guideline for ranking the expansion options?*

The data presented in the preceding section (Tables 2 and 3) describe a trichotomous variable, the lack of or access to each of the social services according to sources of supply: private or public. Obviously, even within each income group and each service, observation of the behavior of the agents reveals heterogeneous results, reflecting a process of individual optimization wherein the probabilistic distribution of the variable—lack of service, access to public service, and access to private service—depends on the interaction of (a) the socioeconomic characteristics of the household and the individual who will potentially use the service (for example, income, educational level of the head of household, the individual's working hours, etc.); and (b) the local characteristics of the supply of services (public and private educational supply; density, quality and distance; profile of labor demand; opportunity cost of study time, etc.).²⁰

If Uoi, Uvi, and Ugi are the utilities associated with the three possible states of an individual in income group I—

lack of service, access to private service, and access to public service— $U(\cdot)$ represents a utility function of the service received and consumption.

$$U_{vi} = U(qv, C_i - pv),$$

$$U_{gi} = U(qg, C_i - pg - (\theta_i), y)$$

$$U_{oi} = U(0, C_i)$$

$$U^*i = \max (U_{vi}, U_{gi}, U_{oi})$$

where C_i represents consumption when there are no other expenditures— q_i represents the quality of the two services (we assume, for simplicity's sake, that $qv > qg$), pv , and pg are the respective prices of getting an education at a private and a public school). Even if the latter does not require tuition, there are other costs such as transportation plus the value of travel time. U^*i is the maximum utility of the individual. Finally, θ_i represents the cost of overcoming the possible congestion of the public institution and is a decreasing function of the level of public supply for the income group to which the individual belongs, x_i . Consequently, within each income group (decile, for example), three probabilities are observed, P_o , P_v , and P_g , which reflect the optimal solution for that group, given its characteristics and the level of public supply to the income group. Obviously, as the public supply for this group expands, P_v decreases, P_g increases, and P_o decreases, as does the marginal utility of the public supply. The expected utility of the income group also increases.

$$E(\{U_i^*\}) = P_{oi} U_{oi} + P_{vi} U_{vi} + P_{gi} U_{gi}$$

which, after rearrangement and standardization at $U_{oi} = 0$

$$E(\{U_i^*\}) = P_{vi} (U_{vi} - U_{oi}) + P_{gi} (U_{gi} - U_{oi})$$

Generally speaking, a utilitarian social welfare criterion considers an increase in the welfare of any citizen positive; therefore, at the margin, this same criterion also considers *more socially beneficial* an increase in the welfare of an individual with greater marginal utility—that is, with a lower level of access or sum of probabilities $P_v + P_o$.²¹ The government's problem in this case is effecting a marginal expansion—a *reform*—without altering the existing supply.²² The objective is to optimize the Bergsonian utility function of social welfare, regardless of the level of aversion to inequity, subject to an exogenous resource constraint.

If society consists of ten income groups (i.e., ten deciles), each of which has an initial supply—public plus private— x_i^o ($i = 1, 2, 10$) and will receive an *additional public supply* x_i^m from a fund totaling no more than a quantity XM , that is, $\sum x_i^m = XM$, and implementation of the most nearly optimal solution consists of increasing the public supply until it equals the probabilities of access (private plus public) of all type B income groups, then:

$$P_{vi} + P_{gi} = P_{vj} + P_{gj}, \text{ for } i, j \text{ in B}$$

and if the group i is in a higher decile than j , then $P_{vi} > P_{vj}$ and $P_{gi} < P_{gj}$. Moreover, the high income deciles of group A maintain a higher probability of access (private plus public) than that attained by group B.

How can this solution be calculated, based on the observations in Colombia? With respect to primary education, spaces would be assigned initially to the first decile, whose rate of attendance is the minimum (77 percent, Table 2), until it reaches the next highest rate of attendance and equals that of the second decile, 82 percent, the second minimum. Then the additional spaces are distributed simultaneously to the first two deciles, increasing their rates of attendance until they equal those of the third and fourth deciles (86 percent). And so the spaces are successively increased, equalizing the attendance rates of the deciles with the least coverage "from the bottom up." Thus, *to make the minimum coverage equal* to the fourth decile (86 percent) requires 116,000 additional spaces in primary school (Table 4A), which in turn requires an additional expenditure of 10 thousand billion pesos, the targeting of which is extremely progressive: $C_s = -0.847$. If the goal is to attain the coverage of the seventh decile (93 percent) as a minimum, an additional expenditure of 32 thousand billion pesos would be needed to finance 360,000 additional primary school spaces with a very high level of targeting: $C_s = -0.651$.

What would the optimal expansion be if there were no budget constraints? Perhaps 100 percent coverage in all income deciles? No. In principle, it should be less than that, as households with all needed resources and available supply select a smaller percentage than 100 percent. In other words, the decisions they make in each of the deciles, based on their resources and needs, reflect their structure of preferences, which reveals a certain degree of "saturation" in consumption owing to the depletion of income elastic-

TABLE 4.A

**Scenarios of Marginal Expansion of Public Sector Expenditure by Sector According to Coverage Criteria
(units of service and expenditure)**

SECTOR	SUBSECTOR	CONCEPT	EXPANSION ACCORDING TO COVERAGE									
			INITIAL SITUA- TION	100% COVER- AGE	COVER- AGE MIN- MAX	MINIMUM COVERAGE EQUAL TO DECILE						
						40	50	60	70	80	90	100
Education	Primary 6-12 years	Min coverage	77%	100%	96%	86%	87%	91%	93%	96%	95%	93%
		Quotas (thousands)	3,239	664	482	117	151	281	360	482	470	435
		\$millions	286	59	42	10	13	25	32	42	41	38
		Cs	-0.355	-0.506	-0.591	-0.847	-0.802	-0.696	-0.651	-0.591	-0.597	-0.615
	Secondary <19 years	Min coverage	51%	100%	87%	67%	72%	73%	75%	79%	87%	84%
		Quotas (thousands)	1,934	1,104	569	55	98	125	167	286	569	476
\$millions		336	192	99	10	17	22	29	50	99	83	
	Cs	-0.128	-0.183	-0.315	-0.900	-0.742	-0.682	-0.600	-0.464	-0.315	-0.354	
Health	SAP	Min coverage	65%	100%	93%	75%	83%	82%	88%	89%	92%	93%
		Units of service (thousands)	20,034	15,306	9,113	1,124	3,570	3,175	6,002	6,188	8,384	9,113
		\$millions	220	172	98	12	39	35	65	67	90	98
		Cs	-0.166	-0.169	-0.424	-0.820	-0.652	-0.675	-0.557	-0.548	-0.458	-0.424
Child care	ICBF 2-6 years	Min coverage	34%	100%	68%	32%	33%	35%	38%	48%	52%	68%
		Quotas	665	2,405	1,246	67	107	148	237	550	686	1,246
		\$millions	112	340	176	9	15	21	34	78	97	176
		Cs	-0.374	-0.323	-0.390	-0.740	-0.703	-0.663	-0.596	-0.492	-0.465	-0.390

Source: National Household Survey, Stage 77, 1992. Author's calculations.

ity: If the maximum rate of primary school attendance is 96 percent in the high-income groups, raising it above this level would not necessarily bring about an increase in individual welfare, *considering the cost*. Obviously, this level would be below the social optimum when positive consumption or production externalities are associated with these social services. *This level of supply, such that the minimum coverage of all the deciles is equal to that of the decile with a maximum level, will be designated Minimax*. In the case of primary education, this rate is 96 percent and requires 482,000 additional spaces, signifying an increase in expenditure of 42 thousand billion pesos (0.1 percent of GDP) and a very high targeting level, $C_s = -0.591$. This represents a little more than 66 percent of the increase needed to cover 100 percent of needs, and one-seventh of the level of public supply in 1992.²³

Therefore, for each level of marginal expansion (resource constraints) of a specific sector there is a *single optimum distribution* that satisfies the utilitarian welfare criterion. This set of options makes up the Optimum Marginal Expansion Path (SEMO), which appears as a *dotted line* in Figure 2A. Obviously, a greater expansion covers upper income levels at the margin and, *pari passu*, the coefficients of concentra-

tion are increased and, therefore, the targeting levels decrease. Initially, the minimum coverage rate is 77 percent in the first decile and the maximum rate is 86 percent. This gap between deciles will close as the marginal expansion increases, until *all of the deciles* have the same 96 percent attendance rate, at which point it will increase *uniformly* until reaching 100 percent.

As expected, the SEMO selects a *very progressive* subset of the options defined by the FPEM. As its name indicates, the Optimum Marginal Expansion Path (SEMO) allows for selecting—based on such social welfare criteria—the best options for expanding sectoral expenditure subject to various resource constraints. With methods similar to those used to construct the FPE based on the FPEM, the Optimum Expansion Path (the dotted line in Figure 2B) can be constructed using the SEMO. The SEMO summarizes the overall expenditure and targeting possibilities in primary education as marginal expansions continue along the SEMO. Also in this case, very progressive options are selected from the set of options defined by the FPE. The same procedure applied to primary education can be followed for the other sectors—secondary education, higher education, child care, and health (SAP)—to derive an

SEMO and an SEO for each of them. These appear as dotted lines in Figures 2-5.

The availability of a path for expanding the activity of each sector subject to explicit normative criteria adds a new *dimension to assessing the amount and the distribution of current sectoral social spending by the government*. Moreover, *aggregation of the social expenditures for each welfare goal—and the corresponding level of aggregate expenditure—makes it possible to establish an optimal distribution of resources among social sectors*. We will revisit this subject in the final sections of this paper.

Expansion of aggregate expenditure and income redistribution at the margin: The Frontier of Possibilities for the Expansion of Aggregate Expenditure (FPEG) and the Optimum Expenditure Expansion Path (SEOG)

Once the alternatives for expanding expenditure by sector have been defined, the impact that this will have on *the possibilities for expanding aggregate government social spending and its marginal redistributive effect* must be determined. Using the FPMEs and SEMOs of each of the sectors, it is possible to construct in monetary units of expenditure—not for units of service, which are heterogeneous—the Frontier of Possibilities for the Marginal Expansion of Aggregate

Expenditure (FPEMG) and its corresponding Optimum Marginal Expansion Path for Aggregate Expenditure (SEMOG).²⁴

If only basic services are considered (excluding higher education), the total cost of the Aggregate Marginal Expansion (EMA) with 100 percent coverage for all services is 762 thousand billion pesos (2.3 percent of GDP), with a progressive coefficient of concentration of $C_s = -0.267$. This represents an increase of 80 percent over the initial expenditure in those four sectors, and a slight improvement in targeting. However, a realistic goal that makes the levels of access to services at least equal to those in the eighth decile (Goal VIII)²⁵ only requires an EMA of 25 percent, but with a substantial improvement in targeting: $C_s = -0.521$ instead of $C_s = -0.234$. Even the Minimax only requires an increase of 43 percent (1.3 percent of GDP) relative to the initial expenditure and a substantially higher targeting level: $C_s = -0.401$. All of the above options, as well as those associated with the minimum coverage in the other deciles (from the fourth up) (Table 4B), constitute the SEO of Aggregate Expenditure, which is contained in the FPEMG.

Adding these possibilities for the marginal expansion of aggregate expenditure to the total initial social expendi-

TABLE 4B

Scenarios of Aggregate Expansion of Public Sector Expenditure According to Coverage Criteria, Colombia, 1992

SECTOR	CONCEPT	INITIAL SITUA- TION (1992)	EXPANSION ACCORDING TO COVERAGE								
			100% COVER- AGE	COVER- AGE MIN= MAX	MINIMUM COVERAGE EQUAL TO DECILE						
					40	50	60	70	80	90	100
Marginal expansion	\$millions	954	762	415	42	84	102	159	236	327	394
Aggregate -EMA-	% PIB	2.9%	2.3%	1.3%	0.1%	0.3%	0.3%	0.5%	0.7%	1.0%	1.2%
	% Social optimum		184%	100%	10%	20%	25%	38%	57%	79%	95%
	% Initial expenditure	100%	80%	43%	4%	9%	11%	17%	25%	34%	41%
	C_s	-0.234	-0.267	-0.401	-0.827	-0.703	-0.679	-0.592	-0.521	-0.437	-0.413
GPS 1992 + EMA	\$millions	2,065	3,779	2,794	2,106	2,155	2,190	2,282	2,381	2,513	2,774
	% Initial expenditure	100%	183%	135%	102%	104%	106%	111%	115%	122%	134%
	C_s	-0.109	-0.059	-0.134	-0.124	-0.134	-0.139	-0.148	-0.155	-0.154	-0.133
GPS 1992 + EMA	\$millions	2,065	2,827	2,479	2,106	2,149	2,167	2,223	2,301	2,391	2,459
	% Initial expenditure	100%	137%	120%	102%	104%	105%	108%	111%	116%	119%
	C_s	-0.109	-0.152	-0.158	-0.124	-0.133	-0.136	-0.144	-0.152	-0.154	-0.158
Gini post-subsidy	G	0.400	0.382	0.388	0.398	0.397	0.396	0.395	0.392	0.390	0.389
Elasticity of Gini with respect to GPS	Middle	-115%	-121%	-124%	-118%	-120%	-121%	-122%	-123%	-123%	-124%
	Marginal		-136%	-165%	-259%	-232%	-226%	-207%	-192%	-173%	-168%

Source: National Household Survey, Stage 77, 1992. Author's calculations.

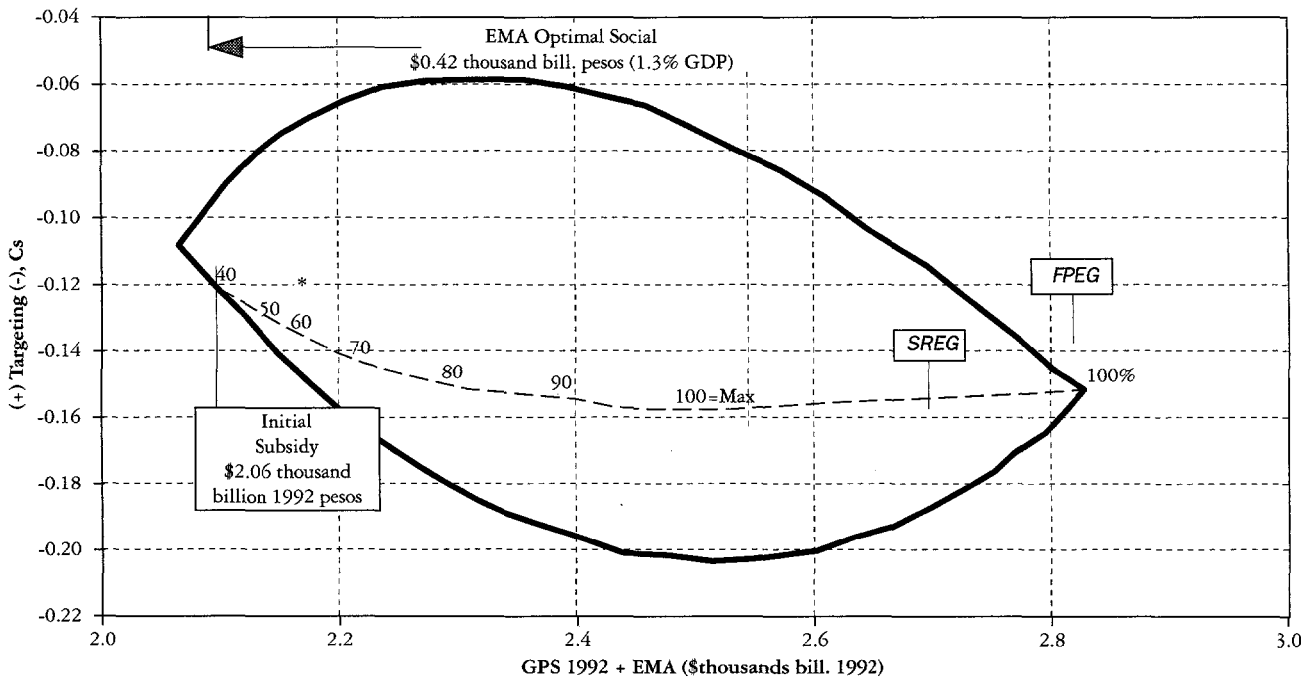
ture—considered as a subsidy to households in 1992 (Table 1)—yields the Frontier of Possibilities for the Expansion of Social Expenditure (FPEG) and its respective Optimum Social Expenditure Expansion Path (SEOG) (Figure 6). Starting from the initial situation, represented by total subsidies that add 2 thousand billion pesos with a slightly progressive targeting ($C_s = -0.109$), it is possible to increase expenditure on primary and secondary education, child care, and health up to a maximum of 2.8 thousand billion pesos with an improvement in the coefficient of concentration of up to *minus* 0.152. For intermediate magnitudes, there is more than one distribution possibility, so that the range of the coefficient of concentration is expanded and peaks at around 2.4 thousand billion pesos, going from *minus* 0.061 to *minus* 0.197. The SEOG—which is the most equitable distribution path possible given each level of expenditure—is found within this set of hypothetical options defined by the FPEG.

The *Minimax* without higher education (Min=Max in Figure 6) approaches a level of expenditure of 2.5 thousand billion pesos, which is a 20 percent increase over the initial level, or 1.3 percent of additional GDP, and a 50 percent

improvement in its coefficient of concentration. It should be noted that from this point on—for both increases and decreases—the targeting level along the SEOG gradually deteriorates. Expenditure of 2.3 thousand billion pesos is required to attain *Goal VIII*, which represents an 11 percent increase, or 0.7 percent of additional GDP, and an improvement in the level of targeting: $C_s = -0.151$.²⁶

Molina, Lora, and Urrutia (1992) estimated the costs of a *Long-Term Human Development Plan for Colombia* with a thirty-five-year horizon and found that with very ambitious goals and a scenario of economic growth, government social spending on education, health, and child care should increase their share of GDP by a *maximum* of 88 percent in the year 2000, and 54 percent in the long-term (year 2025).²⁷ However, the results of this study show that to achieve the goal of 100 percent coverage in the same fields, excluding higher education and others of little significance, requires an immediate increase of 80 percent. But when the goal is more realistic in terms of size, as, for example, the *Minimax* or *Goal VIII*, an increase of only 43 percent or 25 percent is needed. Given that in the same study Molina et al. conclude that to finance the proposed

FIGURE 6
Frontier of Possibilities for the Expansion of Social Expenditure (FPEG) and its Respective Optimum Social Expenditures Expansion Path (SREG) of the Total Subsidies for Public Social Expenditures



Note: This excludes the expansion of higher education.

*Decile equal to minimum coverage

human development objectives, which include major investments in other fields such as sanitation, etcetera, “no impossible tax and institutional efforts are required,”²⁸ there is more reason to trust in the possibility of attaining objectives such as the *Minimax or Goal VIII* without jeopardizing macroeconomic equilibrium.

Impact on inequality

What *impact* do the options for expanding subsidies through social spending have on the *inequality* of income distribution? The effects on income distribution of any of the possibilities in the FPEG and especially in its SEOG can be found, respectively, in the Frontier of Marginal Redistribution Possibilities (FPRMG) and the Optimum Marginal Redistribution Path (SROMG) (Figure 7). As explained, overall social subsidies totaling 2,065 thousand billion pesos—representing 6.2 percent of GDP and 8 percent of household income in 1992—reduced the Gini coefficient 9 percent, from 0.442 to 0.400. This means that the *elasticity of the inequality* (of the Gini coefficient) vis-à-vis government social spending was 115 percent.²⁹ The *maximum* marginal expansion of the basic education, health, and child care subsidies by 762 thousand billion

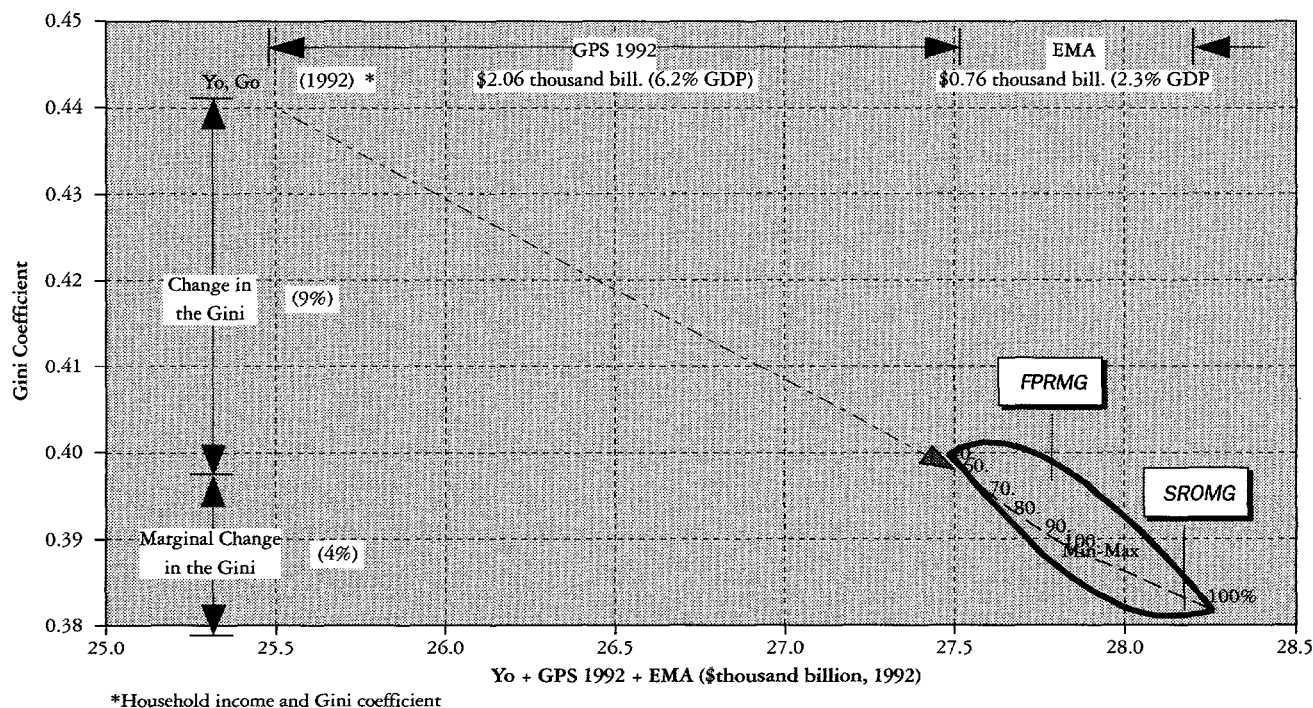
pesos would reduce the coefficient another 4 percent, to 0.382. *At the margin*, this represents an elasticity of inequality of 136 percent, which clearly exceeds the level achieved initially in 1992 and raises the average elasticity to 121 percent.

Nevertheless, smaller marginal expansions along the SROM produce an even greater elasticity of inequality: When the Minimax is expanded, the Gini coefficient is reduced to 0.388 and an elasticity of inequality of 165 percent is reached. If Goal VIII is pursued, the effects are even more equitable as the inequality decreases to 0.392 (11 percent), yielding a greater elasticity of 192 percent. Similarly, it can be seen that all along the SROM, greater elasticity of inequality is achieved with smaller expansions. Obviously, this is the result of the improved targeting required for smaller marginal expansions.

Limiting factors

How reliable vis-à-vis the future are the resource calculations—total and sectoral—in terms of attaining the various social welfare objectives? Or, in other words, in what circumstances is the quantity of required resources as a percentage of GDP a stable figure? Under certain reasonable

FIGURE 7
Frontier of Marginal Redistribution Possibilities (FPRMG) and the Optimum Marginal Redistribution Path (SROMG) of all Subsidies of Public Social Expenditures



assumptions, it can be concluded that *while the unit costs of the services do not increase at annual rates exceeding those of per capita GDP, the total cost of each service as a percentage of GDP will be less than or equal to the calculated cost.*³⁰

Taking into account the fact that tax revenues are limited and that *targeting has growing marginal costs*, one exercise remains: *to assess the costs and benefits of using different, more or less selective instruments for the distribution of the subsidies.*³¹ In Colombia, the choice of targeting instruments is very broad, ranging from geographic approximation with varying degrees of precision—region, municipality, district, sector, and cartographic section—to the selection of households or individuals.³² Choosing the right instrument is highly specific to the service provided and depends on its economic cost, quality, the cost of information about the potential recipients, and, obviously, considerations of equity and efficiency.³³ One of the instruments available in the field of basic education is the Population and Housing Census of 1993 (DANE), which is an ideal source of information for making a finely tuned, geographically referenced calculation—for the sector surveyed—of the needs at each level. Obviously, the location of primary schools is an excellent indicator of the location of much of the future demand for secondary education.³⁴

In the aforementioned simulation, it is assumed that while the public supply expanded, *the private supply* of social services was static. Obviously, assuming that the Potential Demand Not Satisfied by the Private Sector (DNASP) will remain constant in the future is unrealistic and only serves a didactic purpose. Clearly, the private sector can and should satisfy a large percentage of demand among those with the ability to pay, and its energy will determine the size and distribution of the DNASP: If it is inactive, the demand for the public supply will be greater, but if it is active, the unsatisfied demand will be smaller and more focused. Therefore, for a successful public policy, it is *essential to understand the economy of private supply in each of the social services* and, more particularly, the effect that the signals given by government regulations have on its behavior.³⁵

This is also true for local public enterprises that provide residential utility services and whose income for the expansion and improvement of their services comes from rates, which are controlled by Utility Regulatory Commissions. This subject is examined in detail in the following section.

Finally, one limitation of the analysis performed should be noted: *Transfers* in kind through the provision of social

services wholly or partially free of charge *do not imply an immediate return in terms of economic welfare.* For example, increasing the supply of human capital through education can spare the recipient family an expense if it has income to finance it; otherwise the monetary return of such a transfer occurs only through the performance of the skilled workforce—human capital—in the labor market. Obviously, the expected value of such future income is a direct function of the probability that this event will occur, that is, the probability of *finding a job*. The analyses of López (1994) show that the very high rate of unemployment among young people is due primarily to the *lack of productive skills* above and beyond the knowledge and skills received in secondary school. He therefore supports the plan for subsidizing short technical training courses at SENA for unemployed graduates, with a view to *harmonizing the profile of demand and the labor supply, and thus increasing the probability of using the full complement* of human capital received previously.

Obviously, measuring the implications (impact) of this type of complementary and successive transfer (in education) would require an intertemporal approach with far greater formal complexity than the one taken in this paper.

The reader will rightly ask why the expansion of water and sewerage services has been omitted. Its significant impact on the welfare of households certainly warrants its inclusion, but as Vélez (1996) points out (Chapter 5), such an exercise requires a cost study taking account of the wide range of possible technological solutions for access to drinking water and sewerage services. The unit costs of the service in areas where the population is covered are not necessarily appropriate for estimating those involved in marginally extending service to the rest of the population.

Corollary: Reevaluation of sectoral public achievements with respect to alternative social welfare goals

The first section reviewed the assessment of government social spending when comparing the redistributive efficiency of subsidies in the various social sectors; that is, by calculating their contribution to eliminating inequality and their share in the total amount of expenditure (the ERRE coefficient). However, despite its great usefulness, such a measurement does not allow for assessing the performance of a social sector with respect to the challenges it faces, that is, vis-à-vis the potential demand not satisfied

by the private sector (DNASP) and the preferences revealed through the consumption of social services by the various income groups. More specifically, it is reasonable to ask, "How successful is each social sector in terms of the expansion and targeting required under different optimum goals, according to the Rawlsian welfare criterion?"

In the following, three alternative goals are considered for the three educational levels, child care, and health services: (a) Goal 100: 100 percent coverage of needs, (b) the Minimax Goal in each sector—minimum coverage by decile equal to maximum coverage by decile—and, lastly, the most realistic, (c) Goal VIII: minimum coverage equal to that of the eighth income decile. As concluded in the preceding sections, each of these goals establishes optimal ratios for the intersectoral distribution of expenditure, corresponding "physical" goals, and an optimal distribution for each service among the income deciles. Consequently, a clearly specified measurement of social welfare is obtained, which provides a uniform assessment standard. Accordingly, total potential demand in the public sector (DNASP) is calculated in each case by subtracting the population covered by the private sector from the total population to be covered, as determined by the chosen goal (Table 5). Finally, the DNASP is used to obtain the percentage covered (performance) by all public activity, in terms of both size and targeting (Table 5).

Primary education

With a goal of 100 percent coverage in all deciles, the potential demand not satisfied by the private sector (DNASP) equals total potential users less those covered by private supply. In primary education, the size of such demand is 3.9 million spaces, concentrated primarily in the low-income groups (Cd = -0.381) (Table 5). Public performance with respect to this goal is satisfactory: 83 percent in terms of size and 93 percent in terms of targeting. The Minimax Goal (96 percent coverage) is less ambitious with respect to size and requires 180,000 fewer spaces, but it presupposes a slight improvement in targeting: 5 thousandths. With this objective, the attainment in primary education is 87 percent, while targeting drops slightly, to 92 percent. Goal VIII is in this case identical to the preceding, and, therefore, the gaps in coverage and targeting are practically the same.

Secondary education

For secondary education, the target population not covered by the private sector (the DNASP of Goal 100) requires 3 million spaces with a distribution which, compared with that of primary education, is less concentrated among the low-income groups: Cd = -0.148. Given this challenge, the public supply is very mediocre in terms of size (63 percent), although not so much so in its targeting (87 percent). Compared with the Minimax Goal (87 percent), which requires

TABLE 5

Achievements of Size and Targeting by Sector According to Coverage Targets, 1992

	GOAL 100%: COVERAGE 100%					GOAL MIN = MAX					GOAL VIII: COV. MIN. = COV. DECILE 80.				
	POTENTIAL DEMAND NOT MET BY THE PRIVATE SECTOR DNASP (UNITS OF SERVICE)		PUBLIC OFFER OF 1992 WITH RESPECT TO DNASP			POTENTIAL DEMAND NOT MET BY THE PRIVATE SECTOR DNASP (UNITS OF SERVICE)		PUBLIC OFFER OF 1992 WITH RESPECT TO DNASP			POTENTIAL DEMAND NOT MET BY THE PRIVATE SECTOR DNASP (UNITS OF SERVICE)		PUBLIC OFFER OF 1992 WITH RESPECT TO DNASP		
	SIZE	CD	SIZE	TARGETING	CD-CO	SIZE	CD	SIZE	TARGETING	CD-CO	SIZE	CD	SIZE	TARGETING	CD-CO
			%	%*				%	%*				%	%*	
Education															
Primary	3,903	-0.381	83%	93%	-0.026	3,721	-0.386	87%	92%	-0.030	3,721	-0.386	87%	92%	-0.030
Secondary	3,037	-0.148	64%	87%	-0.020	2,503	-0.170	77%	75%	-0.042	2,220	-0.230	87%	55%	-0.102
Child ^b															
Care	2,791	-0.339	31%	88%	0.097	1,631	-0.401	53%	75%	0.035	935	-0.835	93%	36%	-0.400
Health															
SAP	35,340	-0.205	57%	96%	-0.009	28,723	-0.265	70%	74%	-0.069	25,959	-0.335	77%	59%	-0.139

Notes: a. Co, Cd: Coefficients of concentration of the public offer and DNASP.

b. Includes ICBF and other public offers.

500,000 fewer spaces and better targeting ($Cd = -0.170$), public secondary education exhibits an improvement in size (77 percent), although targeting falls to 75 percent. With a more realistic objective such as Goal VIII, the coverage of secondary education is substantially improved and equals that of primary education, but with a serious targeting problem: 55 percent! To reach minimum coverage of 79 percent, 2.2 million spaces and a high level of targeting ($Cd = -0.230$) are required. In this case, the public supply apparently covers 87 percent, although it is actually less because some spaces are shifted to the two highest deciles, where they are in excess, as coverage is raised to 87 percent and 84 percent, respectively. Obviously, this problem is clearly reflected in the other indicator: the wide targeting gap.

In secondary education the possibility exists of trading expansion for targeting, depending on the goal chosen: With the Minimax Goal, the gaps in size and targeting are 23 percent and 25 percent, while with Goal VIII, they are 13 percent and 45 percent, respectively. It is important to note that with the latter, more realistic goal, there is such a pronounced degree of inequity in the public supply of this level of basic education. In contrast, the gaps in primary education are practically insensitive to this change in goals based on welfare criteria, and the combination of its indicators reveals an overall performance that is more satisfactory than in the case of secondary education.

Accomplishments in the field of secondary education depend on the supply of users generated by primary education. Therefore, if the drop-out and repetition rates were significantly reduced in primary education, the DNASP for the Minimax Goal in secondary education would increase by a million young people (33 percent) from low-income groups: $CS = -0.372!!$ In these circumstances, the performance of secondary education would drop considerably to 48 percent and 63 percent with respect to size and targeting, respectively. Similarly, expenditure increments under said goal would increase by approximately 25 percent and the EMA would climb to roughly 1.6 percent.

Child care

For children under 7 years of age, the preschool and day care DNASP is also very sensitive to the goal selected: For Goal 100, 2.8 million spaces are needed, highly concentrated in the low-income groups: $CD = -0.339$. The Minimax Goal (25 percent) requires better targeting and a little less than two-thirds with respect to size, while Goal

VIII requires nearly 900,000 spaces (a third of the initial figure) and an extremely high degree of targeting the poorest groups ($Cd = -0.835$). With the most ambitious goal, the public coverage is 31 percent, and the targeting level is a highly satisfactory 88 percent. With the Minimax Goal, coverage amounts to 53 percent and targeting to 75 percent, and even Goal VIII has a quite acceptable coverage of 93 percent, but very mediocre targeting of only 36 percent.

SAP

The DNASP of public health services is relatively less sensitive to the proposed goals. Goal 100 requires the treatment of 35 million patients annually, with a clearly progressive distribution of $Cd = -0.205$. In these circumstances, the supply of the SAP covers 57 percent, with a highly satisfactory targeting of 96 percent. For the Minimax Goal, the size of the DNASP falls by 20 percent, but its targeting level is more progressive and, consequently, public achievements with respect to size and targeting become 70 percent and 74 percent, respectively. With Goal VIII, the gap in size shrinks to 23 percent, but the targeting gap widens to 41 percent!

One hundred percent targeting and 100 percent magnitude represent full attainment of the goals, so that the relative positions of the various sectors vis-à-vis that point reflect accomplishments in each of the social sectors, and also their relative importance in the political agenda of recent five-year periods. If basic education, health, and child care are considered priorities, primary education is identified as having the best indicators, although a well-targeted marginal expansion is still needed. In second and third place, secondary education and the Public Assistance Subsystem exhibit major gaps, demonstrating the need for significant improvements in terms of both size and targeting. Lastly, child care has the worst indicators. Taking a longer view, however, the indicators for secondary education appear to be the most troubling.

Conclusions

Examination of the *need* for social services in the fields of education, health, and child care by income level in 1992 demonstrated that the potential users were concentrated primarily among low-income households, and that despite the progressive supply of such services by the government, the probability of access to services was greatest in all cases for households with more resources. Based on this infor-

mation, options for sectoral expansion and targeting were calculated as *frontiers*, FPEM and FPE, and simulated with a utilitarian increment criterion, generating the optimum expansion *paths* associated with said frontiers.

These sectoral paths demonstrate that even with unlimited resources, the best social welfare option is attained with uniform levels of coverage superior to present levels, but with less than 100 percent coverage in all income deciles. Moreover, in each sector, the optimum expansion path serves as a guide for targeting, as it makes implicit the optimization of any utilitarian welfare function, regardless of the degree of social aversion to inequality.³⁶ Comparing the performance of the social sectors in 1992 with respect to two ambitious goals (the Minimax Goal and Goal VIII) reveals the existence of size and targeting gaps in all the basic services, which are especially acute in child care, and very considerable in secondary education and public health services.

Despite their significance, the resources needed to attain these goals, at 1992 unit costs, do not appear to require an overly large increase in the capacity of public expenditure. Although the aggregate expansion of basic education, health, and child care requires the availability of large additional sums, they are not out of reach from a macroeconomic viewpoint: The Minimax Goal requires 45 percent growth and Goal VIII 26 percent, which represent only 1.3 percent and 0.6 percent of GDP, respectively. Moreover, the quantity of such resources as a percentage of GDP is stable over time, while the unit costs of the services (chiefly labor costs) are not exceeded, and the rates of increase are smaller than those of per capita GDP.

The redistributive effect of the expansions associated with the two goals analyzed is quite significant: It exceeds by 50 percent and 80 percent the elasticity of inequality derived from social expenditure in 1992. Obviously, continuing on this road will require targeting instruments geared to the required selectivity, and promoting measures that encourage the private sector's participation in this expansion.³⁷

Finally, the objectives pertaining to the allocation of public supply based on social welfare objectives provide a measurement of the performance or accomplishments of the social sectors with respect to the challenges they face. Comparisons can then be made between the social sectors, and the limitations observed in the indicators of the sectoral redistributive impact can be overcome.

These performance indicators have another logistical and economic advantage: To construct them, all that is

needed is to know the type of supply—public or private—of the social services that each of the households surveyed enjoys. There is no need for sectoral unit cost studies nor for public expenditure figures, which are often unavailable or are obtained with considerable delay. Therefore, this could be an efficient measuring tool widely used in various countries that have period surveys of access to social services.

Notes

1. As will be seen below, in Colombia this involves cutting household electrical power subsidies and recovering the costs of public university education, based on the user's ability to pay.

2. Vélez, 1996.

3. In 1992, annual per household income in the first three deciles was 518,000 pesos and 1.13 million pesos, respectively. The tenth decile reached 12.5 million pesos, which was 24, 11, and 8 times the three poorest deciles. See Vélez, 1996, Table A3.1B.

4. Vélez, 1996, pp. 3–13.

5. To avoid confusion with the percentages, it should be pointed out that in Fresneda's case, for example, the percentages of reduction in poverty and indigence applied to the respective average levels of the 1978–92 period—54.9 percent and 21.9 percent—correspond to decreases in these values of 2.0 and 4.7 points, respectively. These statements are based on general, regressive calculations. Consequently, they should not be taken as unequivocal statements, nor can they be projected into the future without some margin of error, as the elasticities may vary, among other things, with the level of poverty.

6. This reflects the fact that its coefficient of concentration, $C_s = -0.045$, is almost identical to the coefficient of concentration of the overall subsidies, $C_s = -0.043$.

7. The ERRE index by sector is calculated as the ratio of the sector's share of the change in the Gini coefficient and its share of the overall amount of the subsidies. It can be shown that this ERRE index is in turn equal to the ratio of the subsidy progressivity of sector i , Ψ_i , and the coefficient of progressivity of overall government subsidies (see Vélez and Medina, 1994). Therefore, the sectoral ranking by ERRE index is the same as that obtained with the respective coefficients of progressivity and concentration. One advantage of this index is its indifference to errors in calculating the costs of social services, in the event that the biases are identical in all sectors.

8. The largest percentage (75 percent) consists of those who never entered the school system and is concentrated in the low-income groups ($C = -0.511$). The others are due to dropping out (see Vélez 1996, Chart 4.1.4A). Another 626,000 children aged 6 to 12 are in secondary education, 7,000 have dropped out, and 52,000 who finished primary school could not be admitted to that level because of a lack of space.

9. For the formal derivation of this concept see Annex 6.1 in Vélez, 1996.

10. Strictly speaking, the range of values of the coefficient of concentration should be $[-1, 1]$ when there is a very large number of

income groups. In this case, the data are arranged in 10 income groups—deciles—and, therefore, the range of values is [-0.9, 0.9].

11. Note the difference between the high marginal targeting and the resulting average targeting.

12. For additional, very small quantities, with broad targeting options in the FPEM, the *resulting targeting range in the FPE* is very narrow because it does not substantially change the original distribution of spaces. As the size of the marginal expansion increases, the possibilities of changing the original distribution *expand*, and so too, consequently, do the targeting options (for example, for an expansion of 3.7 million spaces, the coefficients of concentration range from *minus* 0.352 to *minus* 0.403). For this reason, *the range of variation of Cs is much narrower in the FPE than in the FPEM*—the amplitude of the maximum ranges is 0.058 (-0.355, -0.393) and 1.8 (-0.900, +0.900), respectively.

13. In the same cohort, 143,000 young people attend university ($C = 0.427!$), 5,000 dropped out, and 162,000 never attended ($C = 0.138$). Moreover, of the cohort of those aged 13 to 19, 408,000 young people still attend primary school ($C = -0.398!$), 624,000 dropped out of primary school, and 124,000 were never able to enter primary school (see Vélez, 1996, Chart 4.1.4B).

14. Public supply includes the ICBF and other public day care centers. The ICBF provides 665,000 spaces—CAIPS and HCB—with greater progressivity: $C = -0.348$.

15. The coefficient of concentration was *minus* 0.196, which is much smaller than that of the target population, *minus* 0.016.

16. The ratio of maximal and minimal treatment rates is 1.43.

17. The number of patients not treated each year is calculated by extrapolating the figures for the month of August 1992 and assuming that their specific needs by type of service—outpatient consultation, surgery, etcetera—were similar *by decile* to those of patients treated by the SAP. See Annex 6.1 in Vélez, 1996.

18. The results of the annual *maximum* marginal expansion by type of service are, respectively, 11.7 million, 2.5 million, 737,000, 188,000, and 177,000.

19. On the subject of unit costs, see Vélez (1996), Table A 4.2.1. See Giraldo et al. (1994), which presents a measurement of the housing deficit from a quality perspective.

20. With respect to basic education in Colombia, Sanchez and Núñez (1995) use a procedure of this type to estimate a probabilistic function and to measure the differential impact of the variables mentioned. See Gertler and Glewwe (1992) for an estimate under this probabilistic approach of the willingness to pay for changes in the quality of services. It should be remembered that with a separable utility function in the various social services and consumption, the optimization process can be represented analogously, and the optimal probabilities of access to each service are determined for a single income group.

21. This differential valuation of individual welfare also depends directly on the degree of *social aversion to inequality*, and its highest value corresponds to the Rawlsian criterion, which only values positively improvements in the consumption of the least well-off individual. See Rawls (1971) and the interpretation in Arrow (1973).

22. In a similar fashion as the normative theory of tax reform considers the “status-quo” as a starting point.

23. If, instead of an exogenous resource constraint, a constraint involving the efficiency costs of tax-induced price distortion were assumed, it would be possible to determine the optimum level of expenditure as an equity/efficiency trade-off, at the margin. However, by maintaining the assumption that the efficiency costs of a certain scale of services are independent of *their distribution among agents (deciles)*, the optimum distribution continues to have the same characteristics described in the SEO and SEMO.

24. See Methodological Annex 6.1 in Vélez, 1996.

25. Remember that establishing the levels of access of a given decile as a goal entails using the differential probabilities by sector that reveal the latter’s process of optimizing the intersectoral allocation of expenditure.

26. Assuming *constant* unit expansion costs introduces a bias that can result in underestimating to some extent the total cost of the expansion, as it is likely that the greater demand for inputs—human resources, etcetera—will marginally increase unit costs.

27. The objectives of this simulation are: in education, to reach 100 percent coverage in the first nine grades (two-thirds of public supply), 95 percent in grades 10 and 11; 0.7 percent of GDP in research and technological development; and 0.2 percent of GDP in training the population over 25 years of age. In health, they include subsidies for the entire population below the Poverty Line: 100 percent prevention, 75 percent on rehabilitation and recovery (except childbirth, 100 percent), and 80 percent on secondary and tertiary care.

28. Molina et al. (1994) reach this conclusion based on simulations in a long-term computable general equilibrium model.

29. Its value equals the ratio of the percentage change in the Gini coefficient and the percentage of the overall subsidy relative to household income before the subsidies.

30. This is derived from the following analysis: The total costs of sector i are equal to $C_i = D_i K_i$, where D_i is the public demand for the service and K_i its unit cost. Or $c_i = C_i / \text{GDP} = D_i K_i / \text{GDP}$, the total cost of the service as a percentage of GDP. If the GDP growth rate is broken down as $q + n$, where q and n are the growth rates of per capita GDP and of the population, respectively, and if d and k in turn are defined as the growth rates of the total demand for the service and its unit costs, it can be concluded that the growth rate of c_i , $T(c_i)$ is equal to:

$$T(c_i) = d + k - q - n$$

If private supply is a fixed percentage of overall demand for the service D_i and this, in turn, is a constant fraction of the population, then $d = n$ and, therefore, the aforesaid rule is obtained:

$$\begin{aligned} T(c_i) &= 0 \text{ if } k = q \\ T(c_i) &> 0 \text{ if } k > q, \text{ and vice-versa,} \end{aligned}$$

the total cost of service i as a percentage of GDP *remains constant* (increases, decreases) if the growth rate of unit costs k is equal to (greater than, less than) q , the growth rate of per capita GDP.

However, it is reasonable to expect that the increase in *per capita GDP* raises the proportion of the overall demand for the service satisfied by the private sector and, consequently, the overall demand for the public service would grow at rates lower than the growth rate of the population, $d < n$, creating an additional (second order) margin for increasing the unit cost without increasing total costs.

31. In this context, *better targeting* refers to the accuracy of the procedures for distinguishing the target population of a subsidy from impostors hoping to obtain it.

32. At present, in Colombia, some of the instruments used are the index of Unsatisfied Basic Needs (NBI), the socioeconomic stratification of housing, and the Social Services Beneficiaries Selection System (SISBEN).

33. According to the assessment of Grosh (1992), the conjectures about the high administrative costs of high-impact social programs in Latin America are unjustified. See Besley and Kanbur (1990) for a summary of targeting instruments and Vélez (1992) for an analytical outline of efficiency versus equity options.

34. Fortunately, this is implicit in the Plan for the Universalization of Education.

35. For example, the mere possibility of an inopportune, generalized control of school enrollment for anti-inflationary purposes increases the uncertainty of student admissions and can significantly restrict the private supply of these services. Sometimes, the excessive strictness of government regulations can lead to such situations. Is there perhaps a connection with the difficulties of private supply in secondary education? The horizontal axis indicates the percentage of success with respect to size vis-à-vis the goal, and the vertical axis the percentage of success in targeting vis-à-vis the same goal.

36. This targeting guide becomes ambiguous within the FPEM and depends on the degree of aversion to inequity when social services are no longer considered consumer goods, but are assumed to be inputs that interact with the heterogeneous characteristics of individuals and produce results that are arguments for their respective individual utilitarian function. Productive efficiency criteria are then incorporated. For a compilation of the respective theory see Vélez (1992).

37. In principle, the 1993 Population Census allows for extremely accurate geographically referenced tracking of basic education and water and sewerage needs.

38. Document prepared in part during the stay of the authors, respectively, at the Social Mission and the Territorial Development Unit of the National Department of Planning, Bogotá, Colombia. The Social Mission is a UNDP Program. Portions of the first section of Chapter 6 of Vélez (1996) are used extensively in this document. Thanks are due the participants in the Banco de la República and Fedesarrollo seminars, and ECLAC's Eighth Regional Tax Policy Seminar for their contributions and comments.

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Panel Discussion

Sebastian Edwards, Moderator: Thank you very much, Eliana. I think this has set the background for our conversation in an absolutely brilliant way, and we are now going to proceed with that. Let me try to provide a brief summary of what I think are the main points that Eliana made and ask the panelists to pick up on them or to contradict them if they wish.

The first very important point Eliana made is to warn us that populism is not dead, and that there may be in the winds a return of populism to Latin America. She also reminded us that populism is not something that one should associate only with left-wing, left-leaning political parties, administrations, and governments, but that we can also see right-wing populism, and we should be very aware of that in Latin America.

The second point Eliana made was to emphasize the macroeconomic sources of poverty and of deprivation, and in particular the extremely high cost of macroeconomic crisis and collapse of the type Mexico experienced. She argues that in the populist paradigm and in the populist cycle, macroeconomic policy is irresponsible. The exchange rate gets overvalued very badly, a collapse of the currency and the economy is unavoidable, and once the collapse happens, poverty jumps significantly. What delays this collapse are two things: first, the availability of capital flows that come from the international community, private and multilateral; and second, privatization that gives room to governments to use the proceeds of selling these firms in order to finance this irresponsible macroeconomic policy.

Before I give the mike to François, let me make one last point. Eliana listed for us three cases of neopopulism: Fujimori, Salinas, and Menem, and showed us three pictures of the similarity of the three experiences. Clearly, there was

one picture that was absent from her presentation, and had she shown it, it would have been a perfect replica of the other three. And that of course is the Brazilian picture from the administration of President Fernando Cardoso. An important question we can ask is, "Is the Cardoso administration unavoidably following the steps of the other three that we have been discussing, or is there a magical way out of the straitjacket that they seem to have been putting themselves into?"

François Bourguignon: When I asked Eliana yesterday, "What will you be talking about?" she told me, "I will be talking about populism." I spent the whole night trying to figure out what she would say, and what I should say myself. And I'm discovering today that there is a very strong difference between the ways we look at populism. I think it is interesting and important to contrast our two views because it gives more pertinence to what Eliana just said.

Thinking of the way governments redistribute or should redistribute income or resources, one has to take into account two aspects. First, what is the cost of redistribution, what is the redistribution technology, and how much will it cost to take one peso from the pocket of somebody and put it in the pocket of somebody else. Second, what is the need for redistribution, although this is not a very good question, because we are not living in an apolitical world. So I would say that the second question is, what is the political acceptance of the redistribution? And then, to some extent, you could say that the extent of redistribution in a given country is the result of combining those two aspects. If you don't have enough redistribution in the country, this may be because first, the cost of redistributing is very high, or people believe it is very high, because

At the time of writing, Sebastian Edwards was chief economist in the Latin America and Caribbean Department, the World Bank.

you must remember that there may be a difference between what the actual cost is and what people think it is.

Why is there not more redistribution? Because it is politically unacceptable. Now, if we get into political acceptability, and this is what I thought the discussion could be about, populism, then the problem is to know what kind of political decisionmaking we have in the country we are looking at. If we had in mind a very simple kind of democratic model where these tax and redistribution policies would be decided by majority vote, then we know that the extent of redistribution should be an increasing function of inequality within the country. It is therefore quite surprising to see that with certain countries there is a lot of inequality related to redistribution. This means that either the cost of redistribution is felt to be extremely high or the principle system is not working in the simple way described. This is where perhaps populism or consideration of the principle system are getting into the picture. There is a very simple way to understand why even when you are in the majority voting system, you may not get the results I mentioned before, basically because there is not universal political participation. It is sufficient in the model I described to assume that only part of society will participate in voting for a result in which there will be more redistribution and equality.

So to some extent the problem we have is the problem of political participation and the way governments are elected, the platforms on which they are elected, and the feedback that they may get from society. This is the very difficult way, or the long-term way, of looking at redistribution and the problems of the principal system and the bias which may come from something like populism. But what I think that Eliana stressed in her presentation is something different, which is also a very interesting issue which I would call essentially shortsightedness. What she is describing and what we have seen in the countries she mentioned are essentially governments elected on platforms which could resemble what I described earlier. But when elected, they use a simple trick to get their way out of the problem they could have by getting into redistribution. And of course, one simple, easy trick is to overvalue the currency. This was very well described in Eliana's presentation as it was very obvious that this kind of policy inevitably leads to chaos. So I think this is a very clear, meaningful analysis, but maybe the real question we should ask ourselves, and the question I'm asking Eliana is,

How can we explain that the political system in Latin American countries is leading to systematic shortsightedness? Why is it possible that those experiences are repeated over time, and why is it absolutely impossible to establish the very simple and easy-to-understand framework that I outlined?

S. Edwards: That is a fascinating question, François. Why is it that we seem to see these experiences repeating themselves endlessly? The question, of course, is, does history teach us anything? And sometimes events suggest that it doesn't.

Carlos Vélez: Let me try to put three things on the table very quickly. The first one which Eliana has touched on but about which I am still a bit confused, is the relationship between inflation, economic outcomes, and policy. She tells us that bringing down inflation is good, but then she hints that it is bad. What can we really say about this relationship? Maybe that bringing down hyperinflation is good, but once you get to 20 percent, bringing it further down is very costly, and politically it is not so positive. I think that it's an important question, the relationship between inflation, politics, and distribution.

Second, let me try to persuade the panel to talk a little bit more about moderate-inflation countries. The emphasis until now has been on rapidly bringing down hyperinflation. But what about the Colombians of the world where inflation is stuck at 19, 18, 17, 20 percent? What about Chile, where there's been a tremendous effort to bring inflation down from 12 percent to 6 percent? What about El Salvador where inflation is bordering 10 percent, 9 percent? Let's try to see what happens in those types of countries.

Finally, let me try to bring to the table the issue of decentralization, fiscal federalism, and the relationship between subnational governments, central governments, national governments, federal governments, and so on, and politics and redistribution. In Latin America today, much of the public services and social services expenditures are made by subnational governments, municipalities, states, and provinces through transfers that are provided by the central government. How is this relationship affecting the way in which macroeconomics, poverty, and the economy work?

F. Bourguignon: I don't think I have very much to say about what Eliana just explained, except for the fact that

I'm not totally convinced of the argument that to get elected you have to do many things. I think that to get reelected, and possibly to get elected after you have been out of power for some time requires some strategic decisions which might not be exactly the ones we see being applied in the example that she has given. So, I fully understand short-run considerations and I understand the stories that she gave us, but I'm not totally convinced that you can get a general statement out of that. I believe that this is the issue that we should definitely reflect on.

I also thank Sebastian for stressing this same issue in moderate-inflation countries because you can understand why in countries where you had hyperinflation, where you went through several stabilization programs, some expectations have built up, or you can really understand why people might not understand what is going on and may have difficulty seeing through the policies being applied by governments to what is really going on. But if it might not be as difficult in moderate-inflation countries, then my question is why, in those countries, is it that again, those structural issues like redistribution, like changing the educational system by providing critical facilities to people who need it, why those very basic support issues to fight against poverty are not realized systematically and are not handled openly, explicitly by the principal system. Again, I don't have any answer to that question except the one I gave before about political participation, which may be a kind of new vicious cycle of policy which will not help the poor because they are not participating in the political system and are struggling in a trap. These, I think, are the important issues that collectively, we should put on the table.

S. Edwards: Carlos Eduardo has brought up a very, very important subject, and that is the role of public sector unions. Eliana has told us that the obligation of a politician is to be reelected. François has told us that the political system is very important and that redistribution plays a role in the electoral process and electoral cycle, and Carlos Eduardo is telling us that there is a very serious problem with public sector unions that many times stand in the way of increasing the effectiveness and efficiency with which social services are distributed to the public. So I think that is something we should look at.

It's very clear that this is a panel which is made up of economists and not of political scientists. When we are talking about politics and economics, when François talked

about the political participation process in Latin America, I immediately thought that one of the panelists at least was going to jump in and talk about the role of political parties. That is central to any analysis of this kind of problem by political scientists. But we have not mentioned political parties once in our discussion, and we have in countries like Brazil, for instance, a profusion of them that represent all sorts of interests, national, subnational, local, corporate, and so on. And it's very difficult to find coalitions that would sustain an administration through time, let alone get reelected.

Juan Luis Londoño: We economists normally emphasize the inefficiency of the productive and public sectors to carry things out. I would like to ask about the efficiency of the idea producers in matters of social and distributive policy. I get the impression we have an excess of generalizations in these presentations, a lack of realism in the instrumentation of the policies and, above all, an excess of pessimism as far as the possibility of instituting policy changes. It is important that the World Bank is holding a conference centered on this topic. It is important to open up the discussion to far-ranging debate. And it is important to concentrate on the instrumentality. I believe, Eliana, that populism has survived because of its vagueness on social policies. I ask the three of you if you believe that with a better exchange rate, with more diligent political institutions, or with better information we have enough training to implement a more distributive agenda.

New speaker: I would like to try to give an answer to the question posed by Eliana Cardoso on the relationship between policy and the economic topics dealt with here. I am neither an economist nor a political scientist, but I was a councilman in Bogotá, and I have also been in Congress.

The community does not vote, the individuals are the ones who vote, and they vote for you if you can produce a personal benefit. Let me talk about the subject of recreation. The lower classes cannot afford to join private social clubs. To have some recreation on weekends, they need public parks. But any politician dedicated to the promotion of public parks, and not to benefit certain individuals of a given group, does not get votes. That happened to me, who dedicated myself to promote entities that serve the community. Why? Because I believe that what matters is the consumption of the citizen, and consumption that is

achieved through the community is more interesting than consumption achieved when money is placed in one's pocket. For example, public transportation gives consumption to the individual cheaply because he or she is a member of that community. Public parks provide recreational consumption, and public libraries cultural consumption.

Maritza Carvajal: I come from Ecuador. Eliana Cardoso has pointed out that one cannot use forever the exchange rate to keep inflation down. My question to her is whether countries have to resign themselves to moderate rates of 15 or 20 percent, or whether there are other mechanisms that can be used to keep inflation down.

William Baez: I believe Eliana presents a very interesting premise. I repeat it as *stabilization—reduction of inflation—is equal to reelection*. And then she takes the methods that politicians grab onto. But stabilization has effects beyond solving the problem of inflation. Stabilization can create unemployment and poverty. Stabilization is a very complex problem that goes beyond a problem of elections and that directly affects unemployment and the way of life of the population unless there is a "safety net." So let us please speak of stabilization within its total context, and not as a generator of reelections.

New speaker: I am from Brazil and I conclude from the several rounds of discussion that the major problem now is not by what policy you try to get stabilization, but once stabilization is achieved in the major countries in the region, how do you go from an exchange rate anchor to a fiscal anchor? This throws us directly into the political system, and I think the discussion on the political system has to be much deeper than it has been until now. Because what you have to do is change these anchors in a democratic system and at the same time try to reform the State.

S. Edwards: I think this man's comment is very important and I would like to throw the challenge to the audience to consider two topics regarding the political system: The first topic is the relationships between central governments and regional or subnational governments because it has to do a lot with public expenses. The second topic is the role of political parties, which is something we must finally face if we want to advance in this area in Latin America.

Barbara Stones: I am from CEPAL in Santiago. I think that one thing that hasn't been mentioned yet, which is important to mention here in relationship to political questions, is how we definitively remove our distribution of assets as a method for dealing with poverty and redistribution of income. Clearly, back in the 1960s that was a key issue. It is not mentioned much nowadays, but have we eliminated it? Or is it somewhere there under the table and still looking for a way to get back up on the table?

C. Vélez: I will address the questions posed by Juan Luis Londoño and Dr. Laserna. I am not a pessimist. Perhaps I may have said things that may make one fear I am a pessimist. Nevertheless, I agree with Juan Luis in that what I proposed regarding the social sectors is that both at the technical level and at the level of understanding the market of votes, as a technician, one can analyze how much a policy costs, etcetera, etcetera; whether it is feasible fiscally. One can do that type of analysis. But to implement policy is, as has been said, the most difficult part. So there is another challenge and that is to find out why the market of votes is not working efficiently, why these small coalitions defeat other potential coalitions of citizens who could be heard by politicians, or have their interests heard.

F. Bourguignon: I would like to come back to the observation made by Juan Luis Londoño. As far as I am concerned, I believe there is a divorce between redistribution issues on one the hand and macroeconomic issues on the other. I don't see any reason why we should link the level of the real exchange rate with the extent of taxes and benefits paid by different groups in society. Definitely those issues are separate issues and one may be considered more as macroeconomic and the others are definitely macro issues. So in theory I believe there is a strong separation, a principle which must be held to. Now, this whole debate is precisely about the fact that in some instances macroeconomic policy may be a substitute for redistribution issues because, for a while, it may improve the lot of poor people in the community. So, for some period of time, in some circumstances, macroeconomic instruments may relieve poverty, or may avoid worsening poverty. But this is only in the short run. In the long run we must stick very eagerly to that principle.

S. Edwards: Only one statistical point with respect to what François mentioned. The data from CEPAL on the

distribution of income suggest that the two countries in Latin America that have the worst distribution of incomes are Brazil, whose instability at the macroeconomic level is legendary, and Panama, a country that has had extraordinary stability.

Eliana Cardoso: Every economist knows that there is no divorce between macroeconomics and redistribution. Any movement in relative prices implies a redistribution of income. Any movement in the exchange rate, any movement in minimum wages, implies a change in relative prices, a reallocation of resources, and a change in income distribution. Bad macroeconomic policies have bad implications for distribution. Inflation and unemployment increase inequality. And we should not lose sight of that.

Luis Londoño's proposal to do research on models of redistribution is welcome, but research is not going to solve poverty problems. We know much and act little. Solutions to poverty problems depend most of all on power and politics. I disagree with Luis when he says that populism has survived because of certain social policies, and I agree very much with the statement that all politics are local. That means that we should probably get more involved in politics at the local level and in helping communities.

What happens when inflation reaches 20 percent? How do you get rid of it? As long as fundamentals are not in place, we have no choice but to live with inflation. Getting rid of 20 percent inflation (without fixing the exchange rate and producing an external disequilibrium) requires a long and gradual fight. By fixing the exchange rate we stop inflation temporarily, not permanently. The only way to sustained stability is to balance the fiscal budget and to clean up government quasi-fiscal accounts. Decentralization is important here. The evidence from China and Brazil shows that decentralization produces growth. It may also produce inflation. But the reason it produces inflation is not because it is bad, but because it takes place at the same time that financial institutions are terribly inadequate. In both China and Brazil there are too many state-owned banks. Decentralization and locally owned state banks amount to giving local politicians a blank check. And that certainly does produce inflation.

F. Bourguignon: One second to react to Eliana's response to my comments. Sure, macroeconomic phenomena, all

macroeconomic phenomena, have distributional effects. I'm not disputing this fact. The point is that redistribution devices may be precisely aimed at counteracting the distributional effect due to macroeconomic policy. So changing the exchange rate may have, and obviously has, distributional effects, and they are positive effects for some people, negative for others. But redistribution devices are precisely there to smooth the positive effects in one case and the negative effects in the other. And again, from that point of view, we may think that there is some kind of separation.

Manuel Hains, Minister of Finance of El Salvador:

There is a lot of truth in all that has been said here. I believe there is great danger in a large revaluation of currency. Definitely. But I also see a big oversimplification in your presentation because you want to make this point very "sharp." In the Appendix of this paper you presented, practically all of the countries in Latin America are there, and all of their currencies have reappreciated since 1990. I do not see any currency that is being devalued in real terms. But the wealth of each one of these countries is different, because the cases are different, the reasons could be different, even the contexts could be different. For example, in the case of El Salvador we have the problem of the devaluation of our currency. Nevertheless, in the case of El Salvador, we have lowered the fiscal deficit to 0.6 percent before donations, and with donations we practically have fiscal balance. Let's say we are not trying to stop the automobile by holding the antenna. We have a currency that floats in the market, the Central Bank intervenes very little in this. Exports, maquilas, are growing 35 percent each year, nontraditional exports are growing 11 percent, which now represent, together with maquilas, around 50 percent of the country's exports. So it is very difficult to say that the currency is overappreciated.

On the other hand, it is very difficult to control this problem because the very fact of fiscal discipline strengthens the currency. That is, insofar as one becomes more and more disciplined in fiscal issues, there is a greater demand for local currency, which tends to appreciate the currency. I understand the case perfectly, but I also believe that perhaps the whole problem of the lack of attention to the poverty problem cannot be explained through macroeconomic crises in Latin America. That is, it is true that they have a dreadful impact; it is terrible. But I tend to think that the economic relationship of the distribution of

incomes and economic fortunes of Latin America are much more complex than may be expressed. I definitely agree that the first thing that must be done is to avoid macroeconomic crises. These crises may come either from an overappreciation of the currency or from other factors, such as the fact that the banking system may be falling apart. Therefore, what I agree with Mr. Bourguignon about is not his concept that they are two different things, but that we should deepen the perspective a bit more on this topic because there are many other things that are important.

John Panzer: Sebastian tried several times to introduce the topic of decentralization. I would like to bring it up again from another angle. François mentioned two very interesting things. First, to see, if we would like to analyze redistribution, what is the cost of the redistribution, or let's say, the production function; and what is the effective demand for redistribution, or what would be the profit function. Speaking superficially, one finds that in Latin America, for example, in those places where the production function should be cheaper, the redistribution of, for example, the prices of public utilities, one finds that redistribution is worse; subsidies favor the rich more than the poor, which would demonstrate that there is an effective demand for redistribution that is very low.

If that is so, the question is, why? François said something about the generality of voting, but I don't think that is the answer since we know from economic politics that, for example, there is nothing more common than the consumption of rice, yet, the rice producers will always be stronger in terms of political pressure than the consumers of rice. And we will never make voters participate more in the market than the rice consumers. The question, then, is how can we affect that effective demand for redistribution, which I believe is low? There one falls back on pressure groups or the production function on how to affect the system politically. I believe that through those means, decentralization may have a very important role. And I would like to ask the panel what they think of this.

S. Edwards: One topic that has not been dealt with and which is undoubtedly important to this discussion is the topic of corruption. A question we must ask ourselves is whether greater decentralization leads to greater corruption. And corruption, unfortunately, is never good for the distribution of incomes.

New speaker: I believe that macroeconomic problems have a logical effect on the redistribution of income. Nevertheless, this is a topic on which we have not yet focused. I would like Eliana Cardoso or François to say something about it with respect to the limitations which the small Latin American nations have, those with a high level of foreign debt. One of the main problems of Central America is precisely the high ratios of debt service. This indebtedness—which originated mainly because of mistakes in the past when, advised by international banks, we invested in enormous corporations, for which we are now paying the consequences—implies a huge burden for the possibility of the state to redistribute wealth. This is because even though it is certain that focus and efficiency must go hand in hand with redistribution, there is a famous phrase from the Carpenter of Galilee that says, "Not only of bread liveth man." But philosophers have said that it is mainly of bread.

The resources of a small state with a high level of indebtedness present a short-term challenge. What commitments do you perceive, Eliana, from international banking or from international credit organisms, to keep awarding resource grants to fight poverty, since they have announced a reduction of these resource awards to poor countries. And the second question is what capacity do you see for our small, even tiny countries that are not ready for globalization or economic competition, for keeping a free exchange rate when faced with the disadvantages of competing against the huge international monopolies of commerce?

Mauricio Cabrera: I would like to bring to your attention a topic that is seldom discussed when dealing with redistribution and macroeconomic policies, and that is the topic of the inflation of assets. In the case of adjustment policies which Eliana has mentioned, whenever one talks about devaluation—especially when it is combined with economic opening policies—a logical movement occurs among domestic, and sometimes even foreign, investors toward those goods that are not monetizable, thus producing a high increase of assets linked to these non-commercial assets. It is especially clear in the case of land and real estate goods. Inflation of assets, in the only case I know well—the Colombian case—has been very high. It does not reflect in the short term the inflation of goods. The main channel would be rents, and in the case of rents it does reflect itself, but since all of the other prices are controlled by the opening, through large imports, etcetera,

then one can achieve simultaneously a very high inflation of assets and a relative control over the inflation of goods.

In the Colombian case, I believe that the inflation of assets does have a very direct consequence on the redistribution of wealth, but not of income. Here we have dedicated ourselves to talk a lot about the redistribution of income. I believe, as someone else said before, that it is important to return to the topic of redistribution of wealth. A simple estimate I made twenty years ago was that a Colombian professional was able to purchase a normal apartment that cost thirty-five monthly salaries. Today, a professional just out of college might pay eighty-three monthly salaries for the same apartment. There is a radical change in relative prices that necessarily includes or implies a concentration of wealth. The question for Eliana is, if in cases of adjustments with stabilization that have taken place in Latin America, have similar processes of inflation of assets occurred as the ones we have had in Colombia, and do you think the inflation of assets, through the process of concentration of wealth it entails, has negative consequences on the distribution of incomes?

S. Edwards: We will now go back to the panel for answers and concluding comments.

C. Vélez: Sadly I cannot answer that last question. I imagine this is going to be a topic to ponder for all of us. We have spoken about macroeconomic policy, social policies, and poverty. Obviously both macroeconomic and social policies affect poverty, and returning to the point made by Professor Bourguignon, in Colombia, attempts have been made to estimate the impact on poverty exerted by economic growth, on the changes in the cost of basic needs of the poor, and on inequality. Such figures help to illustrate the debate that takes place about different goals. For example, over the last three years, in Colombia poverty has continued to decrease,

but this is mainly because growth has kept pushing the decrease of poverty, not because of the inequality of incomes. So in Colombia, the impact of growth on the decrease of poverty may reach 71 percent, but the impact of inequality on extreme poverty has been very great. I believe these figures illustrate the political dilemma.

F. Bourguignon: I believe this discussion again illustrates what I was referring to yesterday about the distinction which must be made between absolute poverty and relative poverty. And this is exactly the point that was made by Carlos Eduardo. It is true that fluctuations in the level of GDP will have an obvious impact on absolute poverty. Therefore, we must do all we can to protect poor people from fluctuations. First, we must do what we can to prevent fluctuations, recessions, and lack of stabilization from taking place. This is the macroeconomic factor that we have been discussing this morning, and it is quite important. But we must realize that once these problems are cured, or once we are back to some kind of steady growth, poverty will still be with us. Relative poverty and the fact that many people are below 50 percent of the mean income of the population is a real issue and something we will have to deal with at some point. I will simply urge everybody here to think about that, and to convince people that this is the most important issue of the years to come.

S. Edwards: We are going to end up as we should, in the same way we started, with some words from Eliana Cardoso.

E. Cardoso: Small countries carry a heavy burden, and I only hope that debt forgiveness will not induce in the future the same mistakes of the past. I also do not recommend a free-floating exchange rate for a small developing economy with thin financial markets because excess volatility would hurt exports.

II. Violence and Development

Violence, Psyche, and Social Capital

JUAN LUIS LONDOÑO

THIS PAPER PROVIDES AN EMPIRICAL REFERENCE TO MOTIVATE DISCUSSIONS IN THE FORUM on violence during the Second Annual World Bank Conference on Development in Latin America and the Caribbean. Besides abundant graphical information, it contains three sections. The first section compares the current status of violence in the continent with that of other regions and with the trends of violence over the past three decades. The second section analyzes the empirical relevance of phenomena that public opinion and specialized circles associate with violence. International comparisons are used for this, as well as a regional database for Colombia. The third section succinctly indicates areas for thought for public policy intervention. At the end of the document, there is an up-to-date bibliography.

The importance of violence in Latin America

The simplest indicator of violence is the homicide rate. Latin America has a rate of almost 30 murders for every 100,000 persons per year (Figure 1). This is more than double the rate in any other region of the world. The rates for the Middle East and Africa, the next highest, are slightly lower than 10 murders per 100,000 people. Latin America's rate is six times higher than the average homicide rate for the whole world.

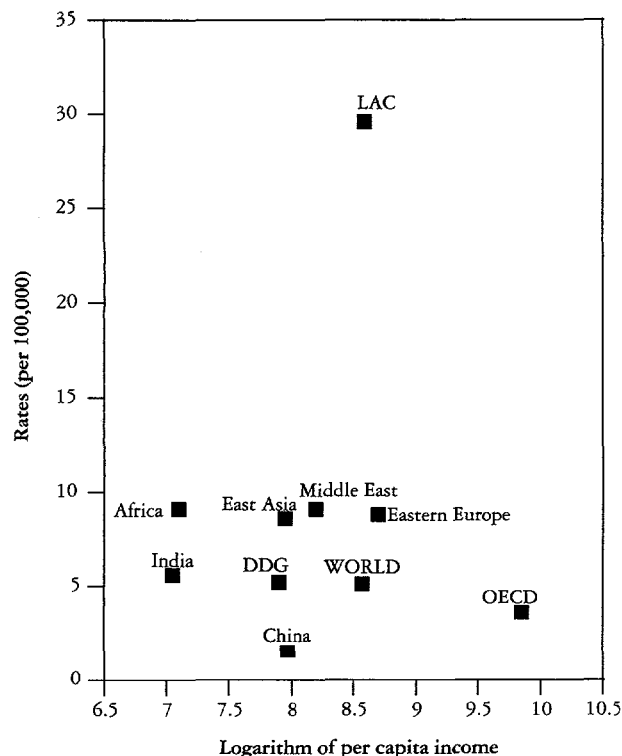
The effects of violence can be measured not only by the number of people killed each year in Latin America, (which, in accordance with our estimates, would be approximately 119,580 in 1993), but also in the deterioration in the quality of life that violence represents. For every day of useful life lost by murder, violence generates the loss of another useful day by those who remain. For this reason Latin America today experiences 3,541,200 Disability-Adjusted Life Years (DALYs) each year because of violence. This represents 7.9 DALYs for every 1,000 people each year. The

following helps to express this more clearly: If this burden were to be distributed uniformly across the population, violence would represent for every Latin American a loss equivalent to three healthy working days per year. The impact of violence is more than three times higher in Latin America than in the rest of the world (Figure 2).

Violence of this magnitude must have considerable economic costs, and they are many. Intimidation and fear can lead people to stop productive activity for themselves and society as a whole. Fear generates costly behavioral restrictions. Defensive behavior induces global costs to society. All these costs are impossible to measure. But there are other costs that are easier to measure. The region of Latin America is spending several percentage points of GDP each year on its military, police, and judicial systems. But it is also wasting a valuable asset by not preventing the murder of its people. Today, the average age of the Latin American citizen who is killed by homicide is 26. Therefore, his life expectancy would be almost 50 years. If one considers the

Juan Luis Londoño is an economic researcher for the office of the principal economist of the Inter-American Development Bank. The collaboration of Lucy Wartenberg was particularly useful in the identification of stylized facts in this paper. Felicia Knaul and Susan Parker also collaborated with the author in processing ideas on social capital.

FIGURE 1
Homicides in the World



opportunity cost of each year as equivalent to the per capita income of the Latin American economy,¹ this loss of life would be destroying a capital of approximately \$27.737 billion each year. In intuitive terms, it would be as if violence would take a dollar of wealth per week from each Latin American. In the 1980s, as shown in Figure 3, this represented almost 1 percent of GDP for the entire region. In terms of its trend for the 1990s, it increased to 1.49 percent of GDP.

Unfortunately, the cost of violence has not been small, nor has it stopped increasing in relation to the size of the economy. This is because the continent's homicide rate has undergone two decades of explosive growth. After having fallen continuously during the 1960s (especially in Central America and Mexico), and having reached its floor during 1971–1973, the homicide rate increased continuously until it doubled in the mid-1980s and tripled in the mid-1990s. As Figure 4 shows, these fluctuations were spurred on by the harshness of violence in Central America and Mexico, the rapid increase in violence in the Andean region, and the more recent and rapid increase of violence in Brazil.

This abrupt increase in the incidence of violence has resulted in a doubling of its costs as a proportion of GDP

FIGURE 2
The Social Impact of Violence

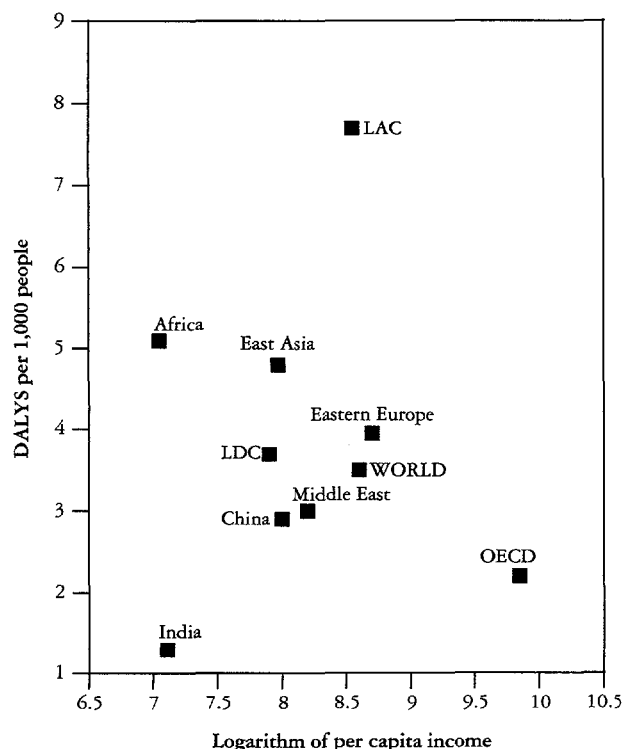


FIGURE 3
Economic Cost of Violence in the 1980s

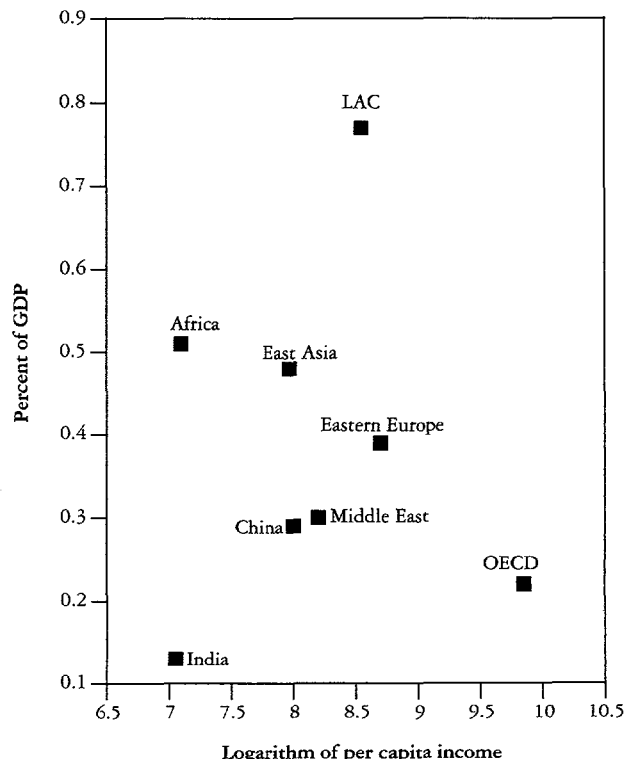
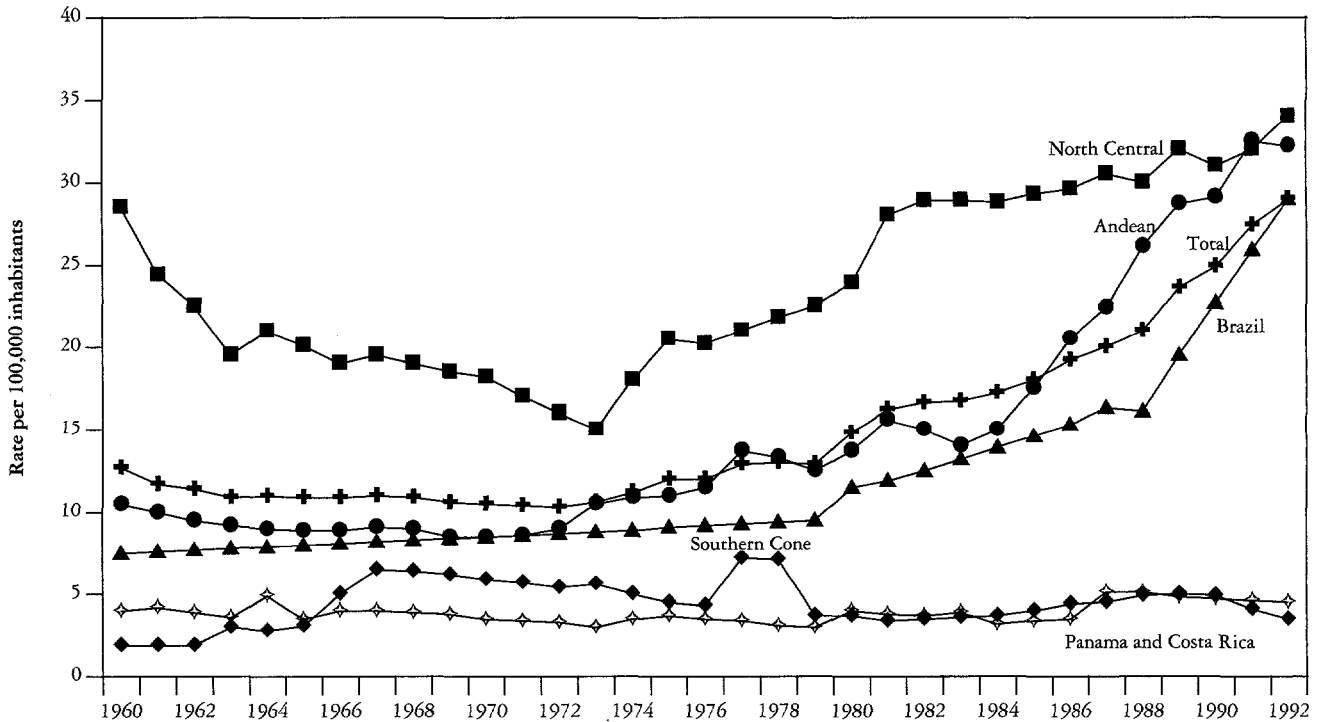


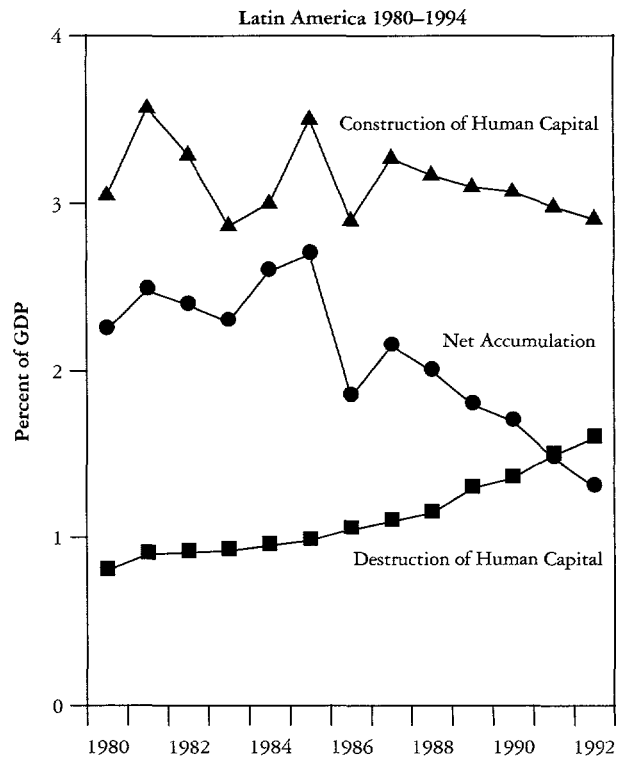
FIGURE 4
Homicides in Latin America



in Latin America in the last fifteen years. As can be observed in Figure 5, these costs surpassed 0.8 percent of GDP at the beginning of the 1980s and grew to 1.6 percent of GDP in the mid-1990s. The magnitude of the economic cost of violence can be measured more clearly in terms of the dynamics of the formation of human capital in the continent. The stock of human capital increases with the savings effort that is represented by new education. This stock diminishes with the destruction of the life of educated people. At the beginning of the 1980s, Latin America invested, as a proportion of GDP, four times the cost of the violent destruction of human capital. Fifteen years later, public efforts at education have not grown faster than the economy, and, as the rate of destruction of lives has doubled, the net accumulation of human capital has been halved.

The dramatic effects of violence in the destruction of human capital can be visualized in the case of a Latin American country that manifests extreme levels of violence. Colombia showed levels of violence two to three times greater than the rest of the continent during the last fifteen years. As shown in Figure 6, the annual cost of the destruction of human capital went from 2 percent of GDP

FIGURE 5
Construction and Destruction of Human Capital



in 1980 to almost 5 percent at the beginning of 1990. That is, what the population gained from economic growth in Colombia was less than what it lost in human assets. The cost of violence was so great that it came to surpass the gains to human capital represented by public spending on education. As a result, between 1987 and 1994, Colombia showed a net destruction of human capital unmatched by any other country in the world. This destruction reached its maximum in 1991 and since then has been systematically falling until 1995, but only to the point where it just offsets the gains from education.

Some phenomena associated with violence

International comparisons

Abundant literature exists on the causes of violence. In the media and among people, however, the idea that violence is associated with poverty and unemployment persists. Utilizing the rich information compiled for each country in the continent, we will try to show the relationship between homicide rates and other indicators. In the first place, we do not find any correlation between the poverty

rate in each country and their homicide rates. We searched for a relationship between the homicide rate and unemployment, but the correlation was zero. We did correlate homicide rates and their changes with short- and medium-term rates of economic growth (with and without residuals). We could not reject the hypothesis of a zero correlation. The most popular justifications for violence in Latin America are not, therefore, supported by the data.

Comparing countries throughout the world, we found a systematic and significant correlation between violence, the consumption of alcohol, and the incidence of neuropsychiatric disease. Figure 7 illustrates how, in accordance with the most recent estimate of the burden of disease by Harvard University,² the incidence of alcohol dependency in Latin America is three times greater than in the rest of the world. In addition, it is almost double the alcohol-dependency rate in former socialist countries and member countries of the OECD. The incidence of alcoholism over the rate of homicides in various regions of the world can be analyzed econometrically. The results, presented in Chart 1, indicate that the level of association of the logarithm of homicides with the explaining variables is

FIGURE 6
Construction and Destruction of Human Capital

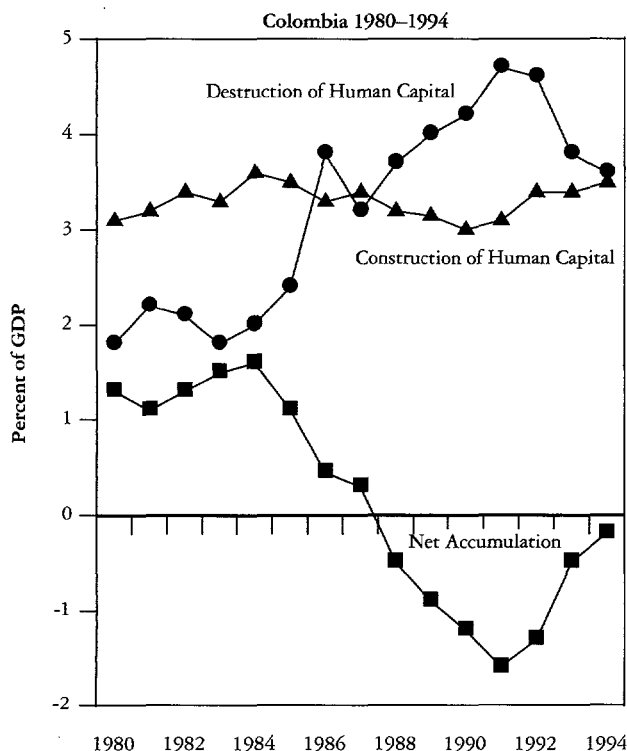
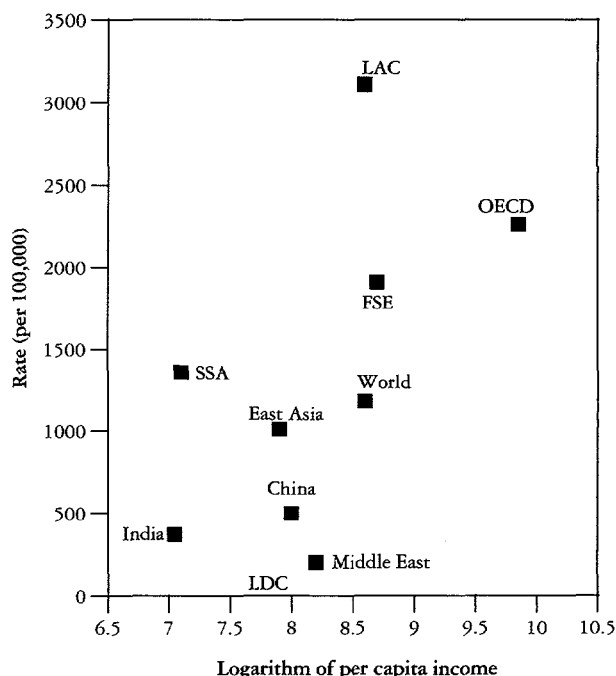


FIGURE 7
Incidence of Alcohol Consumption



Note: FSE = Former Socialist Economies
SSA = Sub-Saharan Africa

CHART 1

VARIABLE	CONSTANT	EDUCATION	EDUCATION 2	ALCOHOL
Coefficient	-10.54	-1.31	4.45	2.13
T-Student	9.40	2.70	1.90	4.00

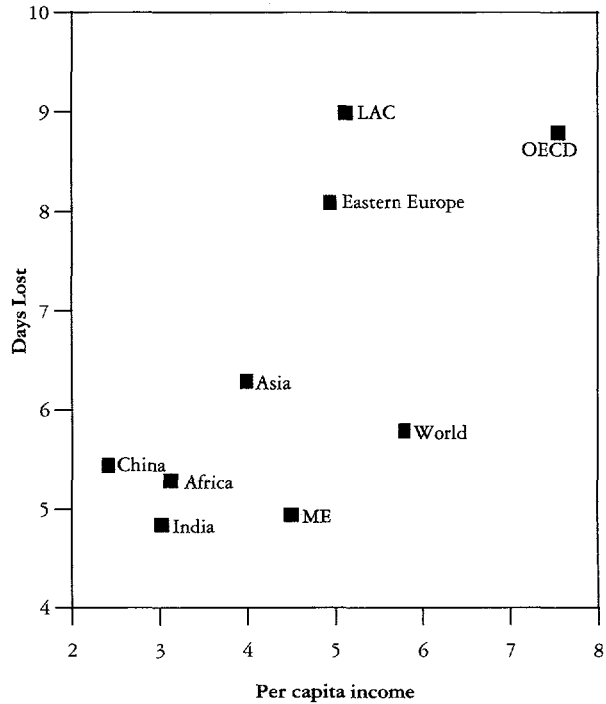
very strong. Violence is negatively related to education (up to a point), but positively related to alcohol consumption. The model explains 82 percent of the variance.

Figure 8 shows that, if the consumption of alcohol in the continent were equal to what would be expected for its level of development, the homicide rate would not necessarily be greater than the rest of the world. That is, *the excess of alcohol abuse can explain all the excess of homicides in the continent.*

The region of Latin America also presents anomalies in the incidence of neuropsychiatric problems. As illustrated in Figure 9, the incidence of mental disease is income-elastic, and is much greater in developed countries than in India or Africa. Its occurrence in Latin America is 45 percent higher than in the rest of the world, and much higher than expected for its level of development. The statistical exercise of comparing homicides, levels of development, and incidence of mental disease generated results very similar to those mentioned in the previous example. Higher

FIGURE 9

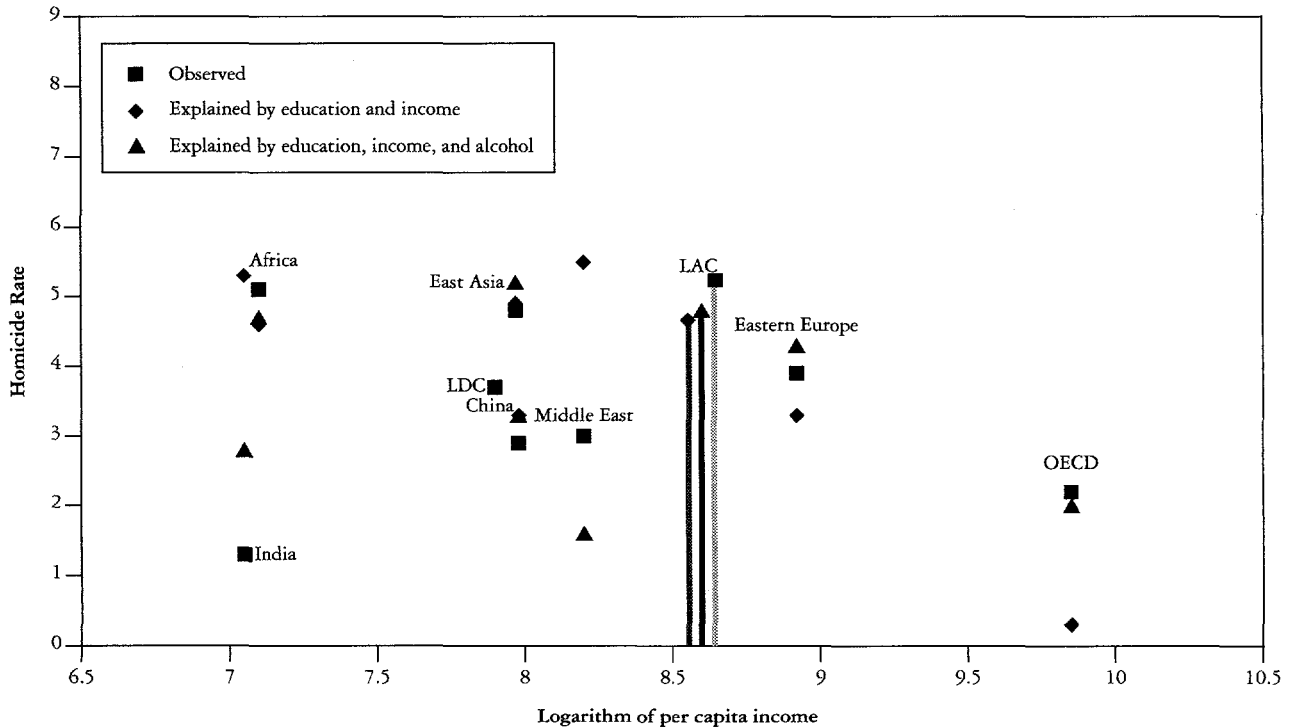
The Incidence of Mental Disease
Neuropsychiatric Disorders



mental disease is significantly associated with violence, even after controlling the effect (negative) of education and alco-

FIGURE 8

Violence and Alcohol



holism. And the excess of mental disease and alcoholism is able to explain all the excess of violence in Latin America.

In public health circles, the two previous results are not surprising. There is abundant scientific literature on every city on the continent showing that a very high percentage of victims and perpetrators of violence had consumed alcohol. But econometricians argue that the incidence of alcohol and mental disease are not totally exogenous to the act of violence, and that therefore the previous results would have statistical problems. This invites us to an additional exercise which, unfortunately, cannot be undertaken with international data.

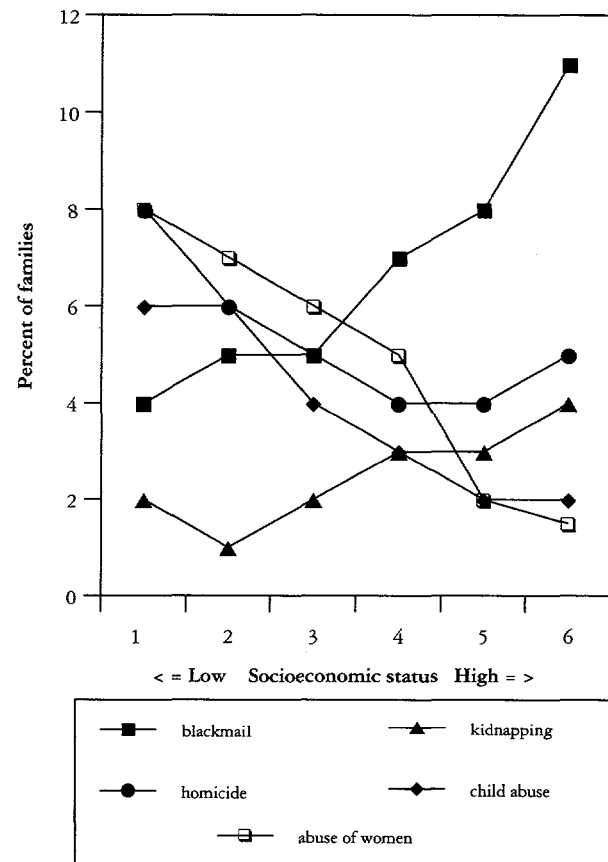
Violence, alcohol, education, and social capital in Colombia

Based on the preceding, we associated several indicators of the social structure with violent behavior. We used the mental health consumption of psychoactive substances survey, developed by the Ministry of Health of Colombia during 1993. The survey interviewed more than 20,000 households, measuring many forms of violence, the behaviors of people involved, and their family and community environment. Different forms of violence were correlated with income inequality and social capital.

Many intellectuals, especially in Colombia, have suggested that violence is a manifestation of the excess of income inequality. If it were the case, the high classes would suffer proportionally more from the incidence of violence. Figure 10 shows that, in effect, in Colombia, the high classes suffer more threats to their assets. As can be seen, the incidence of kidnapping and threats against belongings are directly associated with social status. In 1993, 4 percent of the richest groups had experienced a kidnapping in their family, while the incidence of such violence in the lowest class was only 2 percent.³ The incidence of attempts at extortion was even more closely correlated with social status: 4 percent for the lowest social groups and more than 11 percent for families from the richest classes.

Nevertheless, the effects of violence on the health and lives of the people were inversely related to social status. The incidence of physical abuse against women and children is two times greater in the lower classes than in the higher classes in Colombia. At the same time, the incidence of homicide in families is two times greater in the lower strata than in the high classes of Colombian society. A composite indicator of violence, weighted according to

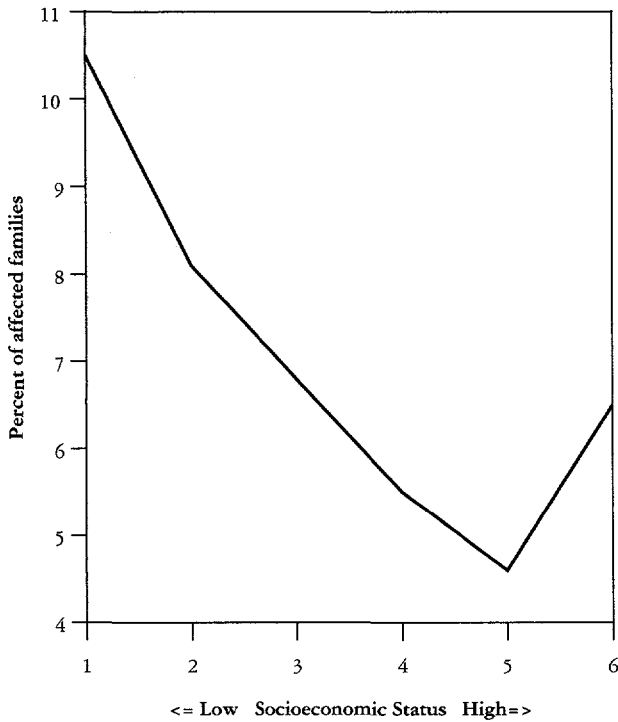
FIGURE 10
Incidence of Violence in Social Classes
Colombia in the Nineties



the gravity of the act against the lives of individuals, as shown in Figure 11, contradicts the perception of public opinion. In effect, it indicates that the type of violence registered today in Colombia falls disproportionately on the lower classes.

However, the social complexity of violence leaves far behind the simple negative association with social strata. Because the survey was representative of departments, it allowed us to investigate what other conventional measures would not. As is well known by Colombians, every region of the country does not experience the same intensity of violence. There are provinces that have the same murder rates as Chile and Costa Rica, at the same time that others have violence rates as high as those in Yugoslavia. The survey data indicates that higher violence is not found in the poorest regions, nor in regions with higher income inequality. We found, instead, violence significantly associated with depth of social capital and the velocity of progress in education.

FIGURE 11
Unequal Distribution of Violence
 Incidence of an Aggregate Index



We measured the depth of social capital by combining the responses about the level of trust of individuals in their

family and community surroundings.⁴ This measurement of social capital turned out to be tightly correlated to the incidence of violence. The social capital in the Colombian provinces has a clear regional differentiation. The level of trust and solidarity among families, neighbors, and friends is much greater on the Atlantic coast, average in the center-eastern region of the country, and much lower in the newest departments (Guaviare and Arauca) and in the coffee region. As shown in Figure 12, the correlation between social capital and the reported number of homicides is clearly negative.

The speed of recent educational advances in the different provinces was measured as the quotation between the average level of education of the young population (age 15 to 24) and the average level of education of the adult population (age 25 to 64). As illustrated in Figure 13, the country's provinces have had an evident process of educational convergence, as those who fifteen years previously had less education increased their educational levels more quickly in recent years. The evidence indicates that in provinces where young adults increased their education at a pace relatively faster than the previous generation, there has recently been less violence.

The importance of the preceding factors can also be examined statistically. With information on twenty-eight provinces, we correlated the incidence of homicides with per capita income, the speed of educational

FIGURE 12
Violence and Social Capital

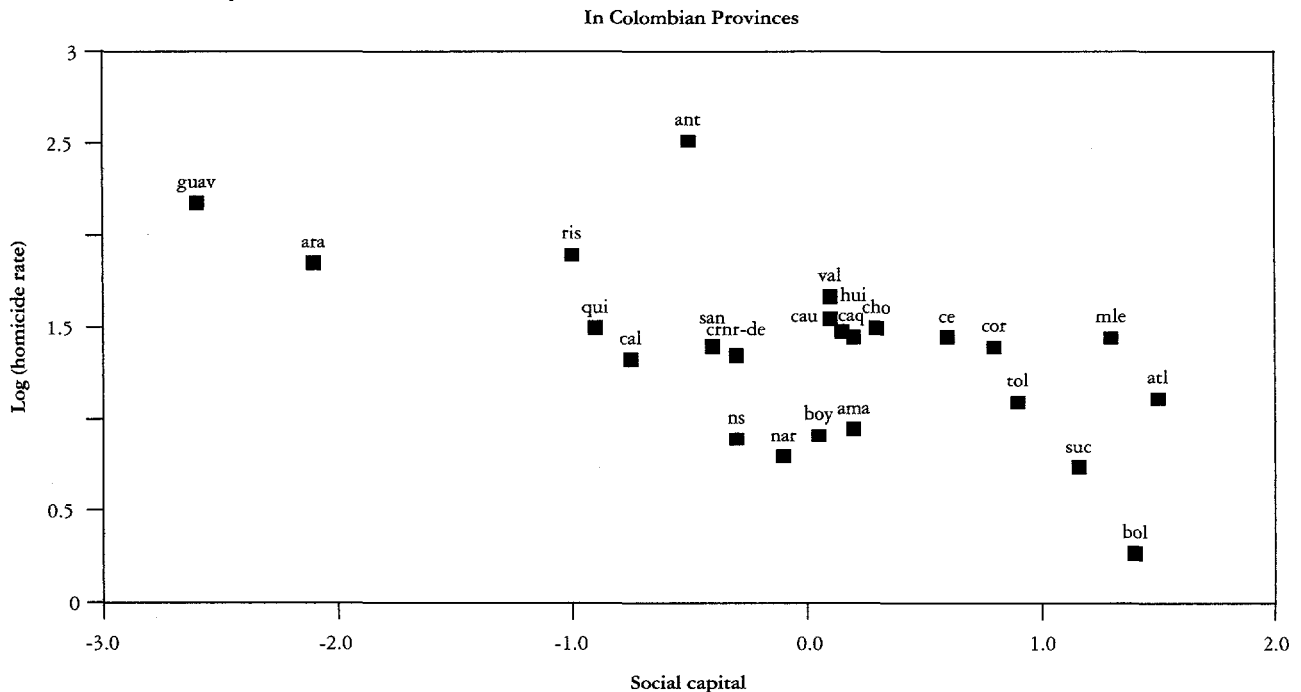
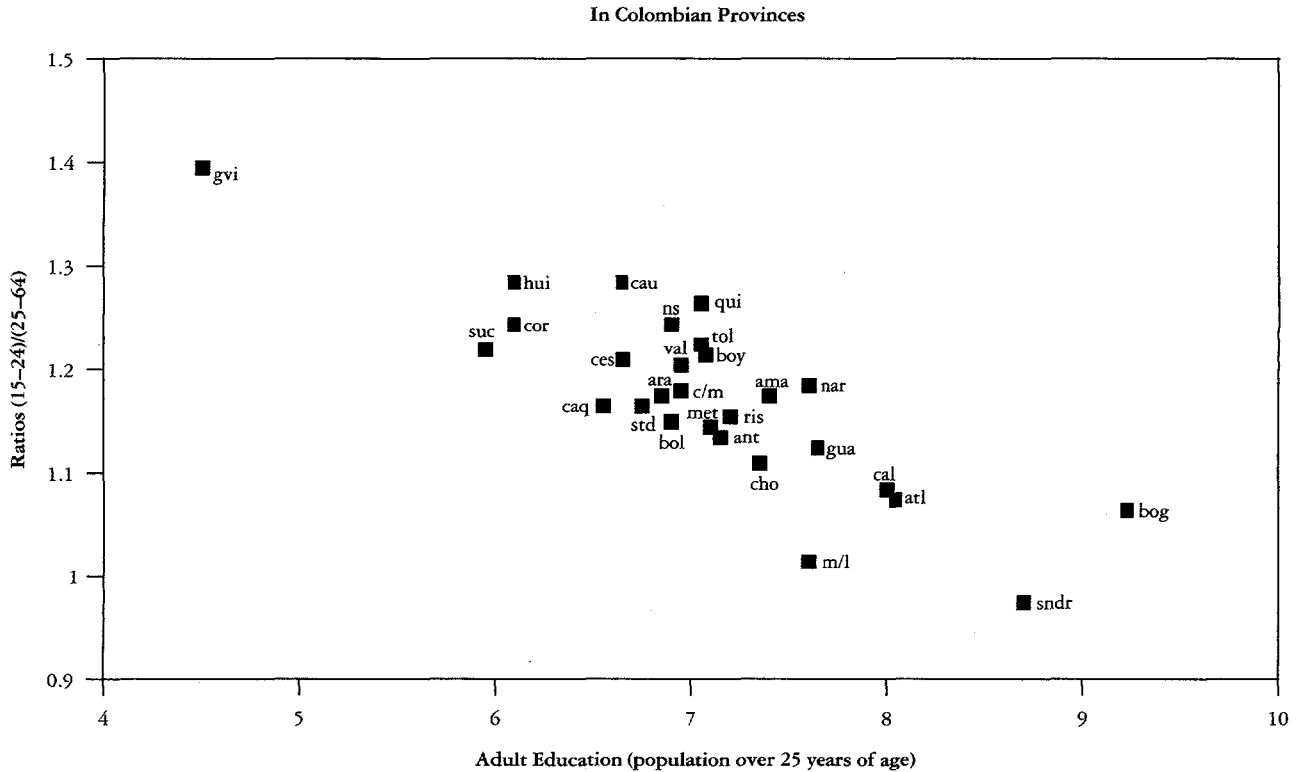


FIGURE 13
Educational Convergence



progress, and the depth of social capital. The results are shown in Chart 2.

The t-statistics are all highly significant, and the R² was 0.65, considered high for a cross-section regression, indicating the highly explicative power of the explanatory variables. The occurrence of violence is greater in those provinces of the country with higher incomes (although, unfortunately, the income elasticity is less than 1); lower educational levels of progress; and, above all, lesser social cohesion among their inhabitants. These results can be understood intuitively in Figure 14. Colombia adopted a pattern of educational expansion too slow in the provinces of greater economic development, and as a result, expected educational levels are not growing as fast as the economy. On the other hand, Colombia has adopted a pattern of social change in which economic development is quickly destroying social capital, which lessens markedly with per capita income. The occurrence of violence is much greater

in those regions with a high level of income, slow educational progress, and low social capital. The Antioqueño region (composed of Antioquía, Caldas, Risaralda, and Quindío), which comprises all these aforementioned characteristics, has the highest incidence of violence in the country. The Atlantic Coast region, which has the lowest income, fastest educational progress, and highest social cohesion, has the lowest frequency of violence.

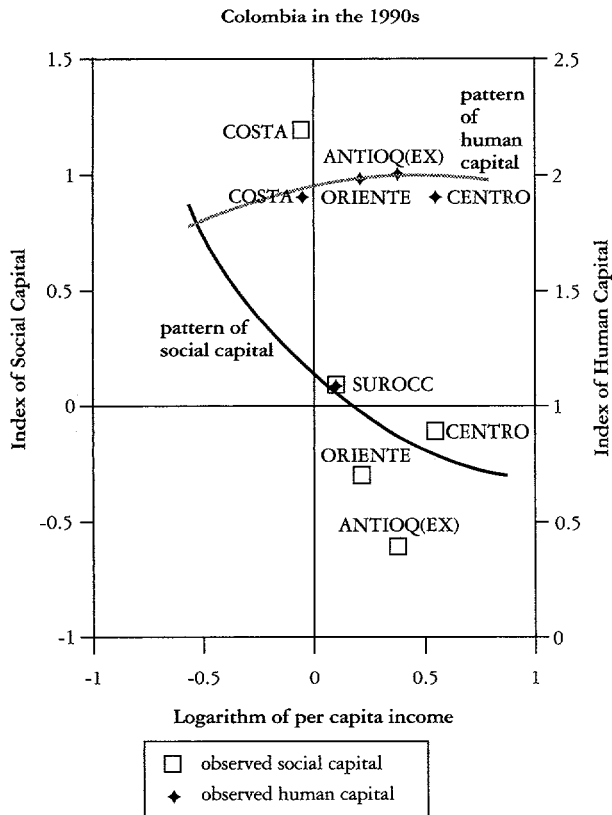
Summary

This brief empirical review of the issue of violence in Latin America leaves three lessons. First, the region has often been exposed to a dynamic of extremely high growth in violence in the last decade. Second, the economic costs of violence cannot continue to be ignored, particularly since the costs of the destruction of human wealth exceed both the gains from economic growth in the past three years and the cost of external debt, and almost equal the accumula-

CHART 2

VARIABLE	CONSTANT	PER CAPITA INCOME	SOCIAL CAPITAL	EDUC. PROGRESS	EDUCATION
Coefficient	11.8	0.6	-0.52	-2.6	-3.4
T-Student	34.5	3.0	2.9	1.9	2.3

FIGURE 14
The New Capital



tion of human capital generated by public spending on education. Third, the differences in violence among the countries of the continent have little to do with the existence of poverty, unemployment, or lack of economic growth. Furthermore, violence apparently would have a much higher cost in terms of the asset that the poor value the most: their existence. Rather, violence is associated more with the incidence of mental problems, the consumption of psychoactive substances, lack of educational progress, and lack of social capital.

Possible areas for policy intervention

Although the issue of citizens' lack of security tops the list of public worries in the survey responses of almost all Latin American cities, the public policy discussions on this issue have had relatively low prominence. For some strange reason, the explanation of violence has centered on several fatalistic hypotheses that, along with their not having much empirical corroboration, do not leave much space for policy interventions.⁵ Moreover, the governmental discussions in Latin America of violence have been dominated

either by general economic development considerations or by a relatively narrow punitive vision.

In recent years of democratic expansion in the continent, there has been an explicit intent on behalf of the majority of governments to broaden beyond the armed forces the discussion of the issues surrounding the lack of security forces. Innovation in public policy (with a hand from economists who have learned so much from Gary Becker) has begun to make enormous contributions to the necessary design of adequate incentives for those in charge of public order. But the persistence and dynamics of violence in almost all the region shows that although there is much to be improved in this field, it would not be enough.

What is needed and has been suggested by the empirical tests of this note is to broaden the spectrum of interventions, which would make it more possible to break the spiral of violence that currently plagues the region.

There are several areas in the field of public health that are very promising. The region of Latin America, more than any other region in the world, has let down its guard on the control of the consumption of psychoactive substances such as alcohol. The empirical data presented here give full empirical support to the experience of several Latin American cities during the last decade: Control over the consumption of alcohol results in the reduction of violence. In the language of epidemiologists, it has been an effective intervention. In the language of economists, it is a cost-effective way to reduce violence. Similarly, epidemiological data from the region would indicate an unusually high occurrence of mental disease associated with aggressive and violent behavior. Probably the health systems have concentrated too much on the bodies and not on the minds of our inhabitants. The search for instruments to provide more effective preventive attention for aggressive conduct presents a great challenge for public policy.

These notes, finally, intend to suggest a few more areas for intervention that should not be left out of discussions on violence.

First, a risk is posed by the lethargy of the region's educational expansion.⁶ In the past fifteen years basic education, more than any other sector, has felt the consequences of the fiscal crises of Latin American countries, and with it the education gap with respect to other countries in the world has grown wider. The evidence that a negative relationship exists between the occurrence of violence and the

pace of educational progress in Colombia could be very useful to understand the dynamic in the rest of the region. In addition to many arguments about the impact of education on competitiveness, equality, poverty, and democracy, the acceleration of educational expansion in the continent—in Colombia in particular—could help contain violence by and against young adults.

Second, the empirical findings of the case of Colombia evoke the need to broaden the space for reflection beyond the incentives to individuals, which are usually emphasized by economists. The elements of social organization, such as networks, formal and informal norms and, above all, the trust engendering mutually beneficial coordination and cooperation, acquire enormous importance not only to increase the benefits of investments in physical and human capital, but also to facilitate peaceful coexistence. Engendering and fostering social cohesion in the populace appears to be an effective way to control social disease. Negligence, irrelevant scholarly treatises, or excessive professionalization of the issue of violence would seem to ignore this simple and conclusive fact: The most effective, economical, and democratic way to eradicate violence is found beyond the control of the state or the individual; it is in the social cooperation that comes from trust and social cohesion of the communities. The greatest challenge to public policy today is the reconstruction of the social fabric in Latin America.

Notes

1. The International Purchasing Power in 1996 was approximately US\$4,000.
2. Murray and Lozano, 1996.
3. The survey, unfortunately, did not define precisely the scope of the term "family." As a result, in this category, according to the perception of family of each person interviewed, close or distant relatives could also have been included in the definition.
4. The theoretical antecedents of this exercise can be found in Coleman, Putnam, and Fukiyama. Empirically, the social capital variable comprises the principal components of responses to ten survey questions that inquire as to the strength of the family (presence of the father and the mother, history of separations or abandonment), level of trust in the family (how much trust in family members, how much free time one dedicated to one's family), level of trust in the neighborhood (years of residency, how much trust the neighbors inspired, and how much spontaneous collaboration took place the previous week), friendships (what evidence might support the existence of solidarity networks), and community organizations (participation in sports clubs, community activities, cooperatives, and others).

5. We exclude any discussion about narcotraffic, a certainly complex and violent problem.

6. For a detailed examination of the characteristics of this lethargy, please see author's presentation during the first World Bank Conference on Economic Development which took place in Rio de Janeiro in June 1995. (Juan Luis Londoño, "Poverty, Inequality, and Human Capital: Latin America 1950–2025.")

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Urban Poverty and Violence: Consolidation or Erosion of Social Capital?

C A R O L I N E M O S E R

Kingston's Killing Fields. Some of Kingston's most dangerous streets are in the city's west end. More than 70 of the 317 murders committed so far this year were committed on these streets.

—*The Gleaner*, Kingston, Jamaica, June 14, 1995

Urban violence is exploding in countries around the world. In the rapidly growing cities of Latin America and Asia, in European capitals freeing themselves from years of communist rule, and in countries in the throes of political and social change in Africa and the Middle East, millions of people have been frightened and angered by a seemingly boundless wave of blood.

—*The Washington Post*, Washington D.C., Nov. 7, 1993

VIOLENCE, PARTICULARLY URBAN VIOLENCE, DOMINATES THE DAILY NEWS AROUND THE world, and crime is a growth industry. Urban populations increasingly experience similar problems, regardless of political, social, and economic differences. For instance, taking homicides as an indicator of violence, estimates suggest that between 1992 and 1993 the murder rate in Moscow increased by more than 50 percent, with much of the violent crime the result of turf wars between more than 3,000 gangs. In Peru, homicides increased five times between 1986 and 1991. Studies from the United States suggest that one in six U.S. women will be the victim of a completed rape in her lifetime. In Rio de Janeiro, gangs of drug traffickers shoot it out with each other and the police using rifles, AR-15 semiautomatic shotguns, handguns, and even trip-mounted .30-caliber machine guns. Privately paid guards outnumber regular police by five to one in Bogotá, Colombia.

A recent World Bank study on poor urban communities in four cities shows that the poor perceive escalating violence and crime—attributed to increasing unemployment, particularly among young men, and growing drug and alcohol abuse—as threatening personal safety, access to jobs, and the sustainability of community-based organizations. At the same time, in part because of increasing corruption, there is a lack of confidence in the ability or willingness of the police to address such problems.

- In Commonwealth, a district in Metro Manila, six out of ten women widowed over a ten-year period had lost their husbands as a result of violent death, usually associated with drinking episodes that brought political disagreements or long-term feuds to a dangerous head.
- In Cisne Dos, a district in Guayaquil, Ecuador, in a six-month period one in five women was robbed on a public bus—attacked by gangs of young men armed with knives, machetes, or handguns—and one in two witnessed such an attack.

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- In Chawama, a district of Lusaka, Zambia, vandalism of property has curtailed community activities. After losing electrical fittings schools dropped adult evening classes, while community centers stopped offering programs for women and youth, after losing their recreational equipment, furniture, and teaching aids.

Violence is increasingly recognized as an important economic and social development issue—rather than just a serious problem of social pathology. The 1995 Social Development Summit, in identifying “social integration” as one of its three themes, has given particular impetus for governments, NGOs, and development agencies to address this issue. Given the pervasiveness of violence, this briefing note can only raise a few salient issues. It focuses on urban violence, summarizes recent evidence on violence as a development issue—mentioning the World Bank’s contribution—and concludes with suggested priorities

Violence and crime

While violence and crime are frequently categorized as synonymous, there are important distinctions. Violence is the unlawful exercise of physical force, while crime is an act (usually a grave offense) punishable by law—that is, the breach of a legal prohibition. Perceptions as to which crimes are violent, or which types of violence are unlawful differ widely, determined less by objective indicators of degree of damage or injury than by cultural values and power relations.

Statistics on both are notoriously unreliable—they can only reveal those reported—and are difficult to interpret. Nevertheless, most measures seem to show an inexorable rise. U.N. data, for instance, show reported crime for the period 1976–1986 increased globally at 5 percent per year.

The range of types of violence is daunting (see Box 1). Women and men from five poor urban areas in Jamaica, for instance, listed nineteen different types of violence they perceived as important in their communities. These included political violence, drug violence, gang war, thieving, rape, pickney war (violence between adults whose children were fighting), matey war (violence between women over men), and both male-female and adult-child domestic violence.

This participatory study, recently completed by the World Bank and the University of the West Indies, showed that interpersonal violence, while least recognized, often has a far greater impact on their lives than does the more sensational drug and political violence.

BOX 1

Issues of Definition

Violence differs widely in terms of its level, spatial area, and type:

Levels of violence include *international* (wars, narco-drug traffic, Mafia); *national* (civil war, state structural violence, as well as against the state—by lawfully constituted groups, political terrorism, or revolutionary insurrection); and *intranational* (between ethnic, racial, caste, religious, economic, or other groups).

Spatial areas experiencing violence include *country*, *rural*, or *urban* areas. Further distinctions can be made in terms of *intracity* space (inner-city, suburbs), and between the *public* (street) and *private* (home) domain.

Types of violence range from *homicide* at one end of a continuum to *mental abuse* at the other, with varying context-specific types in between. A useful distinction is often made between *disorganized* and *organized* crime—or *gratuitous* as opposed to *premeditated* violence. *Interpersonal* violence is often less recognized than other types, with *domestic* violence commonly grossly underreported.

Victims and perpetrators

The same members of society are not always the victims and perpetrators of violence. Sex and age are both important determinants. Most criminal offenses, whether deemed violent or not, are committed by young men, between 14 and 25 years old, in urban areas. Victims vary, depending on the type of violence. Globally, between the ages of 15 and 30, murder is one of the main causes of death.

In the public world of the street, male-male violence predominates (whether committed by adults or, as in some cities, by street children), most frequently between friends or acquaintances. The “private” world of the home is the domain of male-female violence, as well as adult-child violence. A study commissioned for the *World Development Report 1993: Investing in Health* showed how females are particularly vulnerable to violence throughout their lives—from before they are born, through infancy, girlhood, adolescence, reproductive age, and old age.

Causes and consequences of increasing urban violence: Social problem or development issue?

Checklist reasons for increasing urban violence commonly cite such phenomena as rapid urbanization, national or international migration because of economic globalization or political conflict, frustration over lack of basic services, breakdown of the family, value clashes, increasing alcohol and drug abuse, violence on TV, and the inability of the police and judicial system to respond, to name a few.

Underlying causes, however, are complex and difficult to disentangle, particularly in terms of the relationship between poverty and violence. Evidence that most violent crime is committed by young offenders coming from poor urban areas supports two common views. The first is that this is a consequence of demographic expansion. In contexts where increasing numbers of young people find difficulty getting work, they choose crime as a plausible alternative for survival. Second, economic inequality and the extreme vulnerability of the poor leads them to turn to crime as a means of survival, so that as poverty increases, violent crime rises.

However, the fact that throughout society only a few individuals choose a life of crime, with the majority continuing to respect the law, continues to give weight to a third view that this is a behavioral choice—it cannot be explained entirely either by poverty or by the inability of economies to absorb new workers. A complex set of interrelationships requires that socialization processes, perceptions of social protection, and levels of retribution all need to be included.

Regardless of the causes of increasing urban violence, its consequences are a growing preoccupation—not only as a social problem for criminology, the law, and social work, but also as an economic and social development issue. The World Bank needs to take account of violence in economic, social (health, education, and social welfare), and economic infrastructure (transport, housing, water, etc.) sectors as well as in such cross-sectoral initiatives relating to civil society, governance, gender, and community participation.

The first sector to seriously examine violence as a development issue was **health**. Utilizing epidemiological research, the *World Development Report 1993: Investing in Health* highlighted the relationship between good health and development. Good health is not only a crucial part of well-being, but spending on health can be justified on

purely economic grounds—contributing to economic growth in a variety of ways. From a violence perspective, the most important is the reduction in production losses caused by worker illness as a result of injury from violence. Even though our current estimates place these at only 4 percent of the total illnesses (see Box 2), its very appearance in the estimate is a reflection of its importance.

Despite very scarce data, macroeconomic concern with violence as a development issue is increasing. One important area is investment confidence. Violence reduces willingness of investors to invest in the image-sensitive tourist industry (as happens in some Caribbean islands), or when factory locations are chosen less by economies of scale and more on security of worker access (as happens in some Latin American cities). In the states of the former Soviet Union and in parts of Central and Eastern Europe, violence associated with corruption has become a governance problem and is discouraging investment and reducing the viability of development programs.

The economic costs of violence and criminal activities can represent a significant proportion of gross domestic product, frequently surpassing the government social sector budget. Some estimates suggest that expenditures on protection, plus the direct costs resulting from criminal

BOX 2

The Burden of Intentional Injuries Including Violence

The 1993 *World Development Report* quantifies the impact in loss of healthy life from about 100 diseases and injuries to provide a global burden of disease (GBD), measured in units of disability-adjusted life years (DALYs).

Although data in the injury category shows that intentional injuries—self-inflicted, war, homicide, and violence—only account for about 4 percent of DALYs globally, nevertheless, given the severe limitation of data, the importance of injury from violence is reflected by its recognition as a health issue.

Similarly, violence against women was recognized as a serious health issue, with rape, battery, and sexual abuse severely affecting DALYs—although at this time reliable data do not exist.

Source: World Bank (1993)

activity, could be as high as 6 percent of GDP in the United States, and 13 percent in Colombia. Some have argued that there are some economic benefits generated by illegal drugs in Latin America, but most observers have rightly focused on the destructive and corrosive aspects of such activities and the violence they breed.

Urban poverty, violence, and the erosion of assets

Recently World Bank work on urban poverty has also addressed violence as a development issue. This includes participatory poverty assessments documenting types and levels of violence (see Box 3), and two ESD (environmentally sustainable development) studies that highlight how violence erodes such assets of the poor as labor and human and social capital.¹ Since vulnerability is closely linked to asset ownership—the more assets individuals, households, and communities have, the less vulnerable they are—increasing levels of violence are a particular preoccupation of the urban poor. Despite limited case studies to date, a number of examples graphically illustrate how violence increases the vulnerability of the poor and constrains them from participating effectively in the broader economy.

BOX 3

Recent World Bank Participatory Poverty Assessments Addressing Violence as a Development Issue

The South Africa Participatory Poverty Assessment (PPA) notes the high levels of violence, especially against women and children, with child abuse and neglect perceived to be on such a scale that “home is not a safe place for many children” (1996, 105).

The Mexican PPA highlights the insecurity families feel in urban areas such as Ciudad Juarez and Mexico City because of the many robberies, street fights, and general violence in their neighborhoods. The residents feel that the violence is caused by drugs and drug trafficking. One focus group estimated that 40 percent of young adult males were habitual drug users—with 5 percent the comparable figure for women—of which 10 percent were unable to perform any productive work because of their addiction.

Sources: World Bank (1996a, 1996b).

Violence erodes labor as an asset when it reduces access to jobs. In Kingston, Jamaica, bus lines no longer enter drug- and gang-ridden dangerous poor areas because drivers fear for their personal safety. In Guayaquil, Ecuador, escalation in the number of armed youth gangs who rob passengers of their money and valuables has resulted in declining use of public transport, particularly by women. In both cases, reduced mobility has implications for access to and choice of jobs and economic opportunities.

“Area stigma” resulting from violence—that is, employers are reluctant to hire workers from particular areas—also affects employment. In urban Jamaica, workers from poor areas with reputations for high levels of violence have particular problems getting jobs and universally perceive themselves to be discriminated against because of where they live.

While unemployment itself can lead to greater levels of violence, causality differs by gender. For example, in urban Jamaica young men perceive that unemployment leads to frustration and idleness, which in turn leads to increased gang violence, interpersonal conflict, and domestic violence; young women, on the other hand, perceive unemployment as leading to greater dependency on men as a survival strategy, which in turn increases domestic violence.

Violence erodes human capital when it reduces or limits access to education and health facilities by both users and providers. In Lusaka, Zambia, the rape of a teenage girl returning from school in the evening reinforced fears in a poor urban community. In the same area, female teachers threatened by young male gangs frequently failed to report for work. In Guayaquil, Ecuador, lack of safe transport has caused girls, generally from the poorest families, to drop out of night school. In Kingston, Jamaica, schools in neighborhoods riddled with gang violence close early when levels of tension are high—so that children do not get caught in crossfire—and sometimes do not open at all.

Violence erodes social capital² when it reduces trust and cooperation among community-level social organizations. In Guayaquil, Ecuador, the rising number of burglaries has eroded long-held reciprocal trust relationships among neighbors and community members. In Kingston and in other cities in Jamaica, gang war severely restricts mobility for social interaction, eroding space for community association. In many areas dance halls, youth clubs, and sports facilities—all important social institutions for building trust and social cohesion among young people—no longer function because of high levels of violence.

In Metro Manila, Philippines, escalating crime and violence reduces participation in community-based organizations and increases isolation as people become reluctant to leave their homes at night. In political contexts, such as Guayaquil, Ecuador, where community-based organizations play a critical role in negotiating for improved services supplied by government agencies or nongovernmental organizations, the decline in “stocks” of social capital has negative implications for accessing and maintaining vital social and economic infrastructure.

Finally, and least visibly, violence erodes **household relations** as an asset,³ when it reduces the capacity of households to effectively function as a unit. In Budapest, Hungary, over a ten-year period marital conflict was the main cause of household restructuring among a small sample of poor urban households—more important than other routine reasons such as birth, death, marriage, and child care needs. As in many other cities, women identified a direct link between declining male earnings and increased domestic violence, often as a result of increased alcohol and drug abuse. While separation reduces violence, it means households have fewer assets to call on.

Innovative interventions to reduce urban violence: The World Bank's contribution

Traditionally responses to violence occur after the event—with the offender punished. The criminal justice system only acts if an event is reported to or observed by the police. An arrest is made and the arrested person tried, convicted, and punished. Initiatives to strengthen institutions punishing or redressing violence—such as judicial and procedural reform, reducing police corruption, and making police stations more sensitive to the needs of victims (especially in rape and domestic violence cases)—are all critical. More generally, judicial reform is a bedrock for reducing violence and promoting an enabling environment, especially in countries currently involved in democratization processes or ending civil war (see Box 4).

Overall levels of violence that now make traditional strategies largely ineffective have resulted in a recognition that the criminal-justice response is not enough to solve the problem. Thus the focus has broadened from the punishment of violent offenders to include a greater understanding of the structural causes of increasing levels of violence, and the implementation of comprehensive strategies to reduce and prevent violence. Preventing violent events

BOX 4

Promoting Legal Reform

A World Bank-supported Conference on Judicial Reform in Latin America and the Caribbean held in June 1994 promoted an exchange of views among researchers, practitioners, and government officials in the area of judicial reform.

It concluded that sustainable development is predicated on a judiciary that can enforce the rule of law—with many systems plagued by case delays and backlogs—and recommended strategies to improve the administration of justice, including access to justice and alternative dispute-resolution mechanisms.

Source: Rowat, Malik, and Dakolias (eds.) (1995).

before they happen requires cross-sectoral interventions to reduce a variety of risks. They also include changing perceptions about responsibility and, through the introduction of more participatory interventions, an increasing recognition that safety and security are everybody’s “business”—rather than just the government’s. The challenges are enormous, particularly given the alarming growth in drug-related violence.

Four areas for potential intervention include the following:

Making neighborhoods safer: Linking violence reduction to improving infrastructure

Community-based interventions to assist making neighborhoods better places to live can reduce levels of crime and improve the sense of well-being. Frequent or constant exposure to graffiti, drugs, dilapidated areas, and other negative features of the urban scene can exacerbate insecurity and increase a sense of frustration. The maintenance of public lighting, for instance, can dramatically affect levels of mobility, while the repair of public telephones can increase the capacity to report crimes. Improved layouts of streets can reduce through-traffic and increase community solidarity. In rapidly expanding cities where the priority is the provision of new services, many older poor areas are in desperate need of rehabilitation—as well as requiring additional services not provided during earlier periods.

The level of insecurity in such areas means that projects to improve conditions—upgrading housing, repairing walkways and drainage—will succeed only if local com-

munities are sufficiently organized to guarantee safety for project staff and to ensure sustainability of interventions. In the World Bank-financed Water and Sanitation project in Brazil (PROSANEAR) community organizations in a number of poor urban areas successfully negotiated with narco-traffic leaders to allow project staff to work collaboratively with the local population to introduce an innovative condominal sewerage system.

Rebuilding "stocks" of social capital to prevent or reduce levels of urban violence

In contexts with very high levels of urban violence, projects designed with specific components to assist in rebuilding social capital may provide critical entry points to break existing cycles of violence and poverty. Two ongoing World Bank-funded initiatives are currently tackling this.

The *Jamaican Social Fund* subproject menu includes programs offering services in career guidance and job placement—to reduce unemployment—but also those in counseling (including conflict resolution and drug abuse) and parenting and family-life education. This is a direct response to community prioritization of social assistance, identified in a participatory study of poverty and violence, calling for interventions to end violence over and above economic and social infrastructure projects. The *Colombia: Targeting At-Risk Youth* study, currently under discussion with the Colombian government, justifies investments in at-risk youth because of the socioeconomic costs of delinquency and violence, and recommends integrated programs aimed not only at youth problems before the onset of violent behavior, but also rebuilding social capital and preventing violence.

Improving women's long-term alternatives to violent relationships through access to microenterprise credit and child care

A number of projects indirectly assist women to avoid violent relationships by providing them with greater economic security. Both the Bolivia and Colombia community-based child care programs offer women greater possibilities of generating an income. In projects throughout the world, small-scale credit components that specifically target female borrowers can also assist them indirectly to reduce domestic violence associated with economic dependency. CGAP will undoubtedly help tremendously in spreading best practice in this field.

Strengthening local government capacity to measure, monitor, and reduce urban violence

Municipalities carry the major responsibility for maintaining order and security. Programs to strengthen this capacity can radically reduce levels of violence. In Cali, Colombia, the municipal government's DESEPAZ Program (Development, Security, and Peace) has dramatically affected homicide levels in the city. Initiated by Mayor Rodrigo Guerrero, this comprehensive cross-sector program with a high level of community participation includes key violence data-collection for resource allocations and the promulgation of risk-factor reduction regulations, social development initiatives in high-risk areas, and the promotion of citizens' rights.

Notes

1. See Moser, 1996.

2. Social capital is identified as the networks, norms, and trust that facilitate mutually beneficial cooperation in a community. These reciprocal exchanges exist between families and households, but also extend to community-level social institutions—such as women's groups, sports clubs, and dance halls—and to more formal institutions, including churches and political parties. Such institutions can be horizontal or hierarchical in structure. Empirically it has been shown that the greater the collaboration of horizontally based social institutions at the community level, the higher the "stocks" of social capital (Putnam, 1993).

3. Although rarely considered an asset, household relations play an important role in reducing vulnerability. For instance, household composition and structure, as well as the cohesion of family members, can determine the household's ability to mobilize additional labor or to implement mechanisms for pooling income and sharing consumption.

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Comment

MAURICIO RUBIO

FIRST, I'D LIKE TO UNDERLINE SOMETHING COMMON TO THE TWO PRESENTATIONS. THEN I'D like to deal with something I think is relevant in discussing both papers. And then I will elaborate on what I believe can be said in terms of violence diagnostics.

What is common in these two papers is their emphasis on the consequences of the phenomenon instead of just studying the causes. I think this is an important change especially in the area of poverty. The relation between poverty and violence has a long tradition in Latin America, and studies showing the poor as criminal have given rise to showing the poor as victim. Juan Luis' conclusion—that violence is related to the incidence of mental problems, drug abuse, lack of educational progress, and lack of social capital—is similar to what criminologists used to say in Colombia in the 1930s. However, poverty has changed. Although the results for society are the same, it does not mean only a material poverty, but a spiritual poverty. That is, delinquents are not rational, and they act because of some circumstances and are not responsible for their acts.

There's an inconsistency from the economic viewpoint. Delinquents who make decisions are partially rational, so they say, so I'm not fully satisfied with this notion presented by Juan Luis. As far as Caroline's paper is concerned, I would like to underline her emphasis on how violence causes a deterioration in social and human capital. This is totally different from works I've read that have originated in North America, where it is said that the cause of violence is deficiencies in social capital. I think that for Latin America we have to see how violence deteriorates assets.

And the other thing I'd like to point out that has not been mentioned here is the gender difference references. In spite of the fact that participation rates in schooling or labor markets tend to be similar, and in spite of the fact that there has been a change in weapons technology, violence is still a male problem. If you speculate—and this is simple speculation—you could say that their patterns of socialization are different, or the awareness that there are

problems is different, and this could help us analyze the machismo problem. The thing I'd like to add, and this is just to supplement the works by Juan Luis and Caroline, has to do with Colombia. The case of Colombia is the extreme case in Latin America, but I think that we could take the worst-case scenario of what can happen when it isn't controlled in due time.

There are three elements I think are relevant that are barely mentioned in the two presentations: organized crime, the weak operation of the justice institutions, and the higher incidence of private justice mechanisms. Concerning organized crime, there is a consensus among economists who have studied it that there is a close relationship between violence, organized crime, and the institutional characteristics of the society where mafias emerge. Organized crime, we can say, is a role model for people in Latin America. It attracts poor young men to a whole range of criminal activities that are economically profitable. Orga-

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nized crime hires many young men, and it also perverts—and this is not a question of deterioration—but it perverts in the sense that it reorients social capital.

Second, propagation of violence among social groups generates a whole series of criminal activities—for example, kidnapping, terrorism, bank robbery, theft of cars, etcetera. They are based on violence, which is easy to see. So, I want to underscore the fact that even though violence is very costly, at the same time it can be quite profitable as a mechanism of transfer and conflict resolution. The violent agent has the possibility of acting in markets and solving conflicts. This profitability of violence becomes a *modus vivendi*, especially when it is accepted by friends, family, etcetera. There is evidence in Colombia that as soon as young criminals take the money home, their families no longer consider them as rejects, but instead support these young men in their criminal activities. So the message organized crime sends is that it is profitable to be violent, and that message is slowly assimilated by young people in society.

The next matter to discuss is the operation of the penal system. In Colombia, the fact that justice doesn't work is quite an old idea. At present we can give you the following data: The penal system in Colombia investigates only one out of three homicides. It does not know the circumstances of about 80 percent of violent deaths. It releases more than 80 percent of criminals. It judges or tries only 6 percent of cases, and only 4 percent of homicides are finally sentenced, meaning that 96 percent of homicides are not punished. Moreover, for the few who are, the punishment for homicide in Colombia is only around six months in prison, which is quite low by international standards. So regardless of the complexity and multiplicity of causes of these phenomena, to deny the fact that a penal system with these characteristics is responsible for homicides would be too daring.

What happens when the justice system is not working? Then there is what we can call state liabilities. All sorts of private violent groups—the guerrillas, the paramilitary, the militias, not to mention street crime and more informal types of crime—mete out their own justice. I would say that in Colombia the main source of penal justice is the guerrillas. Present estimates talk about 60 percent of municipalities that have an active guerrilla presence. The guerrilla members recognize their function of administering justice, and people who have studied the justice system say that the strategy of guerrilla's expansion, the fact that the municipal-

ity has high rates of criminality, favors the guerrillas coming to that municipality to administer justice.

The second agent of private justice would be the paramilitary groups that have emerged to protect rural people from the guerrillas. In some places where there are no guerrillas or paramilitaries—Medellín, Bogotá, and basically in lower-class neighborhoods in the wealthiest urban centers—the response on the part of communities to the lack of security and penal justice promotes the hiring of their own agents to clean the neighborhoods and to administer justice. There are three things to point out about these groups: First, they have the support of the community. Second, their existence generates problems of competition and legitimacy with the legal system of justice. And third, these groups may be responsible for future violence. Normally, as happens with the paramilitary and guerrilla groups, as soon as they realize the power they have, they just expand their scope of activities.

At the level of recommendations, what can we say? I would say that violence in the next years will be the main alibi for most state agencies to ask for more resources. It can be combined with any activity of the public sector—violence and education, violence and public health, violence and the environment, violence and infrastructure, etcetera. So I think that if we don't handle it carefully, there will be a great gap in controlling violence on the part of public institutions. I would be very careful, and I would say that we have to make progress in the diagnosis of the phenomenon, such as has been done in Cali and Medellín, and Bogotá. I think that we have to continue to let these figures be known—the number of homicides and killings.

Concerning measurements of the effects of violence, I would say that there are three interesting things to study. First is the negative effect of violence on the educational system. It seems that the educational system has not been sufficient to stop violence. What we know is that violence has come into the educational system, and there are rumors about violent methods and threats inside the educational system from students to teachers, from teachers to students, from parents to students. There is a lot of violence in the educational system, and I think that has to be studied.

The second question I think is interesting is the effect of violence on the justice system itself. In Colombia, even though you can say that the poorer the justice system, the higher the violence, that has to be taken into account. We have a history of assassinations and killed judges, and this

is not accidental. The paralysis of the penal system may be a result of organized crime. Italians who know about this say that one of the main actions of organized crime is to paralyze justice institutions.

And the third area is the project that we are trying to promote at the Universidad de los Andes: to measure the tangible and intangible costs of violence. By using a methodology that has been relatively well developed by environmental economists who evaluate the public assets, you can actually say that violence is an environmental problem, a public evil that households have to consume because it is too costly to prevent. So environmental economists have developed methods that have been proved that I think could be applied to the area of violence. An area that in my opinion fulfills two purposes is the strengthening of the state's capacity to investigate homicides. If we do not know what the circumstances are in the case of homicides, we will not be able to know what is happening. I have done some statistics, calculations that say this is the relation between the violence and the presence of the guerrillas. These are data about the functioning of the penal system, and this is an indicator of investigation capacity, the number of penal investigations per homicides. I'm not talking about sentences or arresting or capturing the criminals, but the causes of how those homicides have taken place. In the 1960s, for each claim there were about 1.5 investigations. At present, only one-third of homicides are investigated.

A methodological recommendation is that in the area of violence we should not limit ourselves to the idea that any allocation of public resources should be substantiated by a "what-if" and recommendations. If we only use the figures, we can move to the most relevant part. And I'd like to mention an incident that happened in the mid-1980s in the northeastern community of Medellín. Basically, this was a popular neighborhood that had been attacked by a gang, and the community hired a hit man to clean the neighborhood. That hit man was financed and supported by the community, did his job, and when he killed the leader of the gang, he was caught by the police and he was tried. So the neighbors were outraged. They did not under-

stand the logic of justice. They were going to imprison the one who had released them from the gang. They said that he was a very good boy, and now was he going to be imprisoned. From this story we can derive two things that had never been supported by statistics because it is very difficult to get information about: First, communities, even if they are very poor, need justice and security, and they are not willing to live without it. Second, the state cannot delegate that responsibility, because if it does, that generates violence. So you might even say that for many Colombian communities, before an educator, psychiatrist, or social worker, they need a police agent and a judge.

A survey shows that 35 percent of Colombian households believe that the most important right is the right to life. I think this is a message in terms of priorities and public policies. Many Colombians, even poor Colombians, ask before anything else that the state protect their lives. In the survey, people were asked about the main problem in their neighborhood, and even though answers have to do with security, by regions, the perception of the security problem varies. One says it is the light system, others say it is the gangs, others say other things, so policies cannot be designed from the whole domestic perspective. I think communities have a very clear idea of their security problems, and they also have clear priorities, and communities have to be listened to as far as security is concerned. I don't share Caroline's or Juan Luis' optimism in saying that the state will reconstruct the social capital. I think that the state can deteriorate even more, and a great deal of that deterioration is due to the lack of state, of providing security and justice that affects trust negatively, and that is what deteriorates the social structure. The persuasive or deterrent role of education requires more elaboration, because in my opinion, and I have no sound basis, if we invest more in education, we still will not be able to control violence. The education system already has some deficiencies and deficits in violence. The challenge in terms of human capital policies is to compensate for the message that organized crime has sent to the whole society and to the poor young men—that illegality, violence, and corruption are beneficial.

Poverty Alleviation, Social Capital, and Caring: Views from an Active NGO: Mustard Seed Communities, Kingston, Jamaica

COLIN H. CHOLMONDELEY

MUSTARD SEED COMMUNITIES, A COMMUNITY DEVELOPMENT NONGOVERNMENTAL organization (NGO), was born in 1979 with caring as its primary reason for existence. It saw its mission as providing care for the most vulnerable and unwanted elements of its community. Mustard Seed also placed great emphasis on the need to become as self-sufficient as possible, while maintaining the integrity of its vision.

By the early 1990s the organization had become home for seventy-five children. Some have disabilities and some do not, but each has a powerful need to belong and to be a part of a family. Mustard Seed became that family.

By this time, Mustard Seed's activities had multiplied, become multifaceted, geographically dispersed, and complex. The organization had begun to outgrow its ability to rejuvenate and renew itself with its relatively informal organization and systems, and needed to take stock of its progress and make plans for its future effectiveness. This need was met in a January 1995 strategic planning retreat, which concluded that "the critical strategic issue which faces Mustard Seed Communities is how to refashion itself, after fifteen years, from a single-focus, caring, nongovernmental organization, into a multifaceted, self-sustaining community development dynamo capable of replicating itself."

Social capital formation

The World Bank has said, "Economic growth is fundamental to poverty reduction."¹

We suggest that the quantum of social capital in the target environment is even more fundamental to poverty reduction, and furthermore that what we describe as a caring environment is a prerequisite for the creation of social capital. The size of a community's storehouse of social capital appears to be directly related to both the existing degree of poverty and the capacity of the community to alleviate its condition of poverty.

We define social capital as a measure of the "wellness" of a community, where "wellness" describes the whole of the human experience in its search for fulfillment in a cooperative, participatory atmosphere of mutual respect, with a minimum of barriers to human interaction and development, and where preventive measures take precedence over curative approaches.

Our use of the word *caring* refers to "proactive and meaningful concern for the least among us in our communities, in ways that create acceptance rather than rejection and that make for the reality of belonging rather than being apart. The prevailing culture is one of interdependence rather than one in which one is dependent primarily upon one's own devices."

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Caring relates to people who are members of the human family, and an important consideration would be the most suitable spread of caring to ensure that its effect does not become too diffused.

We suggest that community is the most appropriate level of society and that community can be defined as a group of families who live in a contiguous physical space and who recognize some commonality of interest that could bind them together. The quantum of social capital to be found in particular communities is somehow related to the nature of these binding issues and the energy that members of the community, on average, invest in the "common good."

Mustard Seed's experience suggests the creation of a new paradigm for poverty alleviation and the achievement of sustainable growth by poor communities, and points to some of the ways in which an organization might successfully preserve the integrity of its vision in the face of massive growth in the size, complexity, and range of issues that become part of its ever-changing environment.

Apparent prerequisites for social capital formation

It seems that there are at least two broad phases that must exist prior to the beginning of the serious work of social capital formation. The first (extended) phase is internal to a community organization (appropriate NGO or CBO), and the second phase relates to conditions in the communities that are influenced in some ways by the internal dynamic of the organization.

During the first phase, there is a need for a focus on caring which is single-minded enough to cause caring to permeate throughout the internal environment of the particular organization. In effect, the criterion of caring needs to be applied to some critical mass of elements of the organization so that a degree of internal credibility and cohesiveness between its philosophy and the ways it has chosen to express itself as an organization exists and is manifest. The quality of caring seems to be important and directly related to the issue of credibility.

The first phase should succeed in imparting to an organization a sufficient degree of maturity and credibility to encourage the surrounding community to buy into caring as a basic element in its dealings with its environment.

The second phase begins with a movement toward some kind of equilibrium between the internal (the organization) and external (the community) caring environments.

A focus on caring

Caring can be a uniquely effective method of intervention in a community because of its universality and relevance to the human condition. In every human situation a need for caring can be found. As a concept it can even attract those who are willing to exploit the caring of others while it beckons their involvement.

Mustard Seed's approach

Mustard Seed's approach began with caring and was quickly extended to include an emphasis on self-sufficiency and the need to test the integrity of the concept. The actual means through which caring found expression were broadened and deepened and extended through the years, and they have come to mean things such as a larger children's home, multiple homes, caring for children with mental disabilities, low-cost housing, and health promotion as a means of enhancing the community-development capacities of the organization. Attempts were even made to extend a caring yardstick to the kinds of economic projects that were selected, such as the Poor Man's Building Society for children and adult savers and borrowers, soup kitchens, and prayer clubs.

The challenge to be faced is the need to duplicate Mustard Seed's experience in a fraction of the time it took for the organization to arrive at this point.

Note

1. World Bank Report No. 15342 LAC, *Poverty Reduction and Human Resource Development in the Caribbean*, in Executive Summary, point ix.

Epidemiology of Violence in the Americas: The Case of Colombia

RODRIGO GUERRERO

CONTRARY TO POPULAR BELIEF, EPIDEMIOLOGY IS NOT JUST THE SCIENCE THAT STUDIES infectious diseases that occur more or less suddenly among populations. Epidemiology is a part of medicine dedicated to studying the causes of disease. Although it focused during its early stages on diseases produced by infectious agents, it was later applied to diseases produced by chemical agents or the environment and more recently to causes that are social in nature.¹

Like any other science, epidemiology has a set of rules and laws that amount to what in other fields is called a theoretical framework. I want to very briefly review some of the postulates of epidemiology, to see how they can be applied in the case of violence.

Theoretical framework of epidemiology

Epidemiology places great emphasis on observation and for this reason concerns itself with verifying and, when applicable, improving the quality of data, since they are the basis of all inferences on causality. Epidemiology is a science directed toward action and is practical by nature. After careful observation, the British anesthetist, John Snow, who is considered the father of epidemiology, found that a fountain of water from the Thames River was associated with high rates of cholera infection. The story has it that at the start of one of London's many epidemics, he went to the suspicious pump and ripped off its coupling to keep people from using it and thus controlled the epidemic. What is most noteworthy about this experiment is that Snow conducted it many years before the bacterial theory of disease became known, at a time when many believed that disease was transmitted through smells or miasmas!

For purposes of studying violence, perhaps the most important contribution of epidemiology is its concept of *cause and causality*. First, causality is always interpreted in terms of probability. This means that for a specific factor to be considered a cause, it is enough for its presence to

increase disease (or decrease it, if the factor is inhibitory). In the absence of a factor that is considered causal, the disease may continue to occur, since there are usually other factors that produce the same effect or a very similar effect. This characteristic, called multicausality, is especially applicable in the case of violence, where a variety of factors produce a very similar effect; for this reason we should speak not of *a cause* but rather of *the factors* that produce it.

The larger the number of factors occurring simultaneously, the greater the probability that the disease or the effect will be produced. To understand this concept better, let's take the example of tuberculosis. There is a factor called *bacillus tuberculosis*, which characterizes the disease; however, its presence alone does *not* guarantee that the disease will occur.

In reality, just a few of the many people who are exposed to the bacillus actually develop the disease. In addition to exposure to the bacillus, other factors such as a deficient immune system, malnutrition, and overcrowding must also be present for tuberculosis to develop. Epidemiology calls these risk factors. Their importance from a practical point of view is based on the fact that the

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amount of disease can be altered by altering the factors, even when exposure to the bacillus continues to occur. In other words, tuberculosis can be decreased by eliminating exposure to the bacillus (something that is quite difficult in many cases), by improving the immune status of the population, or by improving nutrition and decreasing overcrowding.

Applying this concept to the case of violence, we could say that there is a basic factor, aggression, that characterizes violence, and that there are also other risk factors that allow or help aggression to become apparent or produce more harmful effects. We have recently begun to learn a lot about aggression. The anatomical sites where it resides have been identified, and we are beginning to learn about the nature of the chemical mediators, or neurotransmitters, that allow its expression. Unfortunately, at present this knowledge has not yet had practical consequences, and in controlling violence we can only work with its risk factors. We shall discuss later some of the most important factors in the case of the Americas.

Definition of violence and its importance in the Americas

Violence is a term that is used to mean a wide variety of situations, leading to much controversy and confusion. Violence can be classified according to the person who is subjected to it—such as children, women, or the elderly. It can be classified according to the nature of the violence—psychological, sexual, etcetera. It can also be classified accord-

ing to motive—political or racial—or according to where it happens, such as domestic or work related.

For purposes of this work, we shall call violence the use of, or the threat of using, physical force with the intent of doing harm to others or oneself.² It should be noted that although this definition has many advantages, it also has many limitations. It obviously excludes other very frequent forms of violence, such as psychological violence, and it also excludes cases where physical force is used without the intent to produce injury, as in accidents.

Homicides and suicides are the extreme manifestations of the above definition, and because there are relatively reliable data available, these rates are used as indicators of violence. However, it should be kept in mind that they account for a small part of violence as a whole and exclude injuries and other forms of violence that are much more frequent.

It can generally be said that homicide rates have been increasing in most of the Americas since the 1980s, as can be seen in Table 1. Similarly, we can see that the average rate is about 20 homicides per 100,000 inhabitants, which makes the region the most violent region on earth. There is great variation among the subregions and countries in the Americas, as can be seen in Table 1. It is worth emphasizing the extraordinary variation among Colombian cities, ranging from a rate close to 400 per 100,000 reported for Medellín to a rate of 16 per 100,000 reported for Cartagena. In this respect we should ask ourselves what factors account for these differences within a single country with the same legal system and similar economic conditions.

TABLE 1
Homicide and motor vehicle accident rate (per 100,000) for the Americas*

	HOMICIDE		MOTOR VEHICLE ACCIDENTS	
	1980	1991	1980	1991
The Americas	11.4	16.6	19.4	15.8
North America**	9.8	9.7	22.7	16.4
Latin America and the Caribbean	12.5	21.3	17.0	15.5
Latin America	12.8	21.4	17.1	15.6
Mexico	18.1	19.6	22.8	16.5
Central America	35.6	27.6	15.1	13.5
Latin Caribbean	5.1	8.8	13.2	14.7
Brazil	11.5	19.0	16.4	19.1
Andean Countries	12.1	39.5	18.3	13.2
Southern Cone	3.5	4.2	9.5	9.2
Caribbean	3.1	3.5	10.2	7.6

Notes: * Haiti and Bolivia are not included.

** Within North America, the different homicide rates for Canada (2.6/100,000) and the United States (10.1/100,000) should be emphasized.

Sources: *Health Situation in the Americas: 1995 Basic Indicators*. PAHO, with respect to recorded mortality. *World Population Prospects, 1994 Revision*, United Nations, with respect to population data.

There has been an evolution of rates for different components of deaths by external cause, what we generally call violent deaths. The rates for all causes have been decreasing; only the homicide rates have risen during the period. Similarly, we should also point out that the increase in homicides began around the 1980s, when they also began to rise in Colombia. Thus we can say that it is a relatively recent phenomenon.

Epidemiological analysis of violence in Colombia

With respect to homicide rates in Colombia from 1938 to 1993, two important observations can be made. First, the rates form a bimodal distribution, with an initial rise, or mode, at about the 1960s, and then a second, more abrupt rise of greater magnitude, which shows no signs of diminishing as yet, that began in the mid-1980s. Second, the lowest point is about 20/100,000, a rate that would be considered "epidemic" in many of the world's countries. In other words, the lowest frequency of homicides observed during the period in question would be alarmingly high in other parts of the world.

Given such a varied distribution as we have noted, epidemiology concludes that there are various causes producing it. As a hypothesis we can suggest that the high base level can be explained by the establishment in Colombia of a culture of violent response to conflict.³ Colombia has a very long history of civil wars and a very old trajectory of guerrilla movements, which may have been establishing in the society a tendency to resolve conflicts by force and not through dialogue and consensus.

The first rise corresponds to the phenomenon called "the political violence," culminating with the National Front. The second rise corresponds to the current violence, and we shall attempt to analyze its factors below. The hypothesis that seeks to explain this latest epidemic increase on the basis of increasing urbanization is not supported by the data. The largest urban concentration in Colombia, Bogotá, has a lower rate than the cities of Medellín and Cali. Intermediate cities such as Manizales, Cucuta, and Bucaramanga have rates of about 100, while small cities such as El Dovio, El Aguila, and Toro in the Cauca Valley are at about 300 homicides per 100,000 inhabitants. Beyond all consideration and calling for some other explanation is the rate of 900/100,000 reported for Apartado.

Increased poverty is another of the explanatory hypotheses for violence that is argued with some frequency. However, the available data do not seem to explain this increase

either. Poverty in Colombia from 1973 to 1993, measured either according to basic unmet needs or by income, has been decreasing.⁴ The work of J. L. Londoño, presented at this meeting, could not find a correlation between poverty and homicides either. Nor does the poverty hypothesis relate to the comparison of per capita income levels and rates of violence in the different regions of Colombia, where we see that the poorest regions are not the most violent. Other explanatory hypotheses such as the proliferation of firearms or the consumption of alcohol, both well-known risk factors for violence, also do not seem to have increased so dramatically in recent years. The hypothesis that Colombians are violent by nature, that is, for genetic reasons, could explain the high base level (even though the cultural hypothesis fits better), but it could in no way explain such a rapid change as that observed since 1980.

The most noticeable change in Colombian society occurring over the past fifteen years is the appearance of drug traffic as a phenomenon of great importance in all spheres of national life, and perhaps because of this, it should be considered as an explanatory hypothesis for the increased violence. However, it should be made clear that many studies and observations are needed before we can accept this explanation as valid, and we must recall the observation made at the outset regarding the multicausality of violence.

Risk factors for violence

Based on the data provided by the DESEPAZ Program of the Mayor's Office of Cali and by the Colombian Legal Medicine and Forensic Science Institute (ICMLCF), we shall try to describe some of the risk factors for urban violence in Colombia and to formulate a hypothesis that can explain what has happened. We must stress that the inferences that can be drawn from the data for Cali, Medellín, and Colombia are not necessarily applicable to other cities and countries, even within the Americas. Each specific situation must have its own particular and different mix of risk factors, even though many of them may be shared by most situations.

The data from DESEPAZ⁵ indicate that 56 percent of homicides occur during the three days of the weekend, and a quarter of them occur on Sunday. Similarly, we see a disproportionate increase on special sports holidays, Mother's Day, during Christmastime, on New Year's, etcetera. This behavior, together with the observation that most homicides occur at night, immediately suggests an association

with alcohol consumption, which is known to be a risk factor in other latitudes.⁶ Londoño⁷ found a significant correlation between the incidence of alcoholism and the rates of homicide in various regions of the world. According to the Cali autopsy study mentioned in the work cited, 25 percent of the victims were intoxicated with alcohol. Similar results, although with a higher proportion of intoxication in the victims, have been reported for Medellín⁸ and for Colombia as a whole.⁹ It is clear, then, that the consumption of alcohol as a risk factor is present in Colombia, although it may not be sufficient to explain the increase noted in recent years. Measures such as restricted alcohol sales in public areas and semidry laws, have demonstrated a beneficial effect in Cali and more recently in Bogotá.¹⁰

Studies elsewhere have made it possible to identify the proliferation of firearms as a risk factor, especially to the extent that they make aggression more lethal, and such studies thus recommend restrictions on selling and bearing firearms.¹¹ According to the ICMLCF for 1994, 80 percent of the homicides in Colombia involved firearms. Identical figures are shown for Cali and Medellín. A report by the Metropolitan Police of Bogotá shows that 31.3 percent of the weapons seized in the commission of crimes had been sold by Industria Militar de Armamento, INDUMIL, and that 20 percent of them were backed by a legal permit.¹² According to the data from the Mayor's Office of Bogotá, in 1994 156,283 permits were issued to bear or own firearms in that city. If to this figure we add sharp weapons and illegal firearms, we can easily deduce that this city has an extraordinary proliferation of lethal instruments of aggression.¹³ A recent evaluation of the disarmament policy implemented in Cali during 1994 showed a significant reduction in homicides involving firearms during the weekends when the policy was applied,¹⁴ and studies elsewhere similarly indicate that control of the bearing of firearms helps to reduce homicidal violence.

Another risk factor is impunity and the citizen's perception of limited functioning of the judicial system, leading to people who take justice into their own hands and to the perpetuation of violence. The data from DESEPAZ in 1983 indicated that it was possible to identify the aggressor in only 6 percent of the homicides in Cali. Data from Bogotá and Medellín showed similar results. If we bear in mind that only a small portion of those aggressors identified will ultimately be punished, we can see that the very low probability of punishment can stimulate aggressive behavior.

Other risk factors may be operating in Colombia, although they have not been studied in detail. For example, for the American Psychological Association there is no doubt that coverage of violence in the media can stimulate violent behavior, particularly among youth.¹⁵ The unusual coverage given by the media to the multiple acts of violence in Colombia may be helping to stimulate the phenomenon of violence. It is worth stressing again that coverage of violence in the media is one more risk factor, the effect of which is added to those mentioned above. The development of a culture of violent response to conflict, as opposed to a culture of negotiated and peaceful resolution, as already mentioned, may also be operating as a risk factor in Colombia. In this respect, it is worth mentioning a multicentric study sponsored by the Pan American Health Organization, which is also being carried out in several countries in the region, to learn about Colombian attitudes toward the various types of violent behavior.

Most homicides in Colombia occur in medium or large-sized cities and do not appear to be linked to acts of terrorism or guerrilla activities, although they do receive a lot of media coverage. Nor do most homicides appear to be linked to the political process, although this type of violence does exist and its magnitude is underestimated by the available statistics. However, there is no doubt in the Colombia case that guerrilla activities and paramilitary groups do constitute additional risk factors.

Homicides primarily affect young men between the ages of 15 and 24, with a ratio of 13 men for each woman, according to the data from the Legal Medicine Institute, as cited above. The analysis of the place of residence of homicide victims in Cali shows higher mortality for the I and II Strata, which are the lowest strata. Thus we can say that this violence affects male youth residing in urban centers and coming from low socioeconomic strata. Even though the information available on the aggressors is very limited, what little data we have seems to indicate that the aggressors have the same demographic characteristics as the victims. This means that they are young men from low socioeconomic strata.¹⁶

Conclusions and discussion

It is possible to conclude from the above observations that the current violence in Colombia is a complex phenomenon, where various risk factors are interconnected and reinforce each other. The analysis of the scenarios where this

recent Colombian violence occurs and their form brings to mind social unrest more than it does premeditated vengeful acts, settling of scores among drug lords, or execution of terrorist plans, even though there is no doubt whatsoever that these do exist.

It is here that the presence of drug traffic appears as an important explanatory factor not only because of the direct contribution it makes in the violent resolution of its own conflicts, but basically because it indirectly affects the other risk factors. Corruption of the police and the judicial system, as a result of drug traffic, has no doubt contributed to increasing impunity, bringing it to current levels. Arms traffic, which is frequently very sophisticated, is another contribution of drug traffic, as is the establishment of a culture where claims are resolved through intimidation and force. We do not know the extent of the influence of drugs used by victims or aggressors, even though there is anecdotal evidence that, like alcohol, they may be involved.

How do we explain the impact on youth from a low socioeconomic level? One hypothesis, derived from Cali's DESEPAZ program, is that young people, who are prevented from entering schools and colleges because of the school system's lack of capacity, and who are incapable of entering the competitive and narrow labor market due to a lack of education, find that the retail distribution and sale of drugs is very attractive and easy employment for them and their families. Once they are in the business, violence is a necessary part of surviving in it. There is evidence that both drug traffickers and guerrilla movements seek to use young people from the cities and recruit their soldiers from among them.

What should be done? I think that the first thing to do is to learn about the problem and accept it as a fact. For example, it is paradoxical that AIDS, with an incidence that is ten times lower in terms of mortality, receives so much attention and coverage from health authorities and the government, while violence has not been the subject of similar interest. The systematic and detailed study of the various risk factors in operation is a fundamental requirement for solving the problem.

It is clear from the analysis that there is no single, simple solution for solving this complex problem. What is needed is action on those risk factors that can be manipulated. When dealing with complex social and cultural problems, a rapid response is not likely, and we must be prepared for the medium and long terms during which we must continue to work.

Improvements in the justice system and the police are fundamental components of the solution, but they should not and cannot become the only mechanism for response. A recent analysis suggests that the traditional repressive and punitive mechanisms become inadequate when the levels of violence and homicide surpass a specific level.¹⁷ Colombia and most of the countries of Latin America seem to have passed this threshold some time ago.

But, above all, we must give violence the importance and political priority it deserves and ensure that governments are committed to controlling it. Only in this way will it be possible to mobilize the resources and will of all citizens, a requirement without which it is impossible to resolve the problem.

Notes

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Panel Discussion

Juan Luis Londoño, Moderator: First, I would like to organize the panel's answers around three important areas. Second, the explanations. As you have noted in the presentations, there are different levels of emphasis on the probable explanations of the problems of violence and development. Rodrigo has tried to say that everything depends on where the problem occurs. This is one of the topics I would like to touch on in the discussion: to what point can such a complex problem withstand simple or general explanations over a period of time and to what point do different phenomena play an important role in each. Third, I would like to concentrate on the areas under discussion. The problem is a very complex one. Colombia is a country that has presented more dramatic measures than any other country. But the problem has increased in those countries where narcotraffic hasn't yet commenced. Rodrigo said in *El Tiempo* that there is an awareness of when a general problem commences, which can be closely related to his comment about communication.

I would like to go from left to right Rodrigo, beginning with the widespread topics, already proposed questions, and the comments—Mauricio and of course Caroline—concentrating on the topic of social capital. Rodrigo.

Rodrigo Guerrero: First, I'm going to respond to some of the uncertainties related to the topic I presented. The example I chose is San Pablo because it is the Latin American city that perhaps has the best data.

It is well known worldwide that ease of communication is a risk factor. What does this mean? Communication is not the cause of violence. Rather, it is a risk factor. In

other words, there is a percentage of people—perhaps 10 percent—who, when exposed to violence on television, behave more violently. This is sufficient to convert the means into a risk factor. What is important when a risk factor exists is how to incorporate, how to control this small or large contribution of the means. But there is no doubt about this.

Cultural factors. There isn't any doubt when we see the graph of Colombia—the high level of violence of twenty per thousand. The only explanation found is our unfortunate cultural tradition of violent solution to conflict. We have the longest existing bands of guerrillas in Latin America. According to tradition we have had the greatest number of civil wars among all Latin American countries. Thus, it seems that culturally we have become accustomed to solving our problems by using violence. This absurdly high level of violence in Colombia is explained by our culture. To explain it we are conducting a study, sponsored by the Pan American Health Organization, in eleven countries of the Americas. We are studying the activities and cultural norms of the different countries, and we are going to compare the countries with low violence rates, such as Costa Rica or Chile, with countries or regions with high violence rates. In Colombia, we are going to do this in five cities and see if these attitudes are related, which is very probable. They are risk factors.

Ethical and moral values and the role of the church. There is a hypothesis that Francisco de Rue has been developing. In the case of Colombia, the Catholic church was the regulator of the lay population, with the decalogue: you shall not kill, you shall not steal, you shall not desire your

neighbor's wife—a whole series of things that controlled the layman's life. With secularization and the loss of the influence of the Catholic church, we were left without behavioral standards. The assumption is that a lay behavioral code has to be developed to which the Catholic religion and other religions can contribute. But there is no doubt that this is another factor that has contributed to deterioration.

And finally, the most complicated and most difficult question: *the association of violence with poverty*. This is where I enter the realm of hypothesis, of interpretation. For me it is very clear that the poor are the victims of the great number of homicides in Colombian cities. They are young people with low incomes, low on the socioeconomic scale. The hypothesis I have is that they fall. First, they are unable to enter the schools because there are no places, and they can't get jobs, first because there aren't any jobs even if they were educated, and second because they aren't educated or qualified for a job. Thus, they are left out, but they need an income.

This is where the malevolent effect of narcotraffic offers an extraordinarily tempting alternative to obtain an easy income: selling drugs. Once young people start, they of necessity become violent because drugs require violent behavior to preserve their assets. The hypothesis, if it is correct, is that we want to program mediations with the young people in the cities that would help them obtain an income, especially in microenterprises.

One of the most interesting contributions Colombia can make to other countries to generate employment is its experience with microenterprise. We tried it with microenterprises for young people by offering the opportunity to all who have been left out. We offered them the opportunity to organize microenterprises and to be successful on a very modest level—so modest that perhaps it is best to call this program a hypothesis. But I believe this would be another risk factor. Working with this hypothesis doesn't mean we are going to eliminate violence, but we will reduce it, we will identify the factors, and we will control it.

New speaker: The work of Cuyama tries to relate two important elements to the production of social capital. They are trust and society's ability to adopt new ideas based on the known structure. Trust and the ability to adopt new ideas permit the production of enterprises

between family and state. When there is no trust, organizations and associations go to extremes—the family or the state. Then, there is the important question of what happens when trust is broken.

One of the elements that can break trust is insecurity, because if I'm afraid of being killed or robbed, I'm distrustful. Thus, the following vicious circle comes into existence. If there is no trust, society's ability to create intermediate organizations that in some way provide for public welfare lessens. This is a paradox. A state that can't protect life because there are no intermediate associations has to provide still more welfare that will function adequately. That is to say, when trust is broken, all of these intermediate associations, among which is private enterprise, end up providing public welfare. It is paradoxical that a state which doesn't provide basic public well-being, such as security, will receive demands from the community for a lot of public welfare. I think this is important for Colombia.

Janet Brown: I want to make several points. First, it is important for us to realize that we are not just talking about homicides. The vast majority of the evidence presented today is based on homicide, and that is only one extreme form of violence.

In the work we did in Jamaica, the Jamaican communities themselves identified nineteen different types of violence: political, drug, gang, economic, interpersonal, and domestic, and within those, very, very important sub-categories. This also raises the idea that if we are going to work on violence we have to understand what are the priorities of poor communities themselves in terms of violence. In Jamaica it was interpersonal violence which was perceived as the one that dominated and influenced their lives most, not homicides. And when I am talking about interpersonal violence, it is not within families. I am talking about what is going on between neighbors, what goes on in the streets. It is extremely important that we do not make generalizations. Homicide is only the tip of the iceberg. I think it is very country specific. I am honored to be surrounded by Colombians, but I think there are other agendas on violence that we also need to include.

Second, it is not just gender but also space that is so important, because although street violence may be male violence, violence inside the home is more frequently male-female violence. So I think there are enormously

important things that we need to bring in here on the issue of policy and solutions. I thought that Mauricio's comments about people wanting "derecho de vivir" as their priority in the communities in Jamaica said that their major priority was peace. Period. That was the only thing they wanted; they did not want anything repaired, rehabilitated, or done. They wanted peace. And what was very interesting and was related to the comments that were made here was that they themselves had extremely important priorities about how to do this, and they are related to such issues as parenting of teenagers.

One of the consequences of teenage pregnancies in all our societies is that kids much younger are now having children. And on the issue of parenting, parents want conflict resolution. They want to learn negotiating skills. I think that the important issue here is that communities know what the problems are if they want to be involved. Then, we have to have different methodologies. We cannot do statistical surveys. We need to actually work in communities in different ways. And we need to get communities involved.

A final comment relating to the issue of social capital. We have to be very cautious about how we use and how we define social capital, how we measure it, and what indicators are used. When Juan Luis showed me his papers, my first question was, what were your indicators? He uses intrahousehold indicators. In the work we have been doing in the Bank, we don't use intrahousehold indicators. So we really have a different debate going on about what we are measuring.

Twenty years ago we didn't even think that human capital was important. At this morning's presentation, human capital was right up there on the agenda. I think what is important about social capital is that many people who have long been working in communities—whether as activists, engineers, socialists, anthropologists—recognize that we are not talking about atomistic decisionmakers in society. They recognize that the relationships people have within communities are critical. I think what is really interesting about this debate is that whereas community collaboration used to be seen as the means to development, the whole debate about social capital questions whether it is also a determinant of development.

Finally, I would like to make three comments about the topic of social capital which is, in my opinion, the most important of the discussion. First, how can it be mea-

sured? What implications does it have? How can it be modified? Now a short comment about Sebastian, which is the following. In the questionnaire about mental health, 20,000 families were asked about the amount of trust they had in different environments. They were asked if they trusted their father, their mother, their family, and their neighbors; if they interacted with their neighbors; if they helped their neighbors when they needed help; if their neighbors helped them; and if they interacted with other groups. These are direct measurements of trust, aren't they? And if the translation is saying to measure social capital by the incidence of violence, the translation is erroneous. They are direct measurements of the people's perceptions of solidarity.

Second, the interesting part of the discussion has been that this topic of social capital can in reality be cause and consequence of violence. I think that Caroline has strongly emphasized that probably the decrease in social capital, the lack of trust, is the result of violence. For example, I have data here. In the questionnaire about mental health, the Colombian people are asked if when they see someone being robbed they try to help. Forty percent of the Colombians said they would help. Sixty percent said they wouldn't do anything. In a certain way, violence motivates nonsolidarity behavior, and this destroys the social control which makes the reduction of violence feasible.

The third point is about the implications. I have found that the topic of social capital has enormous implications for the topic of violence. I mentioned previously that it also has implications about the institutional and organizational structure of society. I have also found that the implications about people's lack of belief in themselves and in their future affects what economists always try to measure. Sebastian asked me why people are not willing to invest much more in education than what one believes would result in the optimum; why the markets of capitals of these societies in reality don't show greater development; and why, with the opening of societies that we are trying to help in Colombia, they don't function. Sometimes I ask myself if this lack of social capital, this lack of trust, doesn't in reality have multiple implications that economists are trying to find through econometric series and reduced forms. That is to say, social capital could have implications about violence and the masses.

And my last point. Mauricio speaks of the need for group actions because the problem of violence is in part a

problem of individual incentives and in part a problem of incentives to coordinate individual actions. He doesn't necessarily cite the action of the state. I agree with Mauricio. Perhaps the most perverse effort would be to try to impose a new responsibility on the state, to try to con-

struct what the state itself is destroying. We need to call attention to the need to generate intermediate instances of community organization and of people that would do what I believe the state is not able to do.

III. Rural Poverty

Rural Poverty in Latin America and the Caribbean

A L B E R T O V A L D É S

T O M W I E N S

ALL OF LATIN AMERICA AND THE CARIBBEAN (LAC) ASPIRES TO BALANCED, EQUITABLE, AND sustainable development with benefits that are widely shared. No country deliberately seeks a future in which civilization would consist of a handful of massive urban conglomerates surrounded by a degraded and depopulated or dangerous hinterland. Yet too often economic growth in LAC has been fostered at the expense of inequitable distribution of the means and the fruits of development between town and country and their respective inhabitants, along with lack of care for the natural resource base that is the ecological foundation of development. Only too late is it recognized that the social stability arising from balanced and equitable development makes an important contribution to economic growth led by the private sector. A strategy for alleviation of rural poverty and fostering rural economic growth must confront a history of neglect.

Because 70 percent of the population is urban overall and urban slums are so extensive, it is sometimes assumed that poverty in Latin America and the Caribbean is mainly an urban phenomenon. This is partly because four countries—Brazil, Mexico, Colombia, and Argentina—are large and relatively urbanized, dominating the regional statistics. Also, surprisingly little is known about the extent of rural poverty in LAC, because poverty assessments are incomplete or give little attention to the rural poor in their analyses. Urban poverty in LAC has been better studied and is better documented in surveys. However, some striking facts are known:

- In six countries the rural population still makes up more than half the national total.
- Because a much higher proportion of the rural population is poor, the majority of the poor is rural in at least twelve countries.
- In Colombia, where less than 42 percent of the population is rural, 74 percent of the poor live in rural areas.

In Brazil, with a population that is 26 percent rural, some 40 percent of the poverty is rural. In Venezuela, with a 16 percent rural population, 30 percent of the poor are rural. In Mexico, where 41 percent of the population are rural, 57 percent of the poor are rural.

- In all Latin American countries the majority of the poorest deciles, that is, of the extremely poor, are rural.

Based on recent poverty assessment reports, the World Bank's ongoing studies, and the existing literature, this paper highlights the nature and extent of rural poverty (including a comparison with urban poverty) and principal characteristics of poor rural households in various Latin America countries. It seeks to answer these questions: Who are the poor? What is their geographic locus and productive environment? What are their resources and the levels and sources of their income?

The succeeding section, based on preliminary analysis of recent samples of rural households in four countries in

LAC, summarizes some principal findings from an ongoing analysis of the determinants of rural household income, in search of insights into the question of how to reduce rural poverty. The analysis attempts to isolate the significance of such individual constraints as (a) human capital formation and labor market functioning, (b) land endowment, (c) access to technology delivery systems, (d) capital endowment, and (e) income from off-farm employment. Because hard data on several countries are still lacking, the findings remain somewhat speculative.

The fourth section gives a general overview of the economic policy framework and past government strategies and programs for dealing with agriculture in LAC, emphasizing that the rural poor have received very few benefits and that their condition has not changed markedly over the last two decades. The reasons for this failure are highlighted, along with the lessons that can be drawn from experience for better design of such programs.

The concluding section offers elements of a strategy for arresting rural poverty that is applicable to most countries in LAC. Justification is found for implementing a new strategy in the national economic interest, and the desire for social justice and stability. The goal is to raise the incomes of the rural poor where feasible, using instruments appropriate to each of three subgroups: those households which can be expected to become viable, modern smallholders (either full-time or part-time) if their constraints are addressed; those whose future opportunities lie mainly off-farm, either as agricultural laborers or entirely outside of farming, as wage laborers or entrepreneurs; and the remainder, whose hardship can be alleviated through transfers, though with little hope of escape from poverty. Differential treatment of the rural poor must be complemented by policy reforms designed to promote decentralized economic growth and favor job creation in the agricultural sector. The fragmentation of responsibilities in government for addressing rural poverty makes it unlikely that such a strategy could be implemented without a coordinative body at the top and a network to facilitate beneficiary control from below.

Rural poverty profile of the region

Better understanding of the nature of rural poverty is needed before something useful can be done to solve the problem. This requires solid data at the household and farm level, and for most of Latin America today there is a

substantial gap in our knowledge. This section presents an overview of rural poverty in Latin America based on a recent homogeneous set of data contained in World Bank reports, complemented by material from CEPAL and FLACSO. The most recent survey data used covers the years 1990–1994 for the rural sectors of Colombia, Chile, Honduras, and Paraguay. These samples represent well only some of the poorest areas (Honduras) and not the largest rural populations in Latin America. However, many generalities can also be made based on studies of the rural poor conducted over the last decade or more.

The urban-rural comparison

Overall, the statistical data available for LAC (up to 1990), suggest that urban poverty incidence increased from about 25 percent of urban households in 1980 to 34 percent in 1990, whereas rural poverty stayed much the same, at the much higher level of 53 to 54 percent of rural households¹ (with the poverty line set at twice the budget for minimum nutritional requirements of food). Severe poverty (a budget sufficient for minimum food subsistence alone) apparently climbed in both urban and rural areas, from 9 to 13 percent in urban areas and from 28 to 30 percent in rural areas. It is likely that rural poverty incidence stayed roughly constant only because so many of the poor migrated to urban areas, where they were absorbed into the informal sector.² That trend resulted overall in the urbanization of the poverty problem, so that by 1990, a majority of 59 percent of the poor in LAC (but only 48 percent of the extreme poor) were residing in urban areas.³

Despite this “urbanization” of the rural poverty problem, the higher prevalence and severity of poverty in the rural areas remains characteristic of LAC. In all countries for which information is available, more than half of the *extreme* poor live in rural areas (Table 1), and the proportion of the rural population that is extremely poor is higher than in urban areas. For example, in Mexico 16 percent of the rural population is extremely poor, compared with 2 percent of the urban population. If the average levels of living standards of rural and urban poor are compared, it also emerges that severity of poverty is much worse in rural areas. In Ecuador, for instance, the rural poor have a measure of severity three times larger than the urban poor. In Guyana, the poorest rural areas have almost ten times the figure for urban areas, and in Mexico, the severity index is more than double that in rural areas.

TABLE 1

Poverty in LAC: A Comparison Between Rural and Urban

COUNTRY	YEAR AND SOURCE OF DATA ¹	PROPORTION OF POPULATION IN POVERTY ²		PROPORTION OF EXTREME POOR LIVING IN RURAL AREAS	PROPORTION OF TOTAL POPULATION LIVING IN RURAL AREAS ³
		RURAL	URBAN		
Brazil ⁴	(90-WB)	32 (-)	11 (-)	52	25
	(90-Cepal)	- (56)	22 (39)		
Chile	(92-WB)	- (34)	- (33)	-	14
	(92-Cepal)	9 (29)	7 (27)		
	(92-CASEN)	10.6 (23.8)	8.6 (23.7)		
Colombia	(92-WB)	31 (65)	10 (36)	70	30
Ecuador	(90-WB)	22 (47)	10 (25)	60	44
El Salvador	(92-WB)	14 (56)	7 (43)	67	56
Guatemala	(89-WB)	72 (86)	34 (57)	72	61
Guyana	(93-WB)	- (50)	- (30)	84	67
Honduras	(92-WB)	42 (-)	15 (-)	78	56
	(92-Cepal)	59 (79)	38 (66)		
Jamaica ⁵	(89-WB)	- (41)	- (36)	-	48
Mexico	(92-WB)	16 (47)	2 (25)	84	27
	(92-Cepal)	20 (46)	7 (30)		
Nicaragua	(93-WB)	38 (77)	8 (31)	78	40
Paraguay ⁶	(90-WB)	8 (34)	4 (21)	85	52
Peru	(86-Cepal)	39 (64)	16 (45)	64	30
Trinidad and Tobago	(92-WB)	- (20)	- (24)	51	31
Venezuela	(93-IIES/VCV)	44 (78)	28 (64)	-	16

Notes: 1. The year refers to when the data used to calculate the figures on poverty was collected; the source is the organization which published these figures. Their references are cited in text.

2. The two figures reported are for: *extreme poor*, defined as households which cannot afford the minimum food requirement, and *poor (within parentheses)*, defined as households which cannot afford minimum food and non-food requirements.

3. Figures refer to 1990. *World Development Report*, 1992.

4. The figure for urban poverty does not include metropolitan areas. The percent of extreme poor in metropolitan areas is 12.6.

5. The figure for urban poverty does not include Kingston. The incidence of poverty in Kingston is 10 percent.

6. Poverty figure for urban refers to Asuncion only. Rural refers to eight small towns.

Education, health, and other services

The rural poor tend to be less educated (Table 2), have larger families, higher dependency ratios, and less access to services and worse health indicators (Table 3) than the non-poor. For example, illiteracy rates among those above 15 years of age are still extraordinarily high in several countries (e.g., Guatemala and Brazil). Overall, the percentage of illiteracy in rural areas is two to six times higher than in urban areas. A comparison of the average years of schooling indicates that in all countries the rural averages are around three years less than the average for urban areas. The same is true for the difference between the poor and non-poor in both rural and urban areas, with the non-poor having at least three more years of education than the poor. Once

schooling is desegregated between primary and secondary/higher education, it becomes clear that the difference is not so important at the primary level, where the poor and non-poor have approximately the same rates of completion (with the exception of Guatemala). However, the situation is completely different for secondary school. The low average rates of completion are even lower for rural poor. In Ecuador, for instance, 14 percent of the rural non-poor versus 5 percent of the rural poor finish high school; 12 percent of the rural population completes secondary education, while 32 percent of urban dwellers do so.

Thus, a very low proportion of the poor completes secondary education, particularly in rural areas. In addition to supply factors (availability and quality of schools), this may

TABLE 2

Education in Latin America: Rural vs. Urban¹

COUNTRY (YEAR OF DATA COLLECTION)		PROPORTION OF ILLITERATE POPULATION (ABOVE 15 YEARS OF AGE)	PROPORTION OF POPULATION WITH COMPLETED ²		AVERAGE YEARS OF SCHOOLING ³
			PRIMARY ONLY	SECONDARY ONLY	
Brazil (1990)	Rural	46	71 ¹	22 ¹	2.6+
	Urban	11	38 ¹	47 ¹	5.9+
Chile (1992)	Rural	15	—	—	6.2
	Urban	3	—	—	9.6
Colombia (1992)	Rural	—	—	—	3.9 [^]
	Urban	—	—	—	6.6 [^]
Ecuador (1990)	Rural	19*	63	12	4.4 [^]
	Urban	5*	39	32	8.7 [^]
El Salvador (1992)	Rural	27	—	—	—
	Urban	9	—	—	—
Guatemala (1990)	Rural	52*	—	—	1.7+
	Urban	21*	—	—	5.6+
Honduras (1992)	Rural	40	52 ¹	4 ¹	2.9+
	Urban	14	52 ¹	31 ¹	6.6+
Mexico (1992)	Rural	27	—	—	—
	Urban	9	—	—	—
Nicaragua (1993)	Rural	35	—	—	6 [^]
	Urban	10	—	—	2.4 [^]
Peru (1994)	Rural	28*	—	—	6.4+
	Urban	4*	—	—	9.9+

Notes: 1. Figures are extracted from World Bank Poverty Assessment Reports, with the exception of those with * which are from FLACSO, 1995 and refer to year 1990; and those with + which refer to 1989 and are taken from Psacharopoulos, 1993. Figures on average years of schooling for Chile are from WB report "Chile in Agriculture, 1994," and refer to year 1990.

2. Figures with ¹ refer to percent of people with complete and incomplete level of schooling. Notice that numbers for secondary education include people who finished primary level.

3. Figures refer to average years of schooling for family, except those figures with [^] which refer to head of household only.

also reflect demand factors: Where the children work on the farm or, indeed, as wage laborers, the opportunity cost of sending a teenager to school—not to mention school fees and living expenses, because secondary students often must be boarders in town—is considerably higher than in urban areas.

Comparable information on health provision and other services is scarce. However, one key health indicator (infant mortality, Table 3) shows not only that there are rates which are extremely high for middle-income developing countries, but also that the rates are considerably higher in rural than in urban areas for most countries (except Colombia, Paraguay, and Trinidad and Tobago). Similarly, access to electricity services is much higher in urban areas.

Sociocultural characteristics

There is a close coincidence between ethnicity and rural poverty. The indigenous population of Latin America,

between 19 and 34 million people, is found mainly in Bolivia, Ecuador, Guatemala, Mexico, and Peru. The great majority (around 80 percent, if the lower estimates of the total indigenous population are used) are poor, and over half are among the extreme poor. Indigenous or otherwise, the rural poor are usually either landless farm laborers in commercial farming areas or smallholders in areas of marginal productivity and low extent of commercialization. Often the men work principally off-farm as wage laborers. In the Ecuadorian Sierra, for example, female labor represented 68 percent of total family labor applied to farms of less than one hectare.⁴

Expenditure, income levels, and composition

In the World Bank's studies of poverty incidence, expenditure (adjusted for geographical differences in cost of living and inclusive of self-supplied consumption goods) is con-

TABLE 3

Selected Access to Services and Health Indicators in Latin America: Rural vs. Urban

COUNTRY	INFANT MORTALITY: NUMBER OF CHILDREN UNDER 5 YEARS AGE (PER THOUSAND)			ACCESS TO ELECTRICITY (% OF POPULATION) ²		
	(REFERENCE YEAR)	RURAL	URBAN	(REFERENCE YEAR)	RURAL	URBAN
Brazil	(1986)	121	88	(1990)	50	—
Chile	(1990)	14.6	14.6	(1992)	53	98
Colombia	(1990)	33	36	(1992)	81	98
Ecuador	(1987)	112	65	(1990)	69	99
El Salvador	(1988)	74	63	(1992)	52	90
Guatemala	(1987)	85	65	(1989)	27	87
Mexico	(1987)	104	32	(1992)	54	79
Nicaragua		—	—	(1993)	37	93
Paraguay ³	(1987)	38	43	(1990)	26	98
Peru	(1992)	131	67		—	—
Trinidad and Tobago	(1987)	30	41		—	—
Venezuela		—	—	(1990)	64	92

Notes: 1. Figures from Psacharopoulos, 1993.

2. Figures from World Bank Poverty Assessment Reports, except for Venezuela: IIES-VCV report; and Chile: Population Census of 1992.

3. Urban refers to Asuncion only, and rural refers to eight small towns.

sidered the most reliable indicator of levels of living, and it forms the basis for definitions of poverty. Thus, Bank estimates of the number of rural poor have a different basis from those of many countries in LAC, which commonly are based on indicators collected in either a population census (e.g., housing conditions, education levels of household members, water, and sanitary facilities), or a farm census (e.g., farm holdings below a certain size). The Bank typically defines a minimum level of nutrition, a local food basket that provides it, and a corresponding local cost. A poverty line is defined as the level of total expenditures (including self-provided consumption) such that the total value of food consumption just meets minimum nutritional requirements. If typically some 50 percent of the expenditure of the poor is accounted for by food, then the poverty line would be about twice the cost of a subsistence food basket. A line for extreme poverty is then defined as the level of total expenditures which, if entirely spent on food, would just meet minimum requirements. In Latin America, a per capita annual income of about \$730 approximates the poverty line, and one of \$365 (i.e., \$1 per day) approximates the line for extreme poverty.

Data on key characteristics, including incomes, of rural households in selected countries in LAC (Colombia, Hon-

duras, Chile, and Paraguay) in 1993–94 can be viewed in the perspective of these two poverty lines (Table 4). In two of the countries, the average per capita income of sampled rural farmers (with exclusions of medium and large farmers in Chile and owners who were urban residents, including most large farmers, in Colombia) exceeds the poverty line, while in two it does not. However, in all cases the bottom quintile of farmers (in most, the second quintile as well) fall into the category of extreme poverty.

When the composition of income of the rural poor is examined at the household level, it is evident that most of the rural poor do not depend on agriculture alone, but to a greater or lesser extent supplement farm income (often providing only part of food requirements for the family) with earnings off the farm. Usually one or more household members migrate during part or all of the year to earn income as wage laborers, either for larger, commercial farmers or as casual laborers or domestic servants in the cities. Households may also have sidelines in petty commerce, handicrafts, or services.

Frequently non-agricultural or off-farm earnings account for a high proportion of cash earnings, and their presence or absence spells the difference between extreme poverty and mere poverty. However, the variation in off-

TABLE 4

Comparison of Means of Key Characteristics in Rural Areas for Selected Countries in Latin America

	CHILE (SMALL FARMERS)			COLOMBIA (FARMERS)			COLOMBIA (LANDLESS) FARM WORKERS)			HONDURAS (FARMERS)		PARAGUAY (FARMERS)	
	GROUP	GROUP	WHOLE	GROUP	GROUP	WHOLE	GROUP	GROUP	WHOLE	GROUP	WHOLE	GROUP	WHOLE
	1	2	SAMPLE	1	2	SAMPLE	1	2	SAMPLE	1	SAMPLE	1	SAMPLE
Average income per capita (US\$)	167	467	1,300	187	243	418	195	284	421	72	509	145	1,300
Proportion of off-farm in total income (%)	67	68	59	16	10	12	—	—	—	24	23	18	18
Family size	5.2	4.6	4.4	6.2	6	5.1	6.1	5.4	4.7	7	6.2	6	5
Number of children in household ²	2.6	2.1	2	3.5	3.1	2.5	3.3	2.9	2.3	3.3	2.6	3.2	2.1
Mean age of family ³	38.7	41	41	25.9	27.1	30.5	21.3	22.3	25.1	26.3	29.7	25	31.8
Average years of schooling of family	5.2	5.6	5.7	3.6	3.8	4	3.4	3.9	4.1	2.5	3.1	3.1	3.7
Years of schooling of head of household	4	4.8	4.6	—	—	—	—	—	—	1.8	2.4	4.2	4.1
Land size operated (has)	9.8	8.6	13.7	4.1	6.4	8.7	—	—	—	8.6	22.8	15.2	36.7
Proportion of farmers with secure title to land	59	54	61	55.8	56.4	63.3	—	—	—	54	56.4	34	50
Proportion of famers receive credit (%) ⁴	36	25	33	3.4	5.4	7.9	—	—	—	18.4	26.8	—	—
Proportion of famers receive technical assistance (%)	—	—	—	4.4	4.4	5.6	—	—	—	31.7	3.3	17	26

Notes: 1. Figures refer to years: 1993—Colombia, 1994—Paraguay, 1993—Honduras, 1994—Chile.

Groups 1 and 2 refer to lowest two income quintiles for Colombia and Chile.

Group 1 refers to lowest income tercile for Honduras and Paraguay.

The whole sample included only small farmers in Chile and small, medium, and larger farmers in Honduras and Paraguay.

In Colombia, the sample only includes farmers living in rural areas, which biases the sample toward smaller farmers.

2. Children under age 19 for Chile and Paraguay, and under age 16 for Honduras. For Colombia, reported here are all children.

3. Mean age is defined over all members of the family, including children.

4. Figures for Chile refer to assistance from INDAP, which provide credit and technical assistance.

Source: R. Lopez and A. Valdes, "Rural Poverty in Latin America," LATAD, World Bank, forthcoming.

farm opportunities among countries and regions in LAC is extreme, as indicated in Table 4. Indeed, in developing economies in Asia, for example, off-farm income representing only 12 to 24 percent of total income, as in three of the four samples, would be regarded as rather low.

Among the rural poor, households of landless farmworkers have often been viewed as worse off than households with access to some land. For the Colombia sample, where the two groups of households have been distinguished, this does not appear to be the case, as incomes of the landless are slightly higher than incomes for other farmers—a distinction that carries over to other characteristics. The landless farm workers are younger (25 years versus 30.5 for small farmers) and better educated, with almost twice the level of attainment in secondary education. They have a smaller family size (4.7 versus 5.1 for small farmers), and a higher proportion of their households have access to health services (13.7 percent versus 7.2 percent for small farmers) and electricity (71.2 percent versus 59.3 percent for small farmers).⁵

Land and tenure

The landholdings of the rural poor in LAC depend on the extent of population pressure on arable land in various countries and regions, but a range of 1 to 5 hectares is common (“sub-family farms”). Usually this amount of land, if unirrigated and extensively farmed, cannot support levels of consumption above the extreme poverty line in the absence of other sources of income. Indeed, substantially larger holdings, as found among the bottom quintiles in Table 4, do not necessarily imply higher incomes, because in marginal areas tens of hectares may not provide more than subsistence. Although in several LAC countries tenancy is common, probably a majority of the rural poor in LAC are not tenant households. Although our four-country sample may not be representative, and Mexico and the Andean countries have very particular tenurial arrangements, still it is safe to say that a high proportion of landholdings of the poor are untitled and unregistered, for which reason they are not useful as sources of collateral for borrowing and have less sale value than titled land. The lack of secure individual tenure is due to various causes: In the case of indigenous peoples, land often is held collectively, sometimes without legal recognition. In other situations poor farmers or their ancestors (sometimes immigrants or migrants) have opened land without obtaining

title. Land registration and titling processes in most of LAC are inefficient and costly, so that the process, if unsubsidized, is not seen as worthwhile for smallholders.

Labor and dependents

Taken together, the ability to produce income and the number of non-producers who must be fed determine how well off a household is. Thus, households with at least two active adults and few or no young children, other things being equal, will be better off than households with a female head and mostly small children, or a household headed by two old people whose children have left the farm. In Table 4, an inverse relationship is observable between income on the one hand and family size, number of dependents, and the dependency ratio (number of dependents divided by number of laborers) on the other. Differences in educational levels, such as the lower average educational levels of indigenous groups, reinforce such patterns. The tradeoff between the cost of education for dependents and the payoff to education among members of the active labor force is especially acute for the poor. These are generalities applicable worldwide, in developed and developing countries. Nonetheless, they are important in differentiating different kinds of the rural poor and in identifying a strategy appropriate to each kind (e.g., the female-headed household).

Location and infrastructure

It is also no surprise that poverty isn't very important (except among hired farm laborers) in areas of Latin America where land is fertile and level, water is readily available, and climate is mild. The poor tend to be found in areas that are marginal for agriculture in the absence of improvements to fertility, leveling of land, or irrigation (keeping in mind that the highlands of the Andes at one time possessed an infrastructure underpinning a higher level of agricultural productivity than remains today, and that other areas now being farmed in annual food crops would be well suited to perennial tree crops). In the case of indigenous peoples, historical loss of their most fertile lands and water rights to conquerors and usurpers is well known. Settlement in recent decades of the ecologically fragile Amazon Basin and the frontier areas of many countries has created new loci of rural poverty. Even if the governments of LAC had invested adequately in rural infrastructure, one would expect these areas to be the last to be so endowed, because

of low economic returns to infrastructure in areas of scattered farms and difficult terrain. Consequently the rural poor often lack access to adequate roads, potable water, electricity, communications, secondary schools, public health services, etcetera. In this respect their standard of living compares quite unfavorably with the urban poor.

Farm production and input use

The bulk of agricultural production among the rural poor is subsistence oriented and extensive, with minimal input use: maize and beans in Central America and the Caribbean, tubers and animals in the Andes, and a more diverse mix in the north of Brazil. Rotational or shifting cultivation using unimproved local varieties on sloping land is a common system of production. There are cash crops grown—such as cacao, coffee, bananas, or sugar cane—and animals raised, but they are poor varieties, poorly managed, and with quantities marketed too small to obtain either good prices or attention from government research and extension programs (the low proportions of farmers with either extension contact or credit for input purchase may be noted in Table 4). Government research and extension programs in LAC have given attention to food crops and livestock, but with a focus on commercializable systems with heavy use of purchased inputs. They have tended to ignore, or at least have had little success with, subsistence-oriented farming systems. However, some NGO programs have demonstrated the potential to raise small-farm productivity substantially on the basis of mainly labor-using techniques, with consequent improvements in the standard of living and food security of the poor.

Non-farm wage earnings and self-employment

As stressed above, the availability of non-farm income and self-employment opportunities spells the difference between extreme poverty and a moderately better status. But what determines availability? In part, no doubt, household characteristics do—notably a lack of education that leaves most of the rural poor qualified only for the most unskilled jobs and unequipped to become entrepreneurs. But also, a role is played by the legacy of national policies, which, in the past, have discriminated against agricultural and rural areas in general, and local or regional economic growth in particular, in favor of concentration of economic growth in a few places. Here the contrast with

Asia (e.g., Korea, Taiwan, Indonesia) is worth mentioning. With a few notable exceptions, the political importance of the rural majority in Asian countries has forced governments to offer more favorable policies to the rural areas. Along with a more equal asset distribution in the first place, these governments provided substantially more investment in rural education and infrastructure, and in trade and price policy that heavily protected food production from foreign competition. While not eliminating the problem of rural poverty, these policies have greatly reduced its incidence, and this has been due largely to the growth of non-farm earnings of the farmers on the back of dynamic growth of the agricultural economy.

Constraints on rural poverty: Findings from preliminary quantitative analysis

The goal of this section is to apply multivariate analysis to cross-sectional data on rural households. The aim is to better identify those constraints that are closely associated with poverty and that, if changed, could reduce its incidence. While there are well-known hazards in inferring causation from cross-sectional data, it is at least possible to distinguish interventions that are strongly or weakly associated with poverty, while holding constant all other relevant influences on income or production. Thus, Table 5 reports the results of econometric estimates of (total) income functions (farm and off-farm) for farmers in Chile, Honduras, and Paraguay, based on a household farm survey from 1994. Based on the same database, Table 6 reports the results of econometric estimates for farm output production functions in the same countries.

These tables report *elasticity* coefficients for land, labor, and capital, and, for education, the absolute increase in household per capita income associated with one additional year of schooling. For titles, technical assistance, and geographical location, the tables report whether the presence or absence of these influences were statistically significant in the income and farm output functions, respectively.

Land

One striking finding is the low elasticity of income with respect to farm area in Chile and for the poor in Honduras (Table 5), in apparent contradiction to the higher and more uniform relationships between farm area and farm output (Table 6). This is probably because the *off-farm* incomes (and the labor off-farm) vary inversely with farm size (thus,

TABLE 5

The Contribution of Various Factors to Total Per Capita Income

	CHILE	PARAGUAY		HONDURAS	
		POOR ⁶	NON-POOR	POOR	NON-POOR
Own land ¹	0.073	0.46	0.52	0.09	0.22
Household labor	0.83	0.39	0.39	0.6	0.6
Own capital ⁵	NS ²	0.1	0.26	0.05	0.05
Contribution of one additional schooling year ³	\$62	\$47	\$160	NS	\$70
Land Titles ⁴	+	NS	NS	+	+
Technical assistance credit	NS	+	+	NS	NS
Geographical location	NS	NS	NS	NS	NS

Note: 1. The figures for land, labor, and capital correspond to elasticities, indicating the effect of a 1 percent increase in each factor of production on the per capita income.

2. NS means that estimates are not statistically different from zero.

3. Figures for schooling effect indicate the contribution of one additional year of schooling to per capita income.

4. Includes only the direct effect of land titles on per capita income, ignoring effects through capital investment and credit.

5. Own capital was measured as a dummy variable representing ownership of agricultural machinery and turned out not significant.

6. Poor defined as household with a net annual income of less than US\$350 per capita, in both Honduras and Paraguay.

Source: R. Lopez and A. Valdes, "Rural Poverty in Latin America," LATAD, World Bank, forthcoming.

if variables separately "explaining" off-farm income had been included in the income equation, the land elasticity might be more reasonable). There is an obvious inference about the efficacy of agrarian reform: If farm households have typically used off-farm labor income to offset limited land access, then improving land access would have a less-than-proportionate impact on household income, because it would have to be partly offset by reductions in off-farm activities. Because the wages of off-farm labor are usually higher than marginal productivity of labor on the farm, and because without capital, larger farm sizes cannot be worked productively, it isn't even certain that farmers offered access to more land but no other assistance would choose to exploit it.

Labor

Labor and capital inputs are two variables that raise difficult measurement problems. In Honduras capital includes coffee trees; in Chile capital includes owned machinery; and in all three countries capital includes owned livestock. Regarding household labor, it is measured by the number of people of working age in the family, rather than the actual number of hours worked. Consequently, the impact of labor in the income equation is boosted by the impact of off-farm wage earnings, whereas in the production function the significance of labor is reduced by the errors in its measurement. These rough measurements also do not capture the heterogeneity of family labor (such as sex and age differences).

TABLE 6

The Contribution of Various Factors to Farm Output

	CHILE ¹	PARAGUAY		HONDURAS		ALL
		POOR	NON-POOR	POOR	NON-POOR	
Land	0.46	0.39	0.56	0.09	0.22	0.31
Family labor	—	NS ⁴	NS	0.17	0.17	0.25
Hired labor	—	—	—	—	—	0.06
Capital	0.07	0.12	0.15	0.16	0.09	0.07
Variable inputs	—	0.2	0.17	0.17	0.17	0.13
Education	+	+	+	NS	NS	NS
Returns to scale	Constant ²	Decreasing ³	Constant	Constant	Constant	Constant

Notes: 1. The estimates for Chile correspond to a short-run supply function rather than a production function.

2. "Constant" means that the sum of the coefficients for land, labor, capital, and variable inputs of the Cobb-Douglas production function are not statistically different from 1.

3. "Decreasing" means that the sum of the coefficients of land, labor, capital, and various inputs are statistically significantly less than 1.

4. When using hours worked the family labor coefficient is significant and positive. However, the need to use panel data forced us to use number of family workers instead of hours worked, because the 1991 survey did not include hours of work; the 1994 survey did. Hence the nonsignificant finding could be attributed to a deficient measurement of the true family labor input.

Source: R. Lopez and A. Valdes, "Rural Poverty in Latin America," LATAD, World Bank, forthcoming.

Labor was not directly used in the supply foundation; instead the wage rates were used.

Capital

The same type of statistical problem—the effects of omitted variables—influences findings for capital. One might expect returns to capital for the non-poor (who have better access to subsidized credit) to be lower than for the poor (who are extremely short of capital). This is only visible, in a modest way, for the farm output function in Honduras. The low contribution of owned capital to income in Honduras and the large disparity between poor and non-poor in Paraguay are puzzling, but may be due to omission of hired labor, variables accounting for off-farm income, etcetera.

Education and land tenure

The overall finding is that there is a significant influence of education on both farm productivity and income. However, in Honduras and Paraguay, where the functions were estimated separately for the poor and non-poor, it appears that the poor obtain significantly lower benefits from education.⁶ Secure, registered land titles have a significant and positive effect on household income in Chile and Honduras (Table 5), though not in Paraguay for farmers with less than 20 hectares, perhaps due in part to (a) the availability of frontier land, (b) very underdeveloped financial markets that do not reach many of the smallest farmers, and (c) a low level of education.

Extension

Extension scores poorly, except in Paraguay. In both Chile and Honduras (Table 5) it does not seem to contribute significantly to a net increase in farm income. A detailed analysis for Chile for the same sample of small farmers concluded that extension services had a significant positive effect on agricultural output; however, they did not result in higher net income, because of (a) the increase in costs in variable inputs that resulted from following extension advice,⁷ (b) the implied reduction in income from forgone off-farm employment,⁸ and (c) the “traditional crop bias” of extensionists.

Implications

While the findings are preliminary and subject to many qualifications, they do highlight some implications for strategy that are credible in any case. These include (a) the importance of education for productivity, in the context of open trade regimes where farmers must constantly adapt their crop mix, technologies, and choice of markets, and

especially for those who must choose off-farm employment (migration) to survive; (b) the apparently low benefit of existing extension programs, whether because the technologies extended have not been profitable to the poor or because intensification has high tradeoffs with off-farm employment; (c) the insufficiency of improved land access in the absence of improvements in all the other factors (human and physical capital, technology, better infrastructure, and a non-discriminatory incentive framework); and (d) the likelihood that some small farmers, given their resource endowment, cannot be raised from poverty without increased access to off-farm income.

Limitations of government initiatives

Past dynamics of rural poverty

The previous sections have presented a static picture of rural poverty, a snapshot based largely on one-time surveys. A history of rural poverty in LAC—which this paper cannot attempt—would have to distinguish the different cultural groups: (a) the indigenous peoples, who have been impoverished historically, deprived of the best land and water rights, and in danger of losing what constituted a well-developed traditional agricultural technology, as could be said for most indigenous cultures in countries like the United States, Canada, Australia, and New Zealand;⁹ (b) past migrants to frontier areas, mestizo and Hispanic, often the descendants of the poor in land-scarce areas or ejectionees from tenancies, sometimes with skills or knowledge poorly adapted to their new environments; (c) landless laborers in more prosperous commercial farming areas, sometimes part of a permanent class, lately more often migrants trying to supplement earnings on smallholdings as in (a) and (b). One might ask how these distinct groups have fared in recent years, especially under the impact of trade liberalization and reduction of subsidies, and whether an antipoverty strategy can usefully differentiate among these groups, or whether there is a more useful taxonomy.

Macroeconomic adjustment and trade liberalization, now partially complete in most Latin America countries, have been dismantling structures that discriminated against the rural areas and are expected to benefit the agricultural sector in the long run. A World Bank-funded comparative study on agricultural price interventions during 1960–1985—including five countries in Latin America—presents a striking result. The net effect of direct (sec-

toral) and indirect (economy-wide) price and trade interventions taxed agricultural production heavily (particularly exportables), and as a result of this it significantly slowed down agricultural growth.¹⁰ The same study found that these economic policies induced a huge income transfer from agriculture to the rest of the economy, ranging from 35 to 45 percent of agricultural GDP. The level of direct and indirect taxation of agriculture has declined significantly as a result of the economic policy reforms, which for most LAC countries began around 1990 (except Chile, which started in 1975).

In some countries the evidence suggests that the adjustment process in the short term has coincided with a significant loss of income to the rural poor, whereas the urban poor have gained. For example, in Colombia, the first years after the initiation of the economic reforms unfortunately coincided with adverse *exogenous* conditions for agriculture, namely a fall in international commodity prices, a severe drought, and an exchange rate appreciation. In Colombia, average household incomes for the four lowest deciles in rural areas dropped 15 percent in real terms during 1990–1992, whereas the corresponding urban households experienced an 11 percent gain in real income.¹¹

For Honduras, a World Bank study of the adjustment program for agriculture concluded that small farmers benefited in terms of real income gains. Policy reforms in Chile have had a very positive impact on commercial agriculture and have induced a significant increase in both employment and real wages in rural areas. However, small farmers in disadvantaged areas have benefited less from the rapid growth of the sector during the 1980s. Mexico and Brazil (before 1990) are unusual because of the extent of previous protection to the grains sector. The impact of liberalization, depreciation, and declining commodity prices has been different depending on whether smallholders were net sellers or buyers of particular products, on how important wage labor in commercial farming areas was as a source of family income, and on whether particular types of products were taxed or protected before liberalization. In Mexico, for example, it has been estimated that (before devaluation) farmers who specialized in cash crops (either for export or sale in protected domestic markets) were generally hurt by the liberalization process and, with them, the farm laborers whose jobs depend on prosperity of commercial agriculture. Another group of (usually poorer) farmers who are

largely food-production oriented and self-sufficient, neither buying nor selling, may have been largely unaffected, except by lost opportunities for wage labor. The poorest farmers, on the other hand, are largely net buyers of food and too far from commercial farming areas to benefit much from wage labor opportunities, and these have probably been net beneficiaries of liberalization.¹²

Agriculture and rural poverty

The growing urban share of total poverty incidence raises new challenges for dealing with the problem of rural poverty. Agriculture now is under 10 percent of GDP for the region as a whole, though it still accounts for 20 percent or more in five countries (Bolivia, Haiti, Paraguay, Nicaragua, and Honduras). Nevertheless:

- agriculture, forestry, and fisheries collectively remain major sources of exports and means of livelihood for a sizable part of society;
- agriculture's share in merchandise exports has fallen to 24 percent on average, but remains above 50 percent in half the Latin America countries; and
- in Brazil, it still contributes 40 percent of export receipts and 25 percent of employment.

Agriculture still has a key role to play in rural poverty alleviation. Overall rural development has not occurred anywhere in the absence of simultaneous agricultural productivity increase, which (judging largely from the successful Asian experience) may be the “leading” factor. The requirements (incentive structure, technology, infrastructure, etc.) for agricultural productivity increase are better understood than the appropriate conditions and means to promote rural non-farm development. But the dilemma remains that strategies to promote agricultural (and general economic) development are easier to identify and apply in areas where the natural environment, state of infrastructure, and viability of farm enterprises are favorable.

Generalizing about government efforts in the whole of LAC is difficult, but some valid points can be made. Overall in LAC, “the dynamics of the period of rapid economic expansion were such as to offer no encouragement to small-scale agriculture, and to posit implicit solutions to rural poverty which did not involve commitment to rural development.”¹³ This is not to suggest that nothing was attempted. In fact, major and expensive land reform programs were implemented in Bolivia, Peru, Chile, Mexico, El Salvador, and Nicaragua. In some cases (Chile, Peru) the

creation of a viable family-farming sector on the basis of private holdings was not a goal, and in most cases little was done to overcome constraints other than land or to provide a favorable incentive environment. Elsewhere programs have bogged down over resistance by local landowners to expropriation and inadequate budgets. Some countries (Brazil, Paraguay, Argentina) have tried to use resettlement in frontier areas to avoid this problem, but these either have benefited only a relatively small number of farmers or have provided support services inadequate to accomplish more than transplanting poverty to new areas. More recently, with increased concern for the impact on property rights, the expropriation model for land reform no longer seems feasible and the potential fiscal costs of a large-scale program appear daunting. Therefore, efforts have focused on regularization of land titles, but these too have proved difficult because of the level of bureaucratic effort required. Most frequently, though, insecure land tenure and too small farm sizes have simply served as constraints on the effectiveness of other programs. As a result, government interventions usually failed to have a sustained positive impact on the situation of the poor, even when the interventions were justified on the basis of their poverty alleviation objectives.

Other than land reform and resettlement, most policy interventions of the past focused on commercial agriculture. Before the 1990s, some countries heavily taxed agricultural exports through pricing and tariff policies. Subsidized credit along with tax concessions compensated for a very small proportion of the income transferred out of agriculture.¹⁴ Usually the rural poor—largely subsistence-oriented smallholders—were only indirectly affected by such a policy environment. Most of the subsidized credit went to larger commercial farms. In several countries the price of land was driven up, reflecting access to subsidies, excluding or driving out smallholders. The incentive environment typically favored high capital intensity, resulting in replacement of labor (especially permanent labor) by machines and loss of wage labor opportunities in the sector. Most of the damaging elements of government policy and, due to budgetary stringency, most of the subsidies, were eliminated in the 1990s. But the reduced demand for farm labor by commercial farms remains its legacy.

Government-sponsored irrigation projects have not been targeted on the poor, and they largely succeeded in promoting intensive production for the few farmers able to

use modern technology at extremely high cost per hectare or per beneficiary. A result has been a focus on such areas as the solution to internal food-supply problems and consequent neglect of rain-fed technologies. The poor have benefited only through increased demand for casual labor. An earlier export orientation of research has yielded in recent years to more attention to food crops. But there has been more success with technologies suitable for well-capitalized, mainly large-scale operations; and there has been little success with technologies suitable to poorly capitalized smallholders, especially those in marginal areas. In agricultural extension there has been considerable growth of effort and even nominal attention to smallholders. But again, the poorest among the smallholders received in practice scant attention, partly due to links between extension and credit (only credit recipients received extension assistance) or with organizations representing the interests of commercial producers. In any case, because of the limitations of research, extension also had few appropriate messages to deliver. Overall, smallholders had no way of directing either research or extension to their agenda.

Subsidized rural credit programs in LAC, prevalent before the 1990s and extended mainly through government-owned banks or line agency programs, have long been explicitly justified on the grounds of the poverty of rural clients. However, in actual experience, the poor receive little of the financial assistance extended in their name, because eligibility criteria are not sufficiently narrow to be well targeted. For example, in Brazil in 1980, where half the farms were less than 10 hectares in size (and the bulk of these in the 1-to-3-hectare range), only 4.8 percent of credit went to such farms; moreover some 90 percent of small producers in the northeast received no credit at all.¹⁵ Similarly, a study of rural financial markets in Mexico in 1990–1994 found that less than one-fourth of rural entrepreneurs (farm and non-farm enterprises) received cash loans from any source; only about 8 percent received credit from the formal sector; and the probability of having received credit was lowest for small farms with no credit history in predominately agricultural areas.¹⁶ Of course, the riskiness and lack of accompanying technological packages would militate against equal treatment for smallholders, and smallholders may also have been wary of credit because of risk factors. However, government programs to facilitate marketing have also failed to reach the rural poor; even when government extended a minimum price policy

potentially favorable to farmers, small-scale producers largely did not benefit, because the latter sold their surpluses mainly to middlemen whose high intermediation charges reflected the small lots, irregular quality, distance from official procurement depots, and credit relationships of smallholders with middlemen.

The past pattern for big government projects, of the sort supported by the World Bank and other donors, has been one of mixing a combination of the above elements in the hope of reducing multiple constraints to creation of viable, commercialized smallholder farming systems. Such projects, called "integrated area development projects" (IADPs), have fallen into disrepute in the World Bank, partly on the grounds of alleged complexity and difficulty of coordinating the required efforts of multiple central-government agencies (and making sure that resources actually were devoted to the prescribed program), but most significantly because the necessary incentive framework wasn't in place (IADPs have often proven successful in Asia, for example). They were also weakened by the failings of each of their components, as mentioned above. In general, inability to promote change in land tenure, lack of suitable technical packages for smallholder conditions, benefit capture by larger and more commercialized producers, absorption of funds in the overheads of implementing agencies, and a paternalistic and prescriptive approach discouraging beneficiary "ownership" are all among the major failings of such projects.¹⁷

While major government projects and programs were compiling a history of failure to address rural poverty, a different set of approaches was emerging at the grassroots, based on activities undertaken by the church, rural cooperatives, trade unions, community associations, student groups, foreign NGOs, and government technicians, especially extension agents and social workers. These featured involvement of the beneficiaries in the planning and construction of small public works and other activities benefiting the community. They also include NGO work in the field of small-producer technologies, which help demonstrate that measurable benefits can be obtained with production-oriented strategies by working within existing constraints to develop sustainable small-farmer production systems.¹⁸

Toward the end of the 1980s and up to the present, a shift of approach in government programs has been occurring, with the active support of the World Bank, away from centralized IADPs and toward decentralized and par-

ticipatory projects that draw heavily on the approaches favored by NGOs. The new type of program might be called a DRIF (demand-driven, rural investment fund). DRIFs are similar to "emergency" social funds, also common in LAC, in their emphasis on the beneficiaries' participation, often with NGO assistance, in identifying, financing, and implementing small, grant-financed subprojects, usually related to the infrastructure. Aside from a focus on rural areas, DRIFs differ from social funds in their promotion of decentralized administration, especially at the municipal level, and inclusion, in principle, of subprojects intended to improve rural incomes. DRIFs are also intended to be better targeted on areas of rural poverty and on the poor than IADPs (although the actual experience has been less than perfect). The best-known examples include Mexico's Municipal Solidarity Fund, Colombia's DRI, and Brazil's PAPP.

DRIFs represent a substantial improvement over IADPs in terms of better targeting of the truly poor, increased beneficiary ownership and control, minimal absorption of funds in bureaucratic overheads, and flexibility to respond to varying conditions in different communities. Insofar as they build the capacity of local governments to manage their own small-scale development programs, DRIFs are more sustainable than either IADPs or "emergency" social funds. Whether they are a suitable means of overcoming the major constraints to improving the livelihood of the rural poor is open to question. DRIFs, like IADPs, do not deal with land tenure issues. Nor do they offer the technical packages appropriate to smallholder conditions. Even though they finance provision of technical assistance, it is on a fragmented, demand-driven basis, which lends itself to simple problems such as missing social infrastructure; the technical backup required for dealing with more complex means of raising productivity is lacking. The delivery of one-time grants of social or productive infrastructure, with little thought to the development of sustainable sources of livelihood for the poor, is also vulnerable to exploitation as electoral instruments.¹⁹

In general, then, the combination of decentralization and participation by the poor are necessary *but not sufficient* elements of an appropriate approach to rural poverty alleviation, since they offer a means of ensuring the delivery of relevant benefits to the rural poor rather than others, but still leave open the question of what benefits will really change the livelihood status of the rural poor.

Alternative strategies for dealing with rural poverty

Why a strategy is needed

First, having a strategy is a matter of both social justice and political reality. Past economic development policies in LAC essentially rewarded large-scale capital at the expense of labor and the mass of petty capital in order to permit accumulation, industrialization, and urbanization.²⁰ The societies of LAC thus accumulated a large debt by encouraging the growth of relative inequality and relative poverty. In the future, if the process of democratization now underway continues, this debt will increasingly be articulated as demands on social resources by a large segment of society. If there continues to be no meaningful response, the recent or current rural instability in Mexico, Colombia, Peru, and other countries implies a high social cost.

Second, past responses have not worked and will be increasingly seen to be untenable. These responses were either that the poor are located in marginal production systems that are not viable, and thus must be supported through social welfare policy; or that the problem of poverty would disappear with general economic growth and the integration of the marginal population into the regular labor force of the modern sector. However, the increasing tightness of national budgetary resources implies that a policy of simple income transfer, if large enough to make a difference, will not be easily sustainable. Furthermore, both the expected rate of growth of the modern sector and the change in economic structure required to sustain it preclude the easy integration of the marginal poor into the urban labor force. In most of LAC, the agricultural frontier is closing (or, for environmental reasons, should be closed), cutting off one "vent for surplus." Commercial agriculture has been reducing its labor, lowering opportunities for wage labor to supplement inadequate on-farm earnings.

Third, there are economic rationales for a more effective strategy. Foremost is the likelihood that it is less costly to society to maintain the rural poor *in situ* than to sustain an excessive rate of influx into the urban areas. In the rural areas, the poor, to a great extent, maintain themselves on land that would otherwise be abandoned or underutilized. In the cities, they maintain themselves mainly in the informal economy to some degree at the expense of the incomes

of their fellows. Government feels obliged to provide infrastructure and welfare transfers in the urban areas to alleviate poverty and control negative environmental externalities associated with slums, and both government and the urban residents incur a high cost to maintain social order and protect property. Though rural populations are more dispersed—so providing infrastructure and social services at levels of quality and quantity equivalent to urban areas would be more costly—rural expectations are much lower, and the main demand in any case is for jobs near the farm. We have not yet found an attempt to compare the cost of discouraging migration with the costs that excessive rates of urban migration bring to society, yet the latter are widely cited in the abstract as a justification for some measure of assistance to the rural poor.

Another line of argument emphasizes the positive contribution that smallholders could make to national food security and exports. Because of the need to meet the demands of labor for more attention to wage goods, the domestic food crop sector needs to be revitalized, but not at the expense of exports. Indeed, the potential for smallholder exports has been proved in Colombia (flowers), Paraguay (cotton), Costa Rica and Guatemala (fruit), and Chile (tomatoes for paste and fruit for fruit juices), among others—albeit these are enterprises that have high variable input requirements. Of course, unless land access problems are resolved, only a fraction of the rural poor can hope to increase their marketed food surpluses, and it is open to question whether semisubsistence producers would have an incentive to market more at domestic prices unprotected from foreign competition. (However, if current record international prices of foodstuffs continue for more than a year or so—unlikely, in our opinion—the incentives for domestic food producers should be much improved.) In any case, from the point of view of increasing available market supply to the cities, a *decrease of food deficits* among marginal producers who must supplement their production from the market is every bit as effective as an increase in marketable surpluses from other producers. The same high cost of intermediation that drives a wedge between urban wholesale and rural farmgate prices helps keep rural retail prices high and creates an incentive for increased self-sufficiency.

Based on these arguments, a strategy for dealing with rural poverty should focus on investments to raise production and income within the systems in which the poor are already existing. Insofar as liberalization has meant aban-

donment of a cheap food policy and also of subsidies to large-scale agriculture, the market (especially at a time of rising international prices of food grains) is expected to create the necessary financial incentives for such investments, but the financial means are not available to the poor.

The need to differentiate

There is a clear consensus among observers that antipoverty status can benefit by distinguishing different types of the rural poor and their specific sources of income.²¹ However, the appropriate differentiation has less to do with the historical experience of cultural groups and much to do with current household situation. The major potential benefit is that certain resources could be focused on clients with a real chance of increasing their agricultural productivity, other programs on clients whose real destiny lies in the off-farm labor market or non-farm self-employment, and yet other programs on those who have no prospects at all for escaping abject poverty. The first group would be substantially enlarged if there were land reform or even major improvements in tenure security.²² As matters stand, this group of "emergent" farmers may be rather small.

While differentiation seems sensible in the abstract, it is not so clear how to draw the lines in practice between "emergent" farmers and others. For example, if the objective is to focus agricultural assistance on small farms that could *become* viable, *existing* size or profitability is not an appropriate criterion. Nor is the extent to which the farm household relies on non-farm income sources, as there may be no difference in viability of the farm between a unit with one worker and no outside income, and a similar-sized unit with three workers, two of whom are wage laborers off the farm. Indeed, part-time farms may be just as viable as full-time farms, provided the proprietor gives the farm sufficient attention and resources. As increased sales or decreased purchases have a similar effect on regional surpluses, neither does it make sense to differentiate according to extent of marketed surplus of the farm. Existing agricultural assistance programs, many of which already differentiate based on farm size, wage labor dependency of the household, or extent of surplus, might therefore miss the target.

The relevant questions to ask are whether a farmer, within the target group of the rural poor, has the ability and intention of improving his farm enterprise and can overcome the major constraints to doing so with a reasonable amount of external assistance. These questions call for

local judgments and intimate knowledge of the farm enterprise. Hence, a combination of self-selection (e.g., eligibility would require previous participation in agriculture-related groups and provision of some counterpart by the farmers) and judgments by community organizers or extension agents would be a suitable basis for identification. Self-selection will not be reliable, however, if the subsidies available tempt the wrong sort of client to apply.

For the group of farmers who are capable of "emerging," what is really needed? Presumably this group has relatively secure land tenure, but lacks titles, so *cadastral and titling programs* would be appropriate. Relevant *technology* is required, and probably the only sure way to increase its relevance would be to give some degree of formal control to producers over activities provided for them. The key to this, in turn, is for some part of the state support previously directed to extension to be directed instead, in the form of vouchers or credits for technical assistance, through farmer groups, who in turn would provide some counterpart. Lack of financial resources is also a crucial constraint. For eligible "emerging" farmers, once tenure and technology constraints have been resolved, returns to investment should be substantial. Thus, while *access to credit* is crucial, subsidy for risk relative to "normal" bank rates is not required. What is needed is a system of distribution capable of reaching producers with relatively small individual financial requirements, for which the transaction costs will be too high to be attractive to commercial financiers. This must involve some intermediary between banks and beneficiaries (e.g., an NGO or credit association) that is prepared to absorb high transaction costs. A strong case can be made for subsidizing the transaction costs of such intermediaries.

The second group of the rural poor are those for whom the future does not lie in agriculture but in activities off the farm. This is not a subset of *farms*, but a subset of the potential *labor force*. Off-farm earnings can contribute to the viability of "emerging" farms if local off-farm earning opportunities are sufficient to make migration unnecessary (something like three-quarters of U.S. farms are really part-time operations sustained by off-farm income). They can also sustain households whose farming operations will never be other than marginal. Moreover, many of the skills required for success in off-farm activities are equally required for the "modern" small farm: beyond literacy and numeracy, some basic planning, management, and accounting skills, probably requiring the equivalent of a

secondary education. Aside from some NGO programs, this kind of educational or training program is not now a feature of most rural poverty programs in LAC; and, as we have seen, secondary education is the big lacuna for the rural poor.

Finally, there are the rural households for whom there are no obvious means of escape from abject poverty—perhaps the overwhelming majority, in the absence of land reform. Shortage of land, insecure tenure, environments that cannot profitably support higher levels of agricultural productivity, lack of literacy, education, or ambition, excessive numbers of dependents, lack of labor power—some combination of these makes for a truly hopeless household economic situation. A strategy of triage could be adopted for this group, to conserve resources for those who have more potential. Alternatively, for reasons of social justice and to discourage urban migration, a distinct program of assistance could be developed, focused on the household rather than the farm. Because indigenous households and households headed by women together account for a high proportion of this group, the design of the program should take into account these characteristics. Such a program would place less emphasis on productivity increase and more on easing hardship. If support were given for productivity increase, then investment amounts would be smaller for a very diverse mix of activities (including small-scale processing, handicrafts, marketing, etc., as well as agricultural production) and without expected repayment. Because standard packages of technologies would have little to offer this group, it would be best to allow the beneficiaries to identify their own problems and formulate their own solutions.²³ As participatory rural poverty assessments have shown, the solutions sought by the poor are overwhelmingly practical measures to increase productivity of land and human resources—especially infrastructure (such as small-scale irrigation) and training—but the detailed content and priorities vary considerably over different communities.²⁴ The focus on households rather than farms, and the diversity of needs and solutions, argues for reliance on NGOs, including community-based organizations, as intermediaries in an appropriate program.

The problem of demand

Addressing rural poverty through assistance in raising household productivity or the qualifications with which household members approach the external labor market

ignores the issue of limited demand for household products and labor services. Limited local markets for rural products and labor is a serious constraint on the household economy in countries where the pattern of economic growth is excessively centralized on major cities or particular regions, and where sectoral policies discriminate against smallholders in favor of large-scale extensive or mechanized holdings, or in favor of livestock in comparison with crops. Centralized economic growth often has been a corollary of centralization of political power and fiscal resources, leading *inter alia* to poorly developed infrastructure in the smaller towns and cities. Discriminatory sectoral policies are usually imbedded in the tax and tariff structures, the eligibility criteria for various kinds of government subsidies, and often the structure and functioning of product and input markets.

Dismantling the policies that cause excessive centralization of public and private investment and that discourage employment of wage labor in the commercial agricultural sector would shift incentives in favor of regional growth of incomes and consumption, and toward expansion of wage labor and entrepreneurial opportunities for smallholders. Precisely because of the poverty of rural dwellers, income elasticities of demand for rural products such as food and simple consumption goods are highest away from the capital and industrial centers, so that growing rural and small-town income translates into an expanded market for raw and processed farm products. Small-town expansion also translates into off-farm jobs *near the smallholdings*, in effect relieving the land access constraint by permitting viable household economies based on a mix of farm and non-farm activities. In short, raising the productive capacity of the rural poor is not enough. The market for the goods and services of the poor must be expanded through regional development and labor-absorbing structural change in commercial agriculture. This also can be termed a strategy of bringing the market to the poor, as opposed to bringing the goods and services of the rural poor to (a distant) market.

Who speaks for the rural poor?

In most of LAC (as indeed elsewhere in the world), governmental responsibility for the several components of an integrated strategy to address rural poverty, as discussed above, has been fragmented. There has been no “Ministry of Rural Affairs” responsible for overall rural development concerns. The ministries of agriculture, focused mainly on commercial agriculture and tending to represent the inter-

ests of large producers, have generally also had the mandate to improve the agricultural production and agricultural incomes of small farms. Rural education, health, roads, communications, electrification, etcetera, have fallen to the individual ministries responsible for each general type of service, and usually have received the lesser part of their attention. Regional development has fallen to whichever ministry deals with local governments, with indigenous communities' welfare needs also addressed by special agencies. Poverty as such has occasionally been assigned to a ministry of social affairs (or the like), but has commonly been addressed in recent years through extraministerial "emergency" social funds. Most of these funds have focused almost exclusively on urban poverty and basic social services. There are some notable exceptions—in particular, the DRIFs of Mexico, northeast Brazil, and Colombia, which have more or less focused their resources on poor and rural areas, have in some cases promoted small-scale productive and other infrastructure, and in general have helped to disperse public investment geographically and thereby promote regional growth. However, focus on rural communities and households as such has been left to certain NGOs with this kind of capability.

All of the agents involved in addressing rural poverty have their comparative advantages in a particular element of a solution, but none is in a position to coordinate elements from the point of view of the needs of particular communities or segments of the rural poor, and each tends to jealously guard the priority of its "turf" and budget. It is probably unrealistic to suggest that any single existing ministry be given a unique mandate for dealing with rural poverty or rural development overall. It may be more realistic to suggest that, at a time when many agencies are experiencing the downsizing or privatization of their traditional functions of regulation, subsidy, and service delivery, increased attention should be given to rural poverty, where legitimate governmental functions cannot be readily privatized because there is so little profit in servicing the needs of the rural poor. This would parallel the redefinition of the role of the former agricultural operations divisions in the World Bank, which have now largely been restructured to focus on rural development as a whole, with mandates for addressing poverty, natural resource management, and "green" environmental issues.

A case can be made, however, for a superministerial committee or commission serving the role of developing

strategy for rural development and poverty alleviation, lobbying within government for its priority, and enforcing it through some control over the budgets and specific programs of the individual ministries and agencies. For example, in the mid-1980s, the People's Republic of China, concerned about the fact that the poorest one-third of counties in China were being left behind by progress arising from liberalization, established such a commission (the Committee on the Development of Poor Areas, which was immediately under the State Council, the highest organ of administrative control), and assigned it a large sum of money to be used for grants to carry out development programs through line agencies and local governments. Of course, such a commission would be effective in direct proportion to its powers and resources, reflecting the political importance assigned to it by the government as a whole.

As seen above, centralized solutions to rural poverty, such as integrated area development projects, have not been very successful in LAC, and having a powerful coordinating commission with adequate resources would not be likely to change that. Participatory identification of problems and solutions, and decentralized delivery of services, giving considerable control to the beneficiaries, has been identified above as the main remedy. Ultimately the poor must speak for the poor, through their own organizations, NGO intermediaries, or the lowest levels of government. Thus, a network to channel the requirements of the poor upward (perhaps bypassing the line agencies, directly to a commission) and increased reliance on modes of financing giving the rural poor the power to induce responsiveness from the line agencies and local government would complete an institutional setup favorable to implementation of an integrated strategy to arrest rural poverty.

Notes

1. Altimir, 1994; Stewart, 1992.
2. Stewart, 1992.
3. Altimir, 1994.
4. De Janvry and Sadoulet, 1989.
5. Although the average level of schooling for landless workers is not much higher than for small farmers, a higher proportion of the former attain secondary education, suggesting greater heterogeneity among the landless.
6. The sample in Chile is restricted to small farm households only, which is closer to the definition of "poor" in the other two countries.
7. Output increases reflected a higher level of input used rather than in productivity.

8. R. López, 1996.
9. World Bank, 1995d.
10. Schiff and Valdés, 1992.
11. World Bank, 1995a.
12. De Janvry, Sadoulet, and Davis.
13. Howe and Goodman, referring to Brazil.
14. Schiff and Valdés, 1992.
15. Howe and Goodman.
16. World Bank, 1995c.
17. Howe and Goodman.
18. Ibid.
19. Ibid.
20. Ibid.
21. De Janvry, Sadoulet, and Davis; Howe and Goodman.
22. Howe and Goodman.
23. Ibid.
24. Hentschel, Waters, and Webb.

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Comment

JOSÉ ANTONIO OCAMPO

I THINK WE HAVE HAD AN INTERESTING PRESENTATION OF SOME ALTERNATIVES. THIS PAPER PROPOSES, first, that a strategy of community participation of the small municipalities or rural municipalities be central to livestock and agricultural development. Second, it proposes a strategy to differentiate the target populations according to three main groups. One group would be the peasants who the authors call “emerging.” They need relevant technology and new and appropriate programs to solve their problems—credit mechanisms, etcetera. The second group are those farmers whose future may better lie off the farm. And the third group are those for whom there is no possibility of escaping from poverty.

Third, the paper suggests stronger coordination mechanisms at the government level to be able to work in this area—either an interinstitutional committee at the highest possible level, or perhaps a ministry of rural development. On this subject, I wish to say that I think is not very clear in the paper what should be the relationship between the rural poor and the rest of the economy. That is, here we can see that there is no relationship, or it is not detailed, between the rural poor and the crisis or successes of agricultural markets. This is a clear debate in the Colombian sectors, where it is very clear that the less poor sectors of the rural population are highly associated with the work, with the salary-based work in agriculture. So the crisis of commercial agriculture severely increases impoverishment, because it somehow lowers the income of the rural middle-income peasants, and they either live in poverty or migrate to the cities.

Somehow, rural poverty, I think it's very clear, is lower where you have better opportunities for the worker, him- or herself. However, all the analysis here is focused on what to do with a sector of the population that somehow has fewer alternatives than the rest. The question that I would ask the panel is what is the relationship of these people to the rest of the economy—to the urban economy and the commercial agriculture systems where income is greater?

So, with these remarks, I'm going to give the floor first to Mr. José Leibovich, who is a very well-known Colombian economist. He is director of the Economic Study Center of the Universidad de los Andes, SADE. In the past he has also worked with Desarrollo and with the Colombian government in three jobs. He has been Adviser for Coffee Affairs, Advisor for the Ministry of Agriculture, and Advisor to the Director of the Council of Foreign Trade.

Comment

JOSÉ LEIBOVICH

I THANK THE ORGANIZERS OF THIS SEMINAR FOR THIS OPPORTUNITY TO COMMENT ON THE INTERESTING presentation of Dr. Valdés and Dr. Wiens on rural poverty in Latin America. I consider this presentation an important intellectual effort that helps to go deeper into the problem, analyze its characteristics, and propose lines of action for its relief.

As Latin American countries have developed during recent decades, the problem of rural poverty lost its importance on the agendas of government and multilateral credit agencies, not because incidence is low, but because—in numerical terms—there are as many or even more urban poor. In fact, while the proportion of the poor in rural areas is between 34 and 86 percent—depending on the country—according to Valdés and Wiens urban poverty is between 21 and 64 percent. Nevertheless, as nowadays most of the population is urban, it is assumed that most of the poor live in the cities. Evidently this has been in part the result of a development model that ended up turning rural poverty into urban poverty through migration to the cities.

This model must come to an end because of the social and economic costs implied. It cannot be a model for development to leave rural areas depopulated and have urban centers overcrowded with rural immigrants. For this reason, in spite of the fact that most of the poor are not in rural areas, attention must be paid to the problem at source. Failure to do so will breed the backwardness, violence, and insecurity that has ravaged Colombian rural areas and stimulated most of the migration to the cities.

The change in the development model

The development policy of the last decades, with its strong protectionist bias against new industries, generated an appreciation of the real rate of exchange, which affected the production of exportable goods from rural areas. This has caused a major transfer not only of the financial resources of rural areas to the cities, but also of the best of rural labor.

Although among some leaders of the agricultural unions it is not recognized that—at least in Colombia—

liberalization certainly eliminated the anti-export and anti-rural bias of the previous economic model, what is certain is that this change by itself does not solve the complex problems of rural poverty. Even though the anti-agricultural bias of the previous policy may have been eliminated, new realities have appeared in the macroeconomic scene making the task difficult. I refer to the inevitable appreciation of the real rate of exchange associated with the oil discoveries in the Piedemonte of the Eastern Llanos.

The other aspect that is worth emphasizing is that liberalization also modified the relationship between prices of the various goods produced in rural areas by eliminating the excessive protection that some import-substitute crops, intensive capital, land, and raw materials supplies used to have; it therefore favored the production of labor-intensive goods, some of them having clear advantages for promotion on the international market.

The treatment of the rural problem goes beyond the implementation of a neutral macroeconomic and sectoral

policy. This condition is necessary but not sufficient. Although not long ago in Colombia the name of the Ministry of Agriculture was changed to add the words Rural Development, it is difficult for the ministry to deal simultaneously with the agricultural problem and the rural development problem. Clearly these are not the same thing. As Alberto Valdés has shown in his presentation, income generation in rural households might come from various sources: from the agricultural activity of the farm; from earned income; from agriculture or some other activity; or from separate, non-agricultural activities.

Aspects such as the coverage of education, health, or public services, which are essential for rural development and overcoming poverty, are key topics of rural development that traditionally have not been a concern of the Ministry of Agriculture because—in theory—they are the responsibility of other ministries that have in turn pushed them into the background due to the urban bias of their policies. As we will see later, the treatment and monitoring of this kind of issue could achieve better results within the framework of a decentralized nation.

Evolution of rural poverty in Colombia

Poverty measurements in Colombia show significant progress toward its reduction. In fact, in 1973, 70.2 percent of Colombia's population was poor, with 59.9 percent of the urban population being poor, and 88.4 percent of the rural population being poor. In 1985, the overall poverty figure decreased to 50.7 percent, with the urban figure dropping to 32.3 percent and the rural figure to 72.6 percent. Provisional information collected in the 1993 census indicates that the overall poverty percentage was down to 24.6 percent, with the urban percentage dropping to 16.9 percent and the rural to 42.7 percent.

In these figures we can see an important reduction of poverty both in the cities and in rural areas. Nevertheless, the effort toward reduction has been greater in the cities. For this reason the state's emphasis at this moment should be placed on relieving rural poverty.

Some measurement problems

Without pretending to discuss the poverty figures for Latin America reported in the Valdés presentation, I would like to draw attention to two aspects. The first deals with the definition of poverty itself, and the second with problems of measuring it.

Traditional methodologies such as Poverty Line or Unsatisfied Basic Needs have been used to quantify the number of poor. But obviously both definitions have conceptual and measurement limitations. In Colombia, the Social Mission sponsored by the National Planning Department has been developing completely new methodologies designed to construct a welfare index in which many variables are taken into account (housing quality, overcrowding, access to public services, standard of education of household members, degree of dependence, etc.). In this way, the influence of each factor on the index is captured and the commutability of the different variables that form the source of welfare can be inferred. From this approach, the quantification of poverty is more accurate because it takes into consideration the various elements that constitute it.

Poverty measurements reported in the Valdés and Wiens presentation refer to the result of applying the Poverty Line methodology in several Latin American countries. Nonetheless, these measurements ignore the self-consumption phenomenon: A part of the produce of the farm is not sold in the market, but is consumed by the family or invested in the same productive activity. This has to do with the revealed preference of rural families not to exchange all they produce on the market. Transaction expenses, quality, and demand, which create uncertainty in prices and volumes, are some of the theoretical considerations that explain this phenomenon.

In the Colombian rural sector, the self-consumption within families that work on the land is a well-established fact, but it has to be recognized that the available information on this topic is limited. In Colombia, through a recent survey about quality of life¹ Moreno² found that 87 percent of rural households reported self-consumption, and this represented an average increase in household monetary income of 14 percent. This considerably reduced the percentage of poor. This means that, in general, the figures of incidence of rural poverty that were presented are overestimated.

This fact does not alter the statement that the percentage of the poor in rural areas is higher, but it would be beneficial to improve the measurements. Moreover, the matter of self-consumption should be thoroughly studied to understand more fully how goods and inputs function in the rural sector.

Education and the poor

There is definitely a close relationship between low education standards and poverty, which in the rural sector possesses a logic that generates a dramatic vicious circle. The studies that have been conducted on the demand for education in rural areas³ have revealed, among other things, that for lower-income families the opportunity cost of sending children to school is very high when compared with the expected income children could generate from formal or informal activities. In the Colombian scenario this cost becomes extremely high when a boy finishes primary school and is about to enter high school. The result evidences two phenomena. On the one hand, there are either no—or very few—high schools in the rural areas; this fact simply increases the opportunity cost. On the other hand, the present value of the expected income from the future work of a highly educated boy on the farm would be nil.

Upper-income families can decide to send their children to continue studying at school in a large town in the region or to the capital city of the department. In this case, the parents expect the income the child will generate in the future, brought to present value, will exceed the cost, and this is possible assuming that, in most cases, the boy does not go back to his place of birth, since there it is difficult for him to generate that income. In other words, education becomes a cause of migration.

Colombia has progressed in dealing with the problem of rural education through the new school plan, which allows boys to work on the land (harvest, etc.) and to attend school simultaneously, but there is the need to expand the plan to an enormous region. Besides, with regard to high school, the outlook is rather poor. Finally, if there is no atmosphere of technical change in agricultural activities, educated human capital will end up migrating to other activities either in the same rural sector or in the city.

Diversification of sources of income

Valdés and Wiens' presentation thoroughly analyzes the sources of income of rural households. Such income is a combination of farm income, earned income from agricultural and non-agricultural activities, and income from other sources (independent activities not associated with agriculture). There are some cases such as Chile where income not derived from the farm is 60 percent of the total. By contrast, the rate in Colombia is only 12 percent.

Rural poverty standards in Chile are much lower than those of Colombia, whence it may be inferred that an interesting strategy for overcoming poverty might be the diversification of sources of income. However, in the countries of Southeast Asia income not derived from the farm is also low.

In my opinion, this approach must be analyzed in each specific case. Alternative sources of income different from those of the farm depend, among other things, on the presence of collection centers nearby and on channels for marketing non-agricultural goods and services produced.

Land access

The above approach led the authors to minimize the problem of land access as a restriction that, once overcome, may help to relieve rural poverty. In addition, through estimates of a recent survey in Colombia, López and Valdés⁴ showed that farm income was lower than earned income from agriculture or non-agricultural activities.

This appreciation offers several problems. First, in the comparisons made, self-consumption by the households that work on the land has been ignored, and, therefore, the results may change when this factor is taken into account. Second, at a theoretical level it has been ignored that land in the rural sector is the most plentiful resource, and that, appropriately exploited—and there are theoretical arguments that show that family labor can do this—it may be a source of income.

Summarizing, I believe that in specific regions, where there is an urgent need for land—obviously for families without land—agrarian reforms and technical assistance may help to improve the low income levels of the rural poor. But it has been far from easy to put the agrarian reform into practice. The land market in Colombia is virtually nonexistent, and nobody can say what is a fair price for it. The Agrarian Reform Institute is an extremely political organization, and the regional managers, in most cases, are under pressure to acquire land from important personages of the region, and this is not necessarily the best land to give to small farmers.

In conclusion, I believe that giving land to the small farmers who have not had it, and who have struggled for it, may help to relieve rural poverty and to diminish the social tension, provided it is accompanied by appropriate technical assistance, credit, and marketing guidance. But all of this requires political will to accomplish and to remove political interference from the operation.

Decentralization

All of us hope that within a decentralized nation—which the new Colombian Constitution aims to create—rural development will become dynamic. This has to do with the possibility of democracy expressing itself in a more direct and participatory way. In a decentralized framework, it is feasible that municipalities and departments will place particular emphasis on meeting the most pressing needs of their citizens. The latter, for their part, have the opportunity to express their needs and desires directly. In this scenario, the Integrated Rural Development Program DRI, founded twenty years ago, can again play a leading role in rural development.

In sum, the action of the state will continue to be important in remedying the main deficiencies that the rural sector is still enduring in terms of physical and social infrastructure. We hope that through a well-managed decentralization process, the old centralist implementation of the different programs, where the social aspect was pushed into the background by the farming world, will be overcome.

Conclusion

Overcoming poverty in rural areas will not be possible with the development model that has operated in the past—first, because the previous agricultural policy favored intensive capital development but not employment; and second, because social policies (education, health, etc.) were residual for the rural sector. The recent initiative to assign the Ministry of Agriculture the explicit responsibility of rural development has been a step in the right direction, but it has serious problems of implementation. Through decentralization, we may see major progress.

With regard to policy instruments, it is worth recalling that some of those currently in force in Colombia, such as subsidized credit channeled through the Caja Agraria, do not reach the poor in rural areas. Programs such as the DRI have played an important role in rural development. DRI could make a meaningful contribution in its current role as a cofinancing fund, provided municipalities and departments promote projects that have an impact on the rural poor.

Notes

1. DANE, 1993.
2. 1995.

3. Vreyer et al., 1994, for Ivory Coast, and by Léibovich-Magnac, 1995, for Colombia.
4. 1996.

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Comment

M A N U E L O . C H I R I B O G A

THE PAPER PRESENTED BY ANTONIO VALDÉS AND TOM WIENS CONSTITUTES A RENEWED attempt to define a World Bank strategy to face rural poverty problems in the region. Basically, it states that at present there are new opportunities to develop such a strategy in relation to both the requirements of economic growth and the need for increased assistance that is reasonable, just, socially and politically stable, and socially fair. The proposal includes some additional concepts to the conceptual tradition of the World Bank—the need for differentiated interventions or policies according to the basic types of rural poor people: small producers, semi-peasants with strategies based on non-agricultural income, and structurally poor people with limited possibilities of escaping the perverse poverty cycle. It is equally based on the need that the differentiated interventions be complemented with institutional reforms directed toward decentralized peasant participation, and toward institutional coordination at a central level.

I wish to comment on four factors in relation to the paper we are discussing: first, the poor attention given by the authors to the topics of land and water distribution; second, the need for sectoral policies aimed at the small family group producers; third, the role of NGOs; and fourth, the theme of women and ethnicity in agriculture.

Land and water matters continue to be crucial when approaching themes of poverty and rural development. From the beginning the authors discard this possibility. They argue that there is a very low political and fiscal feasibility of policies related to agrarian reform. When referring to water, the idea of redistribution is not even mentioned, although nowadays the importance the Bank gives to the opening of water markets is well known. The need for distribution policies as a means to face rural poverty is crucial not only for its implications for social justice, but also because of the requirements of an inclusive and shared social development—for example, the experience in Southeast

Asia. The existence of unfair structures of land and water distribution in the majority of the countries of the region has a direct impact on opportunities for market incentives in the same way they influenced, in the past, the opportunities to capture public benefits and services. Land and water availability distorts the market and generates differentiated conditions for the producers who participate in it.

Additionally, these unfair agrarian structures make up central elements of violence and social and political instability. Recent experiences in Mexico, Paraguay, Brazil, and Ecuador demonstrate the importance of the topic. Although it is difficult to think of solutions of the same type as those applied during the 1950s or 1960s for land and water reform, there is a set of innovative experiences in this field. In Ecuador, after an indigenous uprising, a coalition of indigenous organizations, NGOs, the church, bilateral operatives, and the government established a massive program to support indigenous peasants' buying of land.¹

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A second comment refers to the need for sectoral policies. What I think is new in this study, and to a certain extent is a brake in relation to previous studies conducted by the Bank, is the acceptance of the need for a program to help the "invisible workers of the market," as Gustavo Gordillo de Anda entitled a recent article. As mentioned on page 24 of the paper, "it is possible to make a strong argument to subsidize the cost of transaction of such middlemen (mainly non-conventional suppliers of credit and technology which bridge the gap between producers and private suppliers)."

This is a very important argument if one considers the recent effects of stabilization policies and adjustment and market liberalization on small producers and the rural poor. In general, these studies insist on the idea that such policies suppose a higher risk and threat for small producers, normally linked to the product market.²

Several papers have been published about the impact of adjustment policies on the success or failure of economic strategies of small producers. Those papers emphasize the importance of factors related to transaction costs, in addition to some characteristics and agro-ecological advantages. Thus, a recent study of the Peruvian case, in which at least twelve small production situations are analyzed, establishes that the main factors associated with successful strategies among small producers, after stabilization and adjustment programs, are linked to reduced asset and cost availability in the market. Among the characteristics that distinguish success and failure in the new economic context one finds specialization in quality products; markets with price availability; contracts, or stable relations with industry; credit availability; technical support; and producer organization.³

The same can be observed in similar situations in other countries of the region.⁴ The basic problem rests on the fact that these conditions cannot be found in a generalized way and that a substantial part of small production is heavily threatened by deregulation and adjustment policies, but mainly by the systematic cut of public intervention in technological transfer and credit. This is particularly true for family producers linked to basic grain production—rice, potatoes, tubers—that make up the basic production of the majority of family group producers.

A deliberate policy of a different type to support these sectors requires an important effort from the state, first, to improve productive assets that are held by these producers

(irrigation, transport infrastructure, communications, marketing); second, to motivate contracts between agro-industry and family group producers; and third, to reduce cost integration in the market.⁵ This last point may involve both sectoral policies related to credit and differentiated technologies for these sectors, as shown by the experiences of Chile and Colombia. It also may require normative frames and incentives for the setting up of producer organizations.

Titling, technology, access to credit, and qualifying programs are important. This requires clear sectoral policies that at present do not exist. Rural development programs based on demand cannot solve the previously mentioned problems by themselves because they are not able to supply a reasonable offer. Districts and local governments cannot do that either, because they do not have equipment or technicians. The market, by itself, does not have enough rent incentives to enter into this market. NGOs and producer organizations can play an important role in reducing transaction costs if somebody is ready to subsidize them. In fact, they have credit and transfer technology and the methodologies to do it, but they do not necessarily have the economic capability for massive programs of this type.

This implies the development of public sectoral policies clearly focused on small family group producers and their organizations as the necessary condition for rural development. A crucial element is the need to motivate permanent institutions and organizations among family farmers.

The third comment refers to the role expected of NGOs and basal organizations. As the paper mentions, many of the new ideas related to rural development come from NGO experience.⁶ The topic of producer heterogeneity—the need for differentiated policies—has this origin. The same happens to both the idea of credit and extension technologies, and that of micro regional development, one that involves an urban center and its neighboring rural areas.⁷

At present, a number of NGOs are devoted to mediation activities among small family group producers, semi-peasants and the poorer groups, and the private, financial and banking, and technological and equipment input sectors. They are doing the same with public programs of rural development, social compensation, etcetera.⁸

This way of behaving implies, at least, the following challenges that require answers from the corresponding state and from organizations such as the World Bank. First, there is the need to see NGOs not only as cheap service sup-

pliers, taking upon themselves their activity costs. NGOs have operational costs that must be recognized, which in many cases are increasing because of higher professional standards. In the same way, NGOs from the region face an increasing reduction in international cooperation flows as an effect of global changes. The advantages of NGOs rest not on their cost but on the technologies they share with the poor and that facilitate their empowerment.

A second challenge rests precisely on the fact that NGOs need resources for research and development. In fact, NGO knowledge of and technology developments related to rural areas are the result of many years of research work and experimentation with peasants in a variety of fields. This was possible thanks to brother organizations from the north, foundations, and bilateral cooperation. It is necessary that this investment be recognized and valued. In the same way, it is necessary to provide some fresh resources for NGOs for this type of activity.

A third crucial element is to facilitate NGO participation not only in service supply but also all along the project cycle, and to ensure their participation in the decision-making process. NGOs have a lot more to give than just their operational capacity. They constitute a unique reservoir of knowledge, capacity, and experiences that may signify an important contribution to programs on rural development.

Finally, the involvement of NGOs and other civil society organizations implies the need to preserve their autonomy, and to respect their critical role and their time and work rhythms, which are not always the same as those of governments and banks. Sustainable development times are traditionally higher than political or investment project cycles.

Obviously, these are also challenges for NGOs. It would be necessary to improve their efficiency, professionalization, action capacity, and transparency in relation to their major counterparts. Nevertheless, this cannot imply a lessening of their commitment to those sectors, their mystique, and their work dedication.

The last comment I want to make refers to the way the structural poverty group is conceived, and its close association to ethnic and gender characteristics. Although I do not think this is the authors' intention, there is the implication that ethnicity and gender must be considered only in the work with extreme poverty groups. In the case of ethnic groups, there is enough evidence on the existence of

a causal link with poverty; and the same happens with gender themes. Groups like the Otavaleños in Ecuador and the fruit producers in Perú and Bolivia are examples of economic dynamism and ethnic identity.

A recent study on the relation between women and agriculture conducted by ICA, with BID support, in eighteen countries of the region stresses the importance of women's participation in agricultural production, independent of the type of unit producer. Moreover, it stresses the fact that in Central America, women's participation is higher in emergent and feasible units.⁹ This implies that ethnic and gender themes must be present in all policies directed to the sector.

This problem questions the factors associated with this structural poverty group. They exist; they are related to small parcel themes, the deterioration of the natural conditions of soil and water, illiteracy, number of children, etcetera. The proposal made by the study is an approach to household characteristics, not so much to producer units. The basic idea is that the future of these groups will be either in part-time peasants, or in emerging ones, depending on the type of intervention and on the micro-regional conditions for development, agrarian reform, or investment in human resources, and in the capacity of those groups.

Notes

1. Mario Cadena, and José Tonello. "Acceso a la Tierra por Indígenas y Campesinos Ecuatorianos." Paper presented to the workshop "Reunión de Primavera del Grupo de Trabajo de las ONGs sobre el Banco Mundial," Santafé de Bogotá, 1995. Such programs, based on debt purchase, implied a buying of 30,000 hectares and the legalization of almost 400,000 hectares.

2. A. de Janvry et al., "Reformas del Sector Agrícola y el Campesinado en México," ICA-FIDA, 1995.

3. Javier Escobal, "Impacto de las Políticas de Ajuste sobre la pequeña Agricultura," in *Debate Agrario*, No. 20, CEPES, Lima, Perú, 51-78.

4. See, among others, work done on cheese producers from Ecuador, J. Tonello, "La Fantasía en el Desarrollo Rural," FEPP, 1995. E. Baumeister's work for Central America and A. Janvry's paper for Mexico.

5. See Alejandro Schejtman, "Agroindustria y Transformación Productiva de la Pequeña Agricultura," CEPAL journal, 1994 for contract themes. Also A. Janvry's previously mentioned work for producer organization; works presented in *Debate Agrario*, No. 20 on macroeconomic and sectorial policies, and the agriculture of Chile, Bolivia, Ecuador, and Perú.

6. These are not, for Latin America and the Caribbean, foreign NGOs. The region stresses the importance of national, regional,

and local NGOs. ALOP, an NGO network, was established more than seventeen years ago, and its associates are, on average, 19 years old.

7. There is a lot of information on the recent role and evolution of NGOs in the region. For example, see Farrington and Bebbington, T. Carrol, D. Kaimowitz, M. Chiriboga, Fox, ALOP. All of them stress some characteristics of those organizations.

8. M. Chiriboga. "Las ONGs y el Desarrollo Rural en los Países Andinos: Dilemas y Desafíos," in ALOP, *Desarrollo Rural en los Andes*, Quito, 1995.

9. M. Chiriboga, R. Grynspan, and L. Pérez, "Mujeres de Maíz," ICA-BID, San José, 1995, and F. Campillo, "Productoras de Alimentos en 18 países de América Latina y el Caribe," ICA-BID, San José, 1996.

Comment

MIRNA LIÉVANO DE MÁRQUEZ

I THINK THE FINDINGS OF TOM WIENS IN HIS REPORT WITH ALBERTO VALDÉS CONFIRM SOME OF THE aspects that we knew by intuition or by observing the realities of our country. I'd like to make my observation on the basis of very interesting questions asked by Tom Wiens. And, naturally, I'd like to mention the reality that I know best, which is the situation in El Salvador.

There are three things that have been done in El Salvador to try to alleviate rural poverty: land reform, integrated rural development projects, and technical assistance. In El Salvador, as well as in most Latin American countries, we have tested all these experiences. Yet rural poverty is as prevalent as ever. Let me talk about land reform in El Salvador. It was a very showy production and required big resources. But it was not an answer to rural poverty.

El Salvador is the smallest country in continental America. Naturally the agricultural frontier has already been depleted. But there has always been a myth in the country that land is a source of wealth, and that land concentration is equivalent to wealth concentration. Therefore, during the eighties, there was a land reform experience which led us to different types of productive units. On the one hand, there were cooperatives that were managed by an intergovernmental committee. The beneficiary was theoretical; there was no land ownership title. It was the people inside an institution that had to do with production investment, and even though there was a wish to increasingly ask cooperatives to participate, that institution actually lasted for twenty years. And there was also the experience of small productive units. Land was to be given to those who worked it, and not to the legal owner. And there were settlers and people who would pay rent, and they started to benefit from this part of the land reform. In fact, the results obtained were contrary to the objectives that had been proposed.

Land reform had been implemented for two reasons: one, because it was a way to alleviate poverty and to fight

against the rural poverty and income concentration, and two, it was a source of political tensions. But you know the experience of El Salvador. We had a conflict that lasted for more than twelve years, and in fact, results were practically negative if we see them from the economic viewpoint. In one decade, production and exports were cut in half, and the only incentives that beneficiaries of the land reform had was to have a permanent job. In fact, these people either had profits or they had to pay a debt. So there was no incentive to reinvest or increase productivity.

On the other hand, land reform actually undermined the work ethic in the rural areas because in the reformed areas, people would work four hours. In the neighboring property people would work eight hours. There was a whole wave of land reform in the eighties. However, in the nineties, there was another land reform with peace agreements. There was again the myth that land was a source of wealth. And one of the things that was agreed upon in these peace agreements was to give land to those who had been fighting with the guerrillas or with the armed forces—not to seize properties, but just to buy and sell

property. However, the results can be easily seen nowadays. In the last harvest, more than 70 percent of the agricultural lands had been abandoned. This is just to show you what is happening. Land reform was not an answer to poverty or to political problems, at least in El Salvador.

This morning, we mentioned clichés very often, but to solve social problems it is essential to focus on a very specific question. With this study we can classify the rural poor into three categories: those who are called emerging; poor farmers who have the possibility of making it, basically workers in rural areas who work outside the farm; and the rural poor who live in extreme poverty. This is the first time any effort has been made to systematize and separate the various classifications of poor populations with strategies that are appropriate to each of these categories.

For emerging farmers, for example, the importance of cadaster (land entitlement) programs is stressed. In light of the land reform results in El Salvador, we see that it is more important to give mobility and security to the land market. This is only achieved by means of a registration system and a cadaster office which is efficient and respected by all. We know that in most Latin American countries, what people have to do to obtain a registration is very cumbersome, and that does not promote legal security. On the other side, for these emerging farmers to succeed, it is important to increase agricultural productivity, and the basis of that productivity is legal land ownership by means of titling programs and relevant technology.

But there is a difference which is very important, even though it seems to be very simple. For that technology to be relevant, it has to be given to those who need it in a way they can use it. Authors suggest vouchers or credits for technical assistance, that the technology needed be decided on by the beneficiary, and he decides from whom he is going to ask this technology. This is a change from the way it was done in the past. And credit access. We are well aware that subsidies for credit are not adequate. It is better to have resources available in a timely manner. That is why emphasis is made on intermediation and on using other more flexible mechanisms such as NGO's, or savings and loans that might facilitate credit.

The second group of rural poor are those workers who work outside the farm, and I am a bit concerned about

some of the suggestions made here. These workers are considered to be part of the labor force, and it is said, well, they should have education that will allow them to read and write and add and subtract and multiply and learn certain basic knowledge about planning and accounting. This is made equivalent to secondary education, and we all know that secondary education is practically nonexistent for the rural poor. So, I think that countries that have very serious poverty situation should focus primarily on education. We should think about an incentive system so that sectors may provide the technical assistance and education, and it should not only be provided by the government.

For the rural poor who are in extreme poverty situations, what has been suggested is basically a rural investment fund which is more decentralized. This would allow for a whole series of solutions for different situations, and with decentralization we can come closer to the needs of these poor people and to allocate few resources to the bureaucracy itself. The possibilities of solutions, that was another question by Tom Wiens. I think this is a very complex subject, and this has to be done in the medium term. This is not something that can be achieved overnight. This is not a problem of financial resources. It is a problem of political will, of abilities of different approaches to address the rural poverty problem.

Finally, let me address the question of what is the relation of these rural poor to the rest of the economy. I think we have to make a distinction, again, based on the methodology suggested by Tom Wiens. We have to base this on the three types of poor. First the emerging farmers. We are trying to increase their productivity so that they can perform their agricultural activities independently. Afterward, I think in the present world where basically there are productive chains and some people produce the inputs for others, having emerging farmers who are more competitive will increase the level of competitiveness in the whole country. As for workers outside the farm, if the suggestion is to have an education similar to secondary education, well, in fact they may have opportunities in any economic sector with more capacity than they have now. As for the rural poor who are in an extreme poverty situation, I think this is a burden that has to be borne by all society that we have to face and give support to.

Panel Discussion

José Antonio Ocampo, Moderator: Let me focus on three elements that I believe are very important. First, it is evident that rural poverty is lower where there is a dynamic urban sector and a dynamic commercial rural sector. For example, rural poverty is lower in the Valle del Cauca, Colombia where both conditions exist: a strong urban sector and a strong commercial agriculture. So, poverty is not a topic exclusive of the analysis of rural poor populations. That is why I believe the discussion on which policies are appropriate cannot be separated from the contexts in which the respective rural populations live. I have no doubt that it would be best for rural populations to have alternatives for earning income, such as migrating to the city and to work in commercial agriculture, as an alternative to working on his own farm. The more alternatives a person has, the better.

Second, there is a need to develop institutions as alternatives to the old centralized government institutions. This is true for each of the sectoral policies—land policies, technology policies, credit policies—all of which are oriented toward poor populations. One of the biggest problems for rural development is the lack of adequate education and health care institutions in the rural areas. So, the development of these adequate institutions is most important.

In that context, we must reaffirm the need for community participation, for the autonomy of small municipalities, for the participation of the nongovernmental organizations, and for all of the new participants that are making institutional development easier through appropriate mechanisms that are not centralized, but are, rather, decentralized. It is through these institutions that we might find the solutions to the problems faced by marginal popula-

tions, or by the emerging agriculturists, as they are referred to in the paper.

Third, the topic of lands. The paper seems to be somewhat skeptical on this subject, and part of that skepticism has some basis. When attempts have been made to deal with the land problem only as a problem of redistribution, those efforts have met with failure in many parts of Latin America. But the truth is that the topic of lands is essentially a political issue. The paper presented does offer some hope for creative agrarian reform that would not only distribute land to everyone, but would also ensure that social services would be made available, especially education.

Now I will open up the session to questions.

Dr. Londoño: My first comment is this: If you look at Latin America as a whole, over the last twenty-five years agricultural employment has not increased in absolute terms. Yet, this was a period in which there was a large increase in available land and in production. Employment increased by 2 percent per year, on average, in real terms, so that the topic of transformation of rural poverty must be more dramatic than what was presented. There are populations that stayed and there are huge demographic changes in the rural populations.

My second comment is a suggestion about institutions. The paper seems to express ambivalence about the desire to work with a superministry in the rural and agricultural areas. On the one hand, the paper says it would be difficult unless it were through a coordinating committee. On the other hand, the paper says that this option is really unde-

sirable—that it is better to work from the base. I think the document falls short in not providing realistic, acceptable alternatives. Demand must be addressed less through bureaucracies and more directly.

Dr. Navarro Wolf: In the classification presented of rural populations I think one sector was left out. In those areas which have not filled up their agricultural frontiers, and there are many such areas in South America, there is a migrant population that is in the Amazon region or other areas where the agricultural frontier is being expanded. This population was not included among the poor, the poor poor, or the rich, because it includes all types of people. If they grow coca leaves they are rich, but if they grow yucca or plantain, they are poor, and that depends on the conditions of the country.

That type of population is playing an important role in many regional phenomena. For example, I believe that, especially in Colombia, that population and its conditions explain the strengthening of the Colombian guerrillas over the last few years. I could almost say that the strength of the Colombian guerrillas is directly proportional to the number of hectares of coca leaves and poppies grown in marginal areas. And that has had a cost of at least 2.0 to 2.5 percent of the GNP per year in the last years in Colombia. So these people cannot be handled with the formulas, with the proposals that you people have made, and I believe they need deeper study.

New speaker: First, I would like to ask Tom Wiens of the World Bank this question: What relationship is there between the existing rural poverty and the adjustment processes of the Bratenburg Group? In this group I include the World Bank. What experiences have we had over the last nine years? The national banks, the State banks, the Agrarian Bank in Bolivia, the national banks in Central America—they were a mechanism to provide credit, good or bad, but at least they played a role. Second, the commercial banks do not give credit to the rural sectors unless they have solid guarantees. This adds up to less credit being available to those who need it most.

Third, on the subject of the generation of savings: Please, do not ask the poor to generate savings. That is for the theory makers. The creation of rural investment funds of which my colleague from the ex-FIS spoke about, that does make some sense. But if we are left without commer-

cial or State banking, we are left without any institutionalization, even though the NGO's remain, and they play a definite role. Therefore, I would not say that the circle starts with the governments or the NGO's. The circle begins in Washington, and goes around, and ends up in Washington, and we should keep this in mind. I am one of the ministers who proposes stabilization. I said it this morning. But stabilization with a human face, and we are not doing this in our nations. That is why we are talking about poverty instead of fighting it. Not only the government and the civil society, but also the international institutions, must understand that the problem of poverty is a problem that concerns all of us.

Dr. Ciro Angarita: My comments are directed to Dr. Chiriboga, specifically. At present, there is a great concern on the part of certain NGOs regarding the contents of an internal World Bank memorandum dated 26 February in which one of its Presidents insists that, to solve the problem of food security, all should be left to the vagueries of the market.

The fears of these NGO's are well founded because, on the subjects of the rights of agriculturists and the presence of the so-called indigenous populations in the discussions coming up at the Biological Diversity Convention, the influence of these populations and their rights are being shunted aside or simply ignored. What answers does the World Bank have with respect to these healthy concerns of these NGOs?

New speaker: One of the principles that nobody discusses is that adjustment programs have had a greater impact on agriculture and the rural sector than on any other sector of the population. Another principle which we cannot ignore is that the private sector, especially private banks, consider agriculture highly risky, especially credits to the small agrarian producers. That is why I think what Tom Wiens has said is very interesting, and I would like to express my support for what he has proposed. I consider his proposals innovative in three respects.

First, there appears the visible hand of the market and not the invisible hand of a State that plays with the marginal members of the model. Whenever the State intervenes in the sector of small agricultural producers, it plays the new role assigned to it by the neoliberal model. It is going to compensate an unbalance created by the model.

Second, with all the advantages that you have mentioned here, I believe that the creation within our nations of slim and transparent organisms—such as the social investment funds through nontraditional financial intermediary organizations perhaps such as those of the NGOs—represent new ways to reach the countryside. I do not believe in the traditional ways to reach the fields because these have been mostly failures. Nevertheless, I would like Tom Wiens' opinion on the mechanisms of the social investment funds that have been successful in Latin America in the placement of the social infrastructure.

Rodolfo Freira: I am Rodolfo Freira of the Regional Center of Populations, Bogotá, Colombia. I want to talk about demographics and its transformation, which is especially relevant to the countryside. Obviously, the migration factor is decisive in order to understand what is actually happening in the Latin American countryside. This is particularly true when the ratio of population in the rural areas to the overall population is beginning to become sensitive to its size.

In countries such as Colombia we are starting to see that the peasant population not only is not increasing, but is decreasing. In addition, there is selective migration as far as sex and age. As a result, the agrarian populations are beginning to show very interesting demographic traits, such as, for example, that the ratio of male to female is growing in the rural areas, and that the population as a whole is starting to grow older. Another important factor is that those who migrate are probably the ones most able to address agrarian problems. These are important elements that must be kept in mind in this type of analysis, especially of the rural parts of Latin America.

J. A. Ocampo: We will now have very brief comments from the members of the panel. We will start with Dr. Wiens.

Dr. Tom Wiens: What the role is of adjustment processes in rural poverty is a difficult question, and within the Bank there has been quite a bit of discussion, even argument, over the realities of the effects of adjustment on the rural poor, not to mention the urban poor, and on what remedies ought to be employed. We need to determine what to do in view of the need for credit to deal with the problem of rural poverty. Let me elaborate on that.

As has been observed, most of the agricultural credit banks do not direct their credit to the poor; most of the eli-

gibility criteria allowed farmers who were non-poor to have access to that credit at very subsidized rates. It is also probably an accurate generality that the recovery rate for most of these institutions was very poor; that they came to be regarded by the farmers as really just another form of grant from the government and, therefore, they were not sustainable as institutions. So from my perspective the closing down of these banks is not a great loss, but still leaves a void in the rural areas. What to do about that void?

In our paper we presented some ideas, and these ideas are bound to be controversial and to merit further discussion. By selecting first of all the farmers who have the capability of being emergent, of being modern, these are farmers who also have the capability of repaying loans on reasonable commercial terms. We don't mean, of course, rates of interest of 30 or 40 percent. We mean something like near market rates of return. The major problem, though, is even if these farmers do not really need subsidized farms, they do need some kind of subsidy because of the cost of distributing credit and recovering credit among them. That's why we included a recognition in our paper of the need for a subsidy mechanism to deal with the cost of administering and distributing loans. The other group of the poor—maybe the largest proportion of the small farm group—really is not credit worthy and therefore the question has to be asked, why should we deal with them, with credit, why not grants? Why do we need to extend loans to them and not simply default on them? Or if we extend them loans, do we need to extend them as the State?

Perhaps, in terms of my suggestion on this strategy, the best remedy is to extend them grants through organizations at the community level, then let them decide on the credit worthiness of individuals and whether they should use loans or grants or direct investment or equity or any other mechanism for dealing with the problem. The point is we cannot expect the extreme poor to be worthy of or have access to commercial credit. But the fact remains that there is a financial need in the rural areas to address poverty, and there is a need for institutions to be built up to address that problem.

New speaker: Two topics. One is the topic of institutions and organizations for rural development and reduction of poverty, particularly as they concern those living in absolute poverty. It seems to me that the type of approach that has been traditionally made regarding this group is

insufficient. Besides thinking about what we have heard this morning, it is important to think also in terms of social capital, the organizations and social institutions to which these groups are linked, and the need to strengthen both the organizations and institutions, and the links.

I have done some work on the subject of this linking that has to do with options of development at the micro-regional level. It is very difficult to think of the possibility of development of these poorer groups when taken individually. So I ask myself what are the options of development for these groups? I suspect these options include strengthening of their organizations and institutions, and of local development, but not exclusively agricultural development. This implies investment in training these people to ensure they will not always need subsidies.

The second topic is NGOs. We have been seeking substantial participation of nongovernmental organizations and, more generically, of civil society organizations, with respect to multilateral organisms. We are a group of twenty-six organizations from all over the world, and we have periodic discussions with the Bank on matters of interest to us. For example, as of late we have worked at the regional level in Latin American on the participation in organizations of civil society to determine investment priorities of the multilateral banks in various countries. Is there room for NGO participation, or isn't there? At the global level, we are about to begin a joint research project with the Bank on the impact of adjustment programs on the poor and on the options of development.

New Speaker: I would like to touch upon the most controversial topics mentioned in this discussion. First, the topic of the savings of the poor. How can one ask the poor to save? I believe that even the rural poor have savings. That is the land. Maybe it is not even accounted for because they lack the title of real property. Then to grant them a title on that property would mean to recognize those assets, which means that even if they don't do anything, savings can be accounted. On the other hand, when having a title on real property, such property can be used as collateral, and with those savings they can be allowed to invest, or to increase their investment, and with that they can produce a bit more. I liked the name "emergent agriculturists" that was used, because that is exactly what they are, and with a little help they can improve their prospects.

The other controversial topic is the one of adjustment and poverty. I have heard many statements against adjustment programs. But I think the paper does justice to the effect adjustment programs have on poverty. It says that it depends on where they are placed, whether as buyers or as sellers. In each country each reality is different, and according to the situation, the impact will also vary.

I want to tell you about the case of El Salvador, with which I am familiar. When the adjustment process began, one of the measures was the liberation of prices, and this obviously implied agricultural prices. The basic grains, which are the basis of the food diet, had warranty prices. In El Salvador we call them "tortillas"; here you call them "arepas." The thesis was to keep the prices of the "bean" cheap so that cheap tortillas could reach the homes of the urban poor. It boiled down to the fact that the rural poor were subsidizing the urban poor. What actually happened with the liberation of the prices was that 400,000 small agricultural workers benefited, who were the poor in the countryside and who constituted one-eleventh of the entire population. The first effect of these adjustment programs was very favorable to the rural poor, who were basically the emerging agriculturists, the producer of basic grains.

I want to comment on the statement that the rural population has not increased over the last years. That is true, but I believe the report takes into account all of what happened in the rural area and if we really look into it, even before the 1980s and 1990s, there were basically—as José Leivovich has already perceived—policies of industrialization, of development, of protectionism which were definitely skewed against the agrarian sector. We had a type of money exchange that was overvalued, that made it cheaper to import raw materials and capital, and therefore worked against the rural poor because it made labor cheaper.

If we start from the premise that land is a limited resource, which it is, and if we simplify the production elements into land, capital, and labor, all of the policies were set to make capital come to the country, and this worked against labor. Likewise, when we had high tariffs, what did this mean? This was to make it easier for capital and raw materials to enter, because there were tax benefits for these, making capital cheap, which also worked against labor. In like manner, subsidized credits, what did they do? They also made capital cheaper, which worked against labor. That is, everything we did was skewed against agriculture. I believe the adjustment programs have greatly eliminated that anti-

agricultural skew. But there is a problem that all Latin American countries understand now, and that is the overvaluation of the currency exchange. It is a problem because that, once more, exerts great pressure on rural poverty and creates a situation of great disadvantage for the rural poor. But it is not the adjustment programs as a whole—it is only that part of money exchange policies. It has been demonstrated in different studies that the importance of the type of exchange rate is very relevant to the agrarian situation.

New speaker: Let me address the subject of decentralization with respect to Colombia. This is a process being undertaken in other Latin America countries, as well. In that context, I see the possible role of local organizations that better understand the people and the problems, and there is a more direct relationship between citizens and their government to solve their problems. However, we are also very worried about decentralization. I do not think it is per se some sort of panacea for rural development. To get people thinking about this subject, I will give a concrete example of what has happened with the process of agrarian reform in a country such as Colombia.

Decentralization is under way, but as far as development itself, agrarian reform is in the hands of the regional managers. Nonetheless, these regional managers are, in good measure, appointed by the local government—be it governor, mayor, or as you please—let's say it is the governors—and what we have been able to see within this more decentralized frame is a phenomenon that soon falls out of the merely economic. That is, it becomes clearly political. It is that the process does not move because it finds great resistance, or great pressure, from regional clientele that do not allow the process of agrarian reform to develop as it should. The concrete reality is that pressure is exerted on the regional managers so that the Colombian Institute for Agrarian Reform (INCORA) acquires whatever lands they want to sell to it, which is not necessarily the best land, to be handed out to peasants who need the land.

So the topic of decentralization can lead to interesting developments for rural development policies and for the struggle against poverty, but I worry about the problem of the politicization at the local level.

IV. Labor Reform and Social Balance

Labor Reform and Job Creation: The Unfinished Agenda in Latin American and Caribbean Countries

J. LUIS GUASCH

DESPITE THE RESUMPTION OF ECONOMIC GROWTH IN MOST LATIN AMERICAN AND Caribbean (LAC) countries since the late 1980s, improvements on the employment/unemployment front have been sluggish at best, with a few notable exceptions. Renewed growth in LAC in the 1990s has so far failed, in many countries, to generate adequate new jobs in place of those lost during the adjustment and to restore wages to pre-crisis levels. After a number of years of relatively high economic growth, the employment outlook in many countries remains worrisome. In those countries where unemployment rates appear to be low, often as a result of how they are measured, the concern is the low quality and remuneration of available jobs. Persistent or increasing levels of unemployment, stagnant wages, and the weak private sector job creation performance, particularly in the formal sector, are raising serious social and economic concerns.

First, because a larger share of the unemployed tend to be among the poorest 20 percent of the population, unemployment adversely affects poverty and income distribution. Second, long-term unemployment (duration) and informality are also on the rise. Long-term unemployment is far more socially damaging than short-term, since those affected often become permanently separated from the labor force. Informality is linked to low earnings, at least for a significant share of the informal workers, and to a lack of basic benefits, which worsen poverty and income distribution problems. The recent patterns of unemployment increases, if persistent, may derail the significant economic reforms that have been realized since the late 1980s. If unemployment in the Region increases or persists at high levels, and the real gains associated with adjustment are not broadly shared, opposition to continued reforms is bound to increase.

To a large extent, an initial employment shock induced by the structural economic reforms pursued by most coun-

tries in LAC was to be expected. These adjustments caused significant aggregate and sectoral labor displacement, particularly from the (historically protected) manufacturing sector and parastatal companies (with their bloated employment levels). In Argentina, for example, the employment share of the manufacturing sector dropped from 25 percent in 1991 to about 20 percent in 1995, even while production has been increasing. In Mexico, that share dropped to 20.2 percent in 1995. Similarly, in Brazil, in 1995 employment in the textile and apparel industries stood at around 500,000—roughly half its 1989 level, though production was 15 percent higher.

Increasing capital mobility, foreign trade, and the globalization of LAC economies means greater competition for firms. The opening of most LAC economies has reduced the cost of imports, helped to reduce inflation and to significantly reduce the cost of capital goods relative to the cost of labor, (inducing an increase in the capital-labor ratio and, therefore, in the productivity of labor), but has

so far had significant costs in terms of labor displacement, which were expected to be short term.² Bloated employment levels prior to the reforms, coupled with the technological innovations and technical progress adopted in response to competitive pressures have induced substantial shifts in demand away from unskilled workers toward skilled workers.³ The increase in demand for skilled workers in LAC has far outweighed supply shifts and has raised their wages. Large investment, and the accompanying substitution of labor for capital, appears to be correlated with increased wage inequality. The decrease in demand for the unskilled and for the skilled with obsolete or inappropriate skills has induced increased unemployment in many countries in the Region. All this leads to wide corporate restructuring and a surplus of unskilled labor, which often translates into higher unemployment, higher informality, less tax revenue from employment taxes, and greater pressure for state resources, particularly under rigid labor markets.⁴

Compounding the employment problem, high rates of labor force growth and the steady increase in labor force participation have met with slack private sector job creation to produce increasing informal employment and open unemployment growth in many LAC economies. At the same time, disparities remain or are increasing with regard to the wage gap between skilled and unskilled labor and with regard to the number and type of jobs being created and their distribution among households at various income levels.

In a number of countries where economic reforms have produced a low inflation environment in the mid-1990s, imbedded wage rigidities have favored employment adjustments over wage adjustments. While job destruction was expected from these reforms, so was job creation. However, the latter has been slow to develop and lags considerably behind medium-term expectations. In short, current rates of economic growth are generating fewer jobs than are needed to absorb the growing labor force in a productive way. This situation was initially interpreted as a specific consequence of the early stages of the reform process, but it now appears to have become permanent, even in cases where the reform process is at an advanced stage and growth rates are relatively high.

To some extent, the relatively poor job creation performance in many LAC economies can be attributed to the lack of reforms in the factors markets—particularly the

labor market. In most Latin American and Caribbean countries, labor markets continue to be highly regulated, relying on labor legislation enacted in the 1950s and 1960s that favors employment protection and lifelong job security in the public sector, and which heavily taxes labor. Protected labor markets and institutions which are riddled with distortions and rigidities weaken labor demand and make adjustment to the new (efficient) equilibrium longer and more socially costly, or worse yet in some economies, induce a new inefficient equilibrium. The institutional structure of most LAC countries is not friendly to job creation and tends to induce responses to shocks through employment adjustment rather than wage adjustments.

The deficiencies of the current structure of labor markets and institutions in LAC countries have been exposed and enhanced by the shocks induced by structural economic reforms. If the price of labor does not adjust quickly and smoothly to macroeconomic shocks or to secular changes in the macroeconomic environment, then either the quantity of labor must adjust or the rates of output growth or inflation are likely to do so. When there are fluctuations in aggregate demand, changes in the employment level tend to be much smaller in economies with flexible labor markets such as the U.S. or East Asian countries than in other regions such as Latin America and the Caribbean. The former economies usually adjust to downturns through wage changes, without laying off significant numbers of workers. With increased globalization and its associated competitive pressures, a continued high degree of labor protection by the state seems unsustainable and to some extent contradictory. Yet, very few countries in the Latin American and Caribbean Region have engaged in comprehensive labor reforms, which have proven to be politically difficult. Chile, Peru, and Colombia have been leading the Region in major labor market reforms that increase overall labor market flexibility. These reforms have proven to be effective in facilitating job creation and decreasing unemployment. A few other countries have engaged in some partial reforms, but they do not seem to circumscribe a pattern for overall flexibility. Others like Argentina and Nicaragua are in the midst of passing wide-ranging labor market reforms.

The persistence of high rates of unemployment, weak private sector job creation rates, stagnant wage growth and an ever increasing informal sector in moderate to high

GDP growth economies, with their accompanying social and economic implications, are generating new calls for reforms and debate about which policies are most appropriate to address these critical problems. The focus of this paper is on: (a) the performance of labor markets in the Latin America and Caribbean Region since the beginning of the significant structural reforms most countries in Latin America and Caribbean have undertaken; (b) the structure of labor markets, institutions, and incentive structures; (c) the effects of that structure on employment, earnings, income distribution, and poverty levels; (d) the role of labor market institutions in labor market trends; (e) the options for reform and the benefits of comprehensive labor reforms, as evidenced within and outside the Region; and (f) labor policy reforms to improve in a sustainable way the employment/unemployment outlook.

Unemployment performance in LAC in 1990–1996

Unemployment Persistency: Open unemployment remains persistent and has actually been increasing in a number of LAC countries since 1990, as shown in Table 1, although it has improved if compared to the 1985 level. While there is considerable variation across countries, with some showing significant improvements, open unemployment for Latin America as a whole has increased from 5.7 percent in 1990 to 8.0 percent in 1996. A few country examples illustrate the predicament. In Brazil, open unemployment has recently increased as a result of restraints imposed on the economy to avoid overheating. Despite a cumulative GDP increase of nearly 15 percent in 1993–1995, the number of jobs created was insufficient to absorb the labor force, and open urban unemployment reached nearly 6 percent coun-

TABLE 1
Latin America and the Caribbean, Urban Open Unemployment, 1985–1996
(Average Annual Rates)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996 ^e
Latin America												
Argentina	6.1	5.6	5.9	6.3	7.8	7.5	6.5	7.0	9.6	11.5	17.5	17.1
Bolivia	5.7	7.0	5.7	11.5	9.5	7.3	5.8	5.4	5.8	3.0	3.6	4.0
Brazil	5.3	3.6	3.7	3.8	3.3	4.3	4.8	4.9	5.4	5.1	4.6 ^d	5.9
Colombia	13.8	13.5	11.8	11.3	9.9	10.5	10.1	10.2	8.6	8.9	8.8	11.2
Costa Rica	6.7	6.7	5.9	6.3	3.7	5.4	6.0	4.3	4.0	4.3	5.7	–
Chile	17.0	13.1	11.9	10.0	7.2	6.5	7.3	4.9	4.1	6.3	6.6	6.8
Ecuador	10.4	10.7	7.2	7.4	7.9	6.1	8.5	8.9	8.3	7.1	6.9	–
El Salvador				9.4	8.4	10.0	7.5	6.8	–	7.0 ^a	8.0	–
Guatemala	12.0	14.0	11.4	8.8	6.2	6.4	6.7	6.1	8.1	7.2	–	–
Honduras	11.7	12.1	11.4	8.7	7.2	6.9	7.1	5.1	5.6	4.0	6.6	–
Mexico	4.4	4.3	3.9	3.5	2.9	2.7	2.7	2.8	3.4	3.6	6.3	5.8
Panama	15.7	12.7	14.1	21.1	20.4	20.0	20.0	18.2	15.6	15.8	16.4	16.7
Paraguay	5.1	6.1	5.5	4.7	6.1	6.6	5.1	5.3	5.1	4.1	5.6	5.5
Peru	10.1	5.3	4.8	7.1	7.9	8.3	5.9	9.4	9.9	8.8	7.9	8.7
Uruguay	13.1	10.7	9.3	9.1	8.6	9.3	8.9	9.0	8.4	9.2	10.8	12.7
Venezuela	14.3	12.1	9.9	7.9	9.7	10.1	10.1	8.0	6.9	9.0	10.9	11.9
Latin America	10.1 ^a					8.1	8.4	8.1	8.1	7.8	8.8	10.2 ^f
	8.3 ^b					5.7	5.6	5.7	6.1	6.3	7.2	8.0 ^f
The Caribbean^c												
Barbados	18.7	17.8	17.9	17.5	14.7	15.0	17.1	23.0	24.3	21.9	19.7	16.2 ^g
Jamaica	25.0	23.7	21.0	18.9	18.0	15.3	15.4	15.7	16.3	15.4	16.2	16.3 ^g
Trinidad and Tobago	15.7	17.2	22.2	22.0	22.0	20.0	18.5	19.6	19.8	18.4	17.2	16.1 ^g

Notes: a. Arithmetic average.

b. Weighted average.

c. Not included in the average since the methodology used in the Caribbean countries differs from the one applied in Latin America.

d. 1996.

e. Average of first three quarters.

f. Averages only include countries for which 1996 information was available.

g. Average of first two quarters.

Source: ILO and World Bank.

trywide and 16 percent in the Greater São Paulo area in 1996. The number of unemployed people in Brazil's largest cities doubled to over 1 million in 1995. Over the past several years the proportion of urban workers in regular employment has fallen to under one-half of the work force, with the rest joining the ever-growing informal sector or the self-employed, mostly in the service sector. Due partly to the recession, Mexico's open urban unemployment rate climbed in 1996 to 5.8 percent, or more than double its early 1990s rate. Argentina, despite impressive GDP growth of 31 percent over the 1990–1994 period, saw its unemployment rate climb to an unprecedented peak of 18.6 percent in 1995, from 6.3 percent in 1990. In Uruguay (Montevideo), open unemployment has been rising from 8.6 percent in 1989 to 12.7 percent in 1996. The Caribbean countries, with about half the labor force growth rates of the Latin American countries, have among the highest unemployment rates in the Region, stubbornly anchored between 16 and 20 percent. Honduras, Chile, Bolivia, Guatemala, and Ecuador secured improvements in the unemployment rate,⁵ although progress in a number of these countries has been variable.

- Not only has unemployment been increasing in a number of countries throughout the Region, but the tendency has been toward an increase in unemployment. In Argentina, for example, the mean duration of a completed unemployment spell went from 13 weeks in 1991 to 45 weeks in 1995. Similar trends are observed in Uruguay, Venezuela, and Caribbean countries.
- Incidence of Unemployment: Not surprisingly, across the Region the open unemployment rate in the first poorest decile is four or more times higher than the average unemployment rate. For the poorest 20 percent of households, it is three or more times the average rate. These ratios do not appear to be much affected by fluctuations in overall unemployment. Also, unemployment for the period was higher among women, youth, and the uneducated. Throughout LAC, the unemployment rate of women exceeded the average by between 10 and 40 percent; while that of youths 20 to 24 years old exceeds the average by more than 50 percent. For those between 15 and 24 years of age, the unemployment rate is twice the average rate.

A caveat is in order about the unemployment numbers. The cited numbers should be viewed as an underestimate of

the real unemployment levels, as a result of the way unemployment is measured. In measuring unemployment, most Latin American countries follow the ILO recommendation that the employed population consist of those who had worked at least one hour in the week before they were surveyed. Those who did not work but were certain to return to a job or business, and those who were going to begin a new job in the next four weeks are also included. The open unemployed are those who did not work but were available to engage in some economic activity and sought to do so in the two months prior to the time of the survey.

Employment performance: Continued mismatch between employment growth and labor force growth

Insufficient Employment Growth

Employment growth: While for most countries, the rate of growth of employment has been positive and, by many standards, significant, it has not been large enough to absorb the growing labor force in many countries in the Region, as shown in Table 2. The comparison between labor force growth and employment growth (both formal and informal) throughout the Region illustrates the severity of this situation. While the average annual employment growth rate in LAC over the 1990–1994 period was 2.8 percent, the average annual growth rate of the labor force

TABLE 2

Latin America: Employment and Population Growth Annual Rates 1970–1995

	EAP	POPULATION	EMPLOYMENT
Argentina	3.3	1.7	2.2
Bahamas	1.1	2.2	-2.2
Bolivia	3.2	2.4	4.2
Brazil	3.0	2.4	2.5
Chile	3.9	1.7	4.0
Colombia	3.3	2.1	3.8
Costa Rica	4.1	2.6	4.4
Ecuador	3.3	2.9	2.8
Honduras	6.3	3.0	7.0
Jamaica	0.7	1.5	0.6
Mexico	3.9	3.1	3.6
Panama	6.0	2.7	2.2
Paraguay	5.1	2.6	5.8
Peru	3.8	2.8	3.7
Trinidad & Tobago	2.3	0.8	2.8
Uruguay	1.3	0.1	1.4
Venezuela	1.7	3.4	2.2

Source: World Bank.

was 3.3 percent. In 1995, employment grew by only 2 percent, while the labor force climbed by 3.2 percent. The trend is clear. *Employment is growing more slowly than the labor force by a widening margin.* The result is ever-higher unemployment, as illustrated in Figure 1.

Continued increases in labor force participation: The rate of demographic growth, while still high, has slowed down in the 1990s. However, it is the children of the adults born during the population boom of the 1970s and the early 1980s who are now entering the work force, and placing added strain on the employment/unemployment outlook (see Table 2A). Moreover the number of net jobs needed to absorb the new workers is larger than the rates shown here, since labor force participation is on the increase in LAC. For example, the working-age population in Ecuador grew during the 1982–1993 period by 2.7 percent annually, on average, while labor force participation increased at an annual rate of 4.6 percent; labor force participation jumped from 43 percent in 1982 to over 50 percent in 1990. Labor force participation is trending upward, particularly among women.

Their rate has increased by between 5 and 10 percentage points during the last ten years in many LAC countries. Further, since these rates are still relatively low, in the 30 to 50 percent range, still more increases can be ex-

pected, again adversely impacting the employment/unemployment picture.

In Ecuador, the participation of women in the labor market increased from 34 percent in 1988 to 46 percent in 1993. Also in Argentina, female labor force participation in the Greater Buenos Aires area increased from 43 percent in 1987 to 49 percent in 1994. In Colombia, whereas one female in three was working in 1976, one in two was working in 1995.

Aside from the expected trend increases in labor force participation due to demographics, reduced fertility, and increased schooling of women, there are cyclical factors behind the recent increases in labor force participation rates as well. Changes in labor force participation rates can be attributed to two factors: an *income effect*—change in work force participation due to a change in family income; and a *substitution effect*—the change in participation due to a change in the price of labor. These effects are also referred to in this report as the “added worker effect” and the “drop-out or discouraged worker effect,” respectively. A fall in household income because the family head became unemployed, for instance, may lead to other members (e.g., spouse, school-aged children) entering the labor force, thus resulting in added workers. Similarly, a fall in the wages of workers may lead them to drop out of the labor force entirely because they do not perceive the wages they would earn to be worth the effort expended. That is, workers prefer “leisure” to work at the prevailing wage rate.

For any particular group of workers (e.g., classified by age or sex), the only way to distinguish between the two effects is if (a) income and substitution effects differ significantly among households, and/or (b) the relationship between the real income of primary workers and the real wages of secondary workers has moved differently for different types of households. Labor force participation rates are postulated here to be functions of a time trend (to capture long-term social trends not otherwise captured in the analysis), and a cyclical factor (to capture short-term fluctuations in economic activity). If labor force participation moves in the opposite direction of economic activity (goes up as economic activity goes down), that indicates the predominance of the “added worker” effect. If, in contrast, labor force participation goes down as economic activity goes down, the indications are that the “discouraged worker” effect dominates. The main measure used as an indicator of cyclical activity is the unemployment rate of

FIGURE 1
Labor Force and Employment Growth

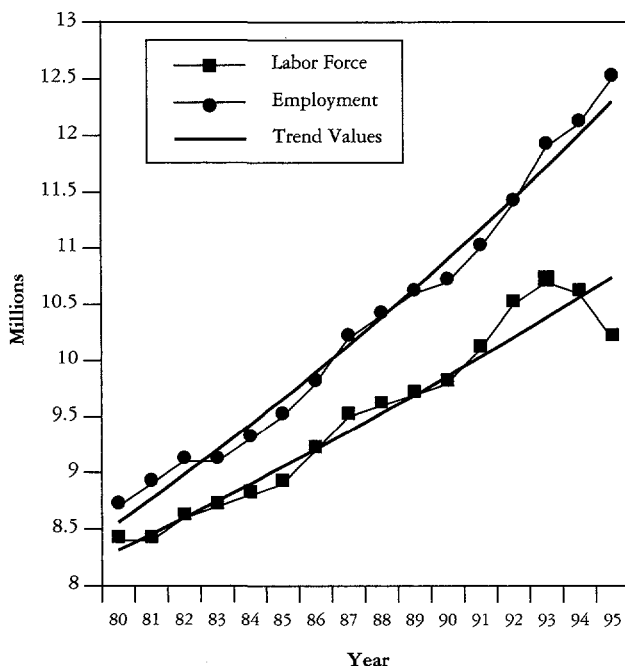


TABLE 2A

Labor Force Participation Refined Rates^a

	TOTAL					MALE					FEMALE				
	1970	1980	1985	1990	1995	1970	1980	1985	1990	1995	1970	1980	1985	1990	1995
Argentina	49.2	47.1	49.0	50.5	51.4	73.9	71.1	69.0	66.5	66.9	24.5	24.1	29.9	35.3	36.7
Barbados	50.3	58.7	60.5			65.1	66.0	68.4			36.7	52.3	55.4		
Bolivia	46.5	46.9	47.0	48.9	50.1	74.6	71.4	69.0	68.1	67.8	19.5	23.4	26.0	30.5	32.9
Brazil	44.9	55.0	55.9	56.3	56.8	71.5	76.1	76.3	76.1	75.3	18.4	34.0	35.5	36.7	38.5
Chile	41.2	41.3	43.2	44.9	47.0	65.4	63.0	64.2	65.1	66.0	18.1	20.4	23.0	25.4	28.7
Colombia	44.5	45.3	46.8	48.7	50.3	69.6	64.8	64.5	65.7	66.4	20.2	26.2	29.6	32.4	34.7
Costa Rica	44.9	46.2	47.6	48.8	49.9	72.9	728.0	74.0	73.7	73.3	16.7	19.3	20.8	23.6	26.2
Cuba	41.9	44.0	46.4	50.8	53.8	67.0	61.0	62.8	67.3	70.1	15.9	26.7	29.8	34.2	37.4
Ecuador	44.1	43.1	45.3	47.6	49.4	74.2	69.3	69.0	70.7	71.1	14.0	16.9	20.7	24.4	27.6
El Salvador	49.8	47.4	46.1	45.2	47.3	78.6	73.4	70.2	67.8	68.6	20.9	22.7	23.3	24.3	27.5
Guatemala	44.6	42.2	43.3	44.4	45.7	76.6	71.3	71.0	70.5	70.5	11.8	12.6	15.3	17.9	20.7
Guyana	42.3	45.9	47.5			67.9	70.3	71.8			17.1	22.3	23.6		
Haiti	72.7	62.7	58.3	58.8	59.0	80.4	73.6	70.8	70.6	70.3	65.5	52.6	46.7	47.6	48.4
Honduras	45.4	46.2	48.2	50.0	51.1	78.6	76.7	77.0	78.9	77.8	12.3	15.7	18.4	21.0	24.3
Jamaica	57.3	59.3	62.3			68.6	65.8	68.7			46.9	53.1	56.0		
Mexico	40.4	47.8	47.9	48.9	51.1	65.7	71.3	70.7	71.3	72.4	15.2	24.6	25.7	27.1	30.5
Nicaragua	43.5	48.8	51.2	51.5	52.3	69.9	70.6	70.8	70.2	69.7	17.7	27.4	32.0	33.3	35.3
Panama	50.3	44.0	45.5	47.4	49.4	73.7	63.1	64.6	66.5	67.6	26.0	24.2	25.9	28.0	31.0
Paraguay	46.5	47.6	48.3	49.2	49.3	73.9	76.5	76.1	74.2	73.0	19.6	18.9	20.6	24.0	25.3
Peru	46.9	48.7	60.0	51.0	52.3	67.6	67.7	68.4	68.7	69.3	26.0	29.5	31.6	33.5	35.7
Dominican Republic	50.2	50.6	52.5	54.4	56.1	75.0	73.6	74.5	75.5	76.2	24.0	26.8	29.7	32.6	35.3
Suriname	40.2	39.4	41.2			60.7	57.7	59.3			20.0	21.6	23.6		
Trinidad & Tobago	46.5	47.1	49.1			66.8	68.7	69.5			27.0	27.0	26.8		
Uruguay	48.5	49.2	52.2	52.6	53.4	71.4	66.9	67.0	66.7	67.4	26.2	32.4	38.3	39.5	40.3
Venezuela	41.7	44.4	46.5	48.1	49.6	65.2	66.3	67.4	67.7	67.9	17.8	22.0	25.3	28.2	31.2

Note: a. Economically active population aged 10 and older as percentage of the total population aged 10 and older.

Source: Statistical Yearbook for Latin America and the Caribbean, CEPAL.

prime-aged men. The evidence in a number of countries in LAC is the predominance of the "added worker" effect or the countercyclical quality of labor force participation (World Bank, 1997). An increase in the incidence of unemployment among heads of households has pushed more of the household's secondary workers (spouses and children) into the labor force, worsening the unemployment outlook.

Deficient "Good" Employment Growth

Increased underemployment: The real unemployment rate is actually higher than the figures reported above, since there has been an increasing tendency in a number of LAC countries to substitute full-time jobs for informal and part-time jobs. For example, in Mexico, while the unemployment

rate in 1994 was 3.6 percent, when including workers who involuntarily work less than 15 hours a week the rate climbs to 5 percent. Including those who involuntarily work less than 35 hours a week, the unemployment rate climbs to 25.5 percent. The figures are similar for other countries as well. In Argentina, the employment share of part-time workers counted as employed increased from 8 percent in 1990 to nearly 12 percent in 1995, and part-time jobs went from 12 percent to 16 percent of total employment. According to government figures, the national rate of underemployment is estimated at 75 percent in Peru and at 55 percent in Nicaragua. The underemployed are often either independent own-account workers, or flexible workers linked to the formal sector,

TABLE 3

Average Annual Population Growth Rates

	1965-70	1970-75	1975-80	1980-85	1985-90	1990-95
South America	2.47	2.31	2.26	2.09	1.9	1.74
Central America	3.12	3.01	2.63	2.40	2.33	2.23
Caribbean	1.84	1.82	1.37	1.39	1.40	1.31

including casual, temporary, and home-based workers. These jobs tend to be low-income, provide little or no benefits, and on average have an adverse impact on poverty and income distribution.

Increasing informal sector share of employment: Significant numbers of informal sector workers are counted as employed in the statistics, though their employment situation may be quite tenuous. According to ILO numbers, 57 percent of the Region's workers were employed in the informal sector in 1995, whereas the figure was 52.1 percent in 1990. The informal sector has, in fact, been the main source of job creation in LAC. The ILO estimates that for the 1990–1995 period, 87 out of each 100 new jobs created correspond to the informal sector; of the estimated 15.7 million new jobs created in Latin America and the Caribbean, 13.6 million were in the informal sector. Microenterprises were the main generators of employment, where new jobs increased by 5.5 percent per year for the 1990–1995 period.

The employment share in medium and large private firms has decreased in all countries except Bolivia, Honduras, Panama, and Ecuador, as seen in Table 4. Employment in the formal sector has been growing at a meager 1 percent per annum. Table 5 shows the changes in the employment share of the informal sector throughout the Region in the period of study. From a sample of twelve Latin American countries only Honduras experienced a decline in the proportion of the informal sector during the first four years of the 1990s. In Ecuador, the employment share of the informal sector went from 45 percent of total employment in 1990 to 48 percent in 1993, (with 80 percent informality in commerce); Peru went from 42 percent in 1990 to 47 percent in 1995; Mexico from 55 percent to 57 percent, and Venezuela from 38 percent to 45 percent. In 1994, 26.8 percent of the workers in the Region as a whole were self-employed, 6.4 percent were in domestic service, and 22.5 percent were employed in establishments with less than ten workers. Of the employed, 44.3 percent were engaged in the formal sector; 13.6 percent were employed in the public sector, and the remaining 30.7 percent were employed in private firms. By definition of the informal sector more restrictive than that of the ILO, including self-employed workers (other than professionals and administratives) shows the same pattern, with increases in the share of informal sector workers among the employed.

Selective Improvements

Some countries have shown sustained improvements on the employment/unemployment front, including Chile, Peru, Colombia, and Bolivia. The factors they have in common are relatively high GDP growth rates, and greater labor market flexibility attributable to labor market and institutional reforms. Others, like Honduras, Guatemala, and Paraguay have shown employment improvements (although having worsened in 1995) despite moderate or low GDP growth rates. Overall and not surprisingly there is, indeed, a positive correlation between employment and GDP growth for the Region. Finally, the service sector, as expected, has been the major provider of new jobs and employment growth, although many of those jobs are at the lower end of the wage spectrum. This sector now accounts for 50 to 70 percent of total employment in the Region, yet it is often the poorest in terms of information and data, as opposed to manufacturing, which accounts for only a declining 20 to 30 percent of total employment.

Labor, income, and productivity

Throughout the 1990–1995 period, real wages have been increasing (although they declined in 1995 driven mostly by the Mexico devaluation crisis), reversing the trend of the 1980s, when they fell significantly in most countries. However, most of the wage increases of 1990–1995 have outweighed labor productivity increases in most LAC countries. Yet, for a number of countries wages are still below the pre-debt crisis period. For the 1990–1994 period, labor productivity increased by 1.8 percent per annum in LAC, while industrial wages improved by 2.6 percent per annum, (but fell by 0.5 percent in 1995), as shown in Tables 6 to 8. Table 8 shows the yearly changes in average labor productivity for a sample of Latin American countries for the period of study. However, the variance in wage distribution within each country has been increasing. For example, Chile's real wages have shown sustained increases with an annual growth rate of 3.8 percent for the 1990–1995 period, but not exceeding annual productivity growth, which has been 4.1 percent (Leiva, 1996). That combination has led to increased employment and a reduction in poverty. Bolivia has not only secured improvements in unemployment but in real wages as well, with an annual wage growth rate of 3 percent. Peru, aside from securing significant job growth, has also seen a major increase in real salaries over the period of 30 percent for unskilled labor

TABLE 4

**Latin America: Non-Agricultural Employment Structure
(Percentage)**

COUNTRIES/YEARS	INFORMAL SECTOR			FORMAL SECTOR			
	TOTAL	SELF-EMPLOYED ^a	DOMESTIC SERVICE	SMALL BUSINESS ^b	TOTAL	PUBLIC SECTOR	LARGE PRIVATE FIRMS
Latin America							
1990	52.1	24.8	6.8	20.5	47.9	15.5	32.4
1991	52.8	25.2	8.8	20.8	47.2	15.2	32.0
1992	53.5	25.7	6.7	21.1	46.5	14.8	31.7
1993	54.5	26.1	6.6	21.8	45.5	14.0	31.5
1994	55.7	26.8	6.4	22.5	44.3	13.6	30.7
Argentina							
1990	47.5	24.7	7.9	14.9	52.4	19.3	33.2
1991	48.6	25.3	7.9	15.4	51.4	18.5	32.9
1992	49.6	25.3	7.8	15.9	50.4	17.7	32.7
1993	50.8	26.6	8.2	16.1	49.2	16.8	32.4
1994	52.5	27.0	7.4	18.1	47.5	14.3	33.2
Bolivia							
1990	56.9	37.7	7.7	12.8	43.1	16.5	26.6
1991	56.1	37.8	7.7	11.5	43.9	17.1	26.8
1992	56.9	38.2	7.8	12.5	43.4	15.5	27.9
1993	61.2	36.4	7.7	18.3	38.8	12.7	26.1
1994	61.3	37.1	7.6	19.0	38.7	11.4	27.3
Brazil							
1990	52.0	21.0	6.2	23.3	48.0	11.0	36.9
1991	53.2	21.7	6.1	23.8	46.8	10.7	36.1
1992	54.3	22.5	5.9	24.0	46.7	10.4	35.2
1993	55.6	23.4	5.5	24.5	44.4	10.0	34.5
1994	58.4	24.0	4.3	24.8	43.6	10.1	33.5
Colombia							
1990	59.1	25.1	5.8	27.8	40.8	10.6	30.2
1991	59.7	25.2	5.6	28.4	40.2	10.3	29.9
1992	60.3	25.4	5.2	29.0	39.5	9.9	29.6
1993	60.8	25.5	5.0	29.8	39.2	9.7	29.5
1994	61.6	26.4	5.3	30.9	38.4	8.6	29.8
Costa Rica							
1990	42.3	18.1	8.1	18.4	57.7	22.0	35.7
1991	44.6	19.0	7.7	20.0	55.4	20.3	35.1
1992	41.4	17.6	7.3	18.6	58.6	20.5	38.1
1993	43.7	18.6	6.6	20.1	56.3	20.1	36.2
1994	46.2	17.8	6.7	23.1	53.8	18.4	32.4
Chile							
1990	49.9	23.6	6.1	18.3	50.1	7.1	43.0
1991	49.9	23.1	6.7	19.0	50.1	7.8	42.3
1992	49.7	22.7	6.6	19.6	50.3	8.0	42.3
1993	49.9	22.6	6.0	20.6	50.1	7.9	42.3
1994	51.0	23.7	5.8	20.6	49.0	7.7	41.3

TABLE 4 (CONTINUED)

	INFORMAL SECTOR				FORMAL SECTOR		
	TOTAL	SELF-EMPLOYED ^a	DOMESTIC SERVICE	SMALL BUSINESS ^b	TOTAL	PUBLIC SECTOR	LARGE PRIVATE FIRMS
Ecuador							
1990	51.6	32.5	7.1	13.1	48.4	18.6	29.8
1991	52.2	32.8	6.7	12.8	47.8	18.1	29.7
1992	53.0	32.4	6.7	14.0	47.0	15.5	31.6
1993	52.5	31.5	6.7	15.0	47.4	15.4	32.0
1994	54.2	31.4	6.0	17.0	45.8	13.7	32.1
Honduras							
1990	54.2	32.7	5.6	14.4	45.8	14.8	30.9
1991	50.8	31.8	5.5	12.3	49.2	16.6	32.6
1992	50.8	30.9	5.5	13.2	49.2	16.5	32.8
1993	53.2	31.5	5.5	15.1	46.8	13.2	33.5
1994	51.9	31.4	5.4	15.9	48.1	12.4	35.8
Mexico							
1990	55.5	30.4	7.2	19.5	44.6	25.0	19.8
1991	55.8	30.5	7.9	19.8	44.2	24.7	19.5
1992	56.0	30.5	8.7	20.0	44.0	24.5	19.5
1993	57.0	30.6	8.1	20.9	43.0	23.0	20.0
1994	57.0	30.7	7.9	20.9	43.0	22.9	20.1
Panama							
1990	40.4	20.4	7.2	12.8	59.5	32.0	27.5
1991	41.1	19.7	7.9	13.5	58.9	27.9	31.0
1992	41.5	19.1	8.7	13.8	58.5	25.8	32.8
1993	39.9	18.3	8.1	13.5	60.1	24.9	35.2
1994	40.2	19.5	7.9	12.9	59.8	24.4	35.4
Paraguay							
1990	61.4	21.3	10.7	29.4	38.8	12.2	26.4
1991		23.0	10.0			11.3	
1992	62.2	22.2	11.0	29.0	37.8	14.6	23.2
1993	62.5	21.5	11.6	29.5	37.5	12.2	25.2
1994	68.9	22.3	11.7	34.9	31.1	11.8	19.3
Peru^c							
1990	51.8	35.3	5.1	11.4	48.2	11.6	36.7
1991	51.8	34.9	4.8	12.1	48.2	11.9	36.3
1992	54.5	37.2	4.9	12.4	45.5	10.0	35.5
1993	54.2	34.7	4.6	14.9	45.8	10.1	25.7
1994	56.0	35.2	4.6	16.2	44.0	7.9	36.1
Venezuela							
1990	38.8	22.1	4.1	12.6	61.2	22.3	38.9
1991	38.2	22.2	3.9	12.2	61.7	21.6	40.1
1992	37.4	22.2	3.4	11.8	62.8	20.2	42.4
1993	38.4	24.1	3.2	11.1	61.6	18.8	42.8
1994	44.8	27.3	3.0	14.5	55.2	19.3	35.9

Notes: a. Includes self-employed workers (except the administratives, professionals, and technicians) and family business workers.

b. Corresponds to employed in establishments with less than 5 or 10 workers, depending on the available information.

c. Corresponds to Metropolitan Lima.

Source: ILO.

TABLE 5

Latin America and the Caribbean, Urban Open Unemployment and Informal Employment^a
(Average Annual Rates)

	1990		1991		1992		1993		1994		1995	
	UN- EMPLOY- MENT RATE	IN- FORMAL EMPLOY- MENT (%)	UN- EMPLOY- MENT RATE	IN- FORMAL EMPLOY- MENT (%)	UN- EMPLOY- MENT RATE	IN- FORMAL EMPLOY- MENT (%)	UN- EMPLOY- MENT RATE	IN- FORMAL EMPLOY- MENT (%)	UN- EMPLOY- MENT RATE	IN- FORMAL EMPLOY- MENT (%)	UN- EMPLOY- MENT RATE	IN- FORMAL EMPLOY- MENT (%)
Latin America												
Argentina	7.5	47.5	6.5	48.6	7.0	49.6	9.6	50.8	11.5	52.5	17.5	53.3
Bolivia	7.3	56.9	5.8	56.1	5.5	56.6	5.8	61.2	3.0	61.3	3.6	63.6
Brazil	4.3	52.0	4.8	53.2	4.9	54.3	5.4	55.5	5.1	56.5	4.6	57.6
Colombia	10.5	55.2	10.1	55.7	10.2	55.8	8.6	55.7	8.9	55.3	8.8	55.5
Costa Rica	5.4	42.3	6.0	44.6	4.3	41.4	4.0	43.7	4.3	46.2	5.7	44.6
Chile	6.5	49.9	7.3	49.9	4.9	49.7	4.1	49.9	6.3	51.6	6.6	51.2
Ecuador	6.1	51.2	8.5	54.9	8.9	55.1	8.3	54.1	7.1	52.1	6.9	53.5
El Salvador	10.0		7.5		6.8		—		7.0 ^b		8.0	—
Guatemala	6.4		6.7		6.1		8.1		7.2		—	—
Honduras	6.9	54.1	7.1	50.7	5.1	50.7	5.6	45.3	4.0	51.8	6.6	54.4
Mexico	2.7	55.5	2.7	55.8	2.8	56.0	3.4	57.0	3.6	57.0	6.3	59.4
Panama	20.0	40.5	20.0	41.2	18.2	41.5	15.6	39.9	15.8	40.2	16.4	41.3
Paraguay	6.6	61.4	5.1	62.0	5.3	62.2	5.1	62.5	4.1	68.9	5.6	65.5
Peru	8.3	51.8	5.9	51.8	9.4	54.5	9.9	54.2	8.8	53.8	7.9	53.9
Uruguay	9.3	36.3	8.9	36.7	9.0	36.6	8.4	37.0	9.2	37.9	10.8	37.7
Venezuela	10.1	38.8	10.1	38.3	8.0	37.4	6.9	38.4	9.0	44.8	10.9	46.9
The Caribbean												
Barbados	15.0		17.1		23.0		24.3		21.9		19.7	
Jamaica	15.3		15.4		15.7		16.3		15.4		16.2	
Trinidad & Tobago	20.0		18.5		19.6		19.8		18.4		17.2	

Notes: a. Informal employment as percentage of the non-agricultural employment.

b. Provisional figures subject to revision. The data for Barbados and Jamaica corresponds to the third quarter of 1994 and that of Trinidad and Tobago to the second quarter of 1994.

Source: ILO and World Bank.

and 50 percent for skilled labor (Yamada, 1995). This differential increase is consistent throughout the Region. The premium for skilled workers, and the widening gap relative to unskilled wages reflects an increase in returns to education, particularly at the tertiary level. Labor markets remain segmented (formal vs. informal) with a relatively small percentage of the labor force enjoying a significantly higher wage than the rest, which is often not justified on productivity terms. The earnings premiums for formality remain high, in the 20 to 50 percent range on average, but with significant variance. For example, in Mexico while real wages increased on average, so did the proportion of workers earning below the minimum wage, increasing to 11.6 percent.

Minimum wages in LAC grew at 1.1 percent per annum for the period, with significant variance across countries. Colombia, Costa Rica, Panama, and Paraguay registered the largest increases since 1980, while minimum wages in

Argentina (Box 1) and Bolivia have increased the most since 1990 (Table 10).

Similarly, total factor productivity (see Table 7) in the 1990s has begun to recover, with some exceptions, from the significant decreases incurred during the 1980s, as shown in Table 7. The improvement has been based on greater utilization of operating capacity, capital investment, and mostly on changes in the organization of production, that is technical change of the "disembodied" nature. A decomposition of the contribution is shown in Table 9. Chile and Colombia particularly have surpassed the pre-crisis levels, largely due to their success in overcoming the external and fiscal deficits and to high levels of investment, which have also surpassed pre-crisis levels. From selected micro data, it appears that most of the factor productivity gains have been concentrated in the manufacturing and utilities sector (whereas factor productivity appears to have increased little or even declined in the service sector).

TABLE 6

Latin America and the Caribbean: Average Real Wages

	1980	1985	1989	1990	1991	1992	1993	1994	1995 ^a	1990-95
AVERAGE ANNUAL INDEXES (1990 = 100)										
Argentina ^b	130.0	135.7	95.5	100.0	101.3	102.7	101.0	102.0	100.9	
Bolivia ^c	—	64.9	97.6	100.0	93.4	97.1	103.6	111.8	115.2	
Brazil ^d										
Rio de Janeiro	94.0	96.2	111.9	100.0	79.3	79.5	85.7	87.1	87.9	
São Paulo	88.6	93.8	111.7	100.0	88.3	85.3	94.6	98.0	98.2	
Chile ^e	95.4	89.3	98.2	100.0	104.9	109.6	113.5	118.8	123.3	
Colombia ^f	85.0	97.4	101.3	100.0	97.4	98.6	103.2	104.1	104.2	
Costa Rica ^g	115.6	106.6	98.4	100.0	95.4	99.3	109.6	113.8	111.5	
Mexico ^b	128.3	97.4	96.5	100.0	106.5	114.3	124.5	129.1	112.0	
Peru ⁱ	309.3	250.2	114.5	100.0	115.2	111.1	110.2	127.4	112.6	
Uruguay ^j	108.5	95.5	107.9	100.0	103.8	106.1	111.2	112.2	109.1	
ANNUAL PERCENTAGE VARIATION										
Argentina ^b	-19.1	4.7	1.3	1.4	-1.7	1.0	-1.1	0.2		
Bolivia ^c			5.7	2.5	-6.6	4.0	6.7	7.9	3.0	3.1
Brazil ^d										
Rio de Janeiro			1.9	-10.6	-20.7	0.3	7.8	1.6	0.9	-2.4
São Paulo			3.4	-10.5	-11.7	-3.4	10.9	3.6	0.2	-0.4
Chile ^e			2.0	1.8	4.9	4.5	3.6	4.7	3.8	4.7
Colombia ^f			1.3	-1.3	-2.6	1.2	4.7	0.9	0.1	0.8
Costa Rica ^g			0.6	1.6	-4.6	4.1	10.2	3.8	-2.0	0.3
Mexico ^b			4.8	3.6	6.5	7.3	8.9	3.7	-13.2	2.4
Peru ⁱ			-45.1	-12.7	15.2	-3.6	-0.8	15.6	-3.8	4.5
Uruguay ^j			-0.4	-7.3	3.8	2.2	4.8	0.9	-2.8	1.8

Notes: a. Preliminary figures.

b. Average total wages in manufacturing. 1995: January–October average.

c. Wages of workers in private enterprise in La Paz. 1995: Average of March and June.

d. Wages of workers covered by social and labor legislation. 1995: January–July average.

e. Until April 1993, average wages of non-agricultural wage earners. From May 1993 onward, general index of hourly wages. 1995: January–September average.

f. Wages of manual workers in manufacturing. 1995: January–May average.

g. Average remuneration declared by persons covered by the social security system. 1995: January–April average.

h. Average wages in manufacturing. 1995: January–July average.

i. Wages of private-sector manual workers in the Lima metropolitan area. 1995: first half of the year.

j. Average salaries. 1995: January–October average.

Source: ECLAC on the basis of official figures.

TABLE 7

Total Factor Productivity Growth

	ARG	BOL	BRA	CHL	COL	GTM	MEX	PRY	PER	VEN
1965-70	-1.0	-0.9	5.6	1.4	1.7	1.4	0.6	-0.6	0.3	0.2
1970-75	-1.6	0.1	5.6	-3.7	1.3	1.0	0.1	0.6	2.2	-1.8
1975-80	-1.4	-1.5	1.9	5.4	1.1	0.4	0.6	1.7	-1.0	-3.0
1980-85	-4.3	-2.4	-1.6	-1.7	-1.9	-3.8	-2.3	-4.4	-2.4	-3.1
1985-90	-1.4	2.0	-0.9	2.4	1.4	0.7	1.4	-0.4	-4.0	0.9
1990-93	5.5	3.0	-0.6	2.8	0.1	0.9	1.2	-1.4	0.3	2.7

Source: Guasch and Monteagudo, 1996.

TABLE 8

Average Labor Productivity Growth

	ARG	BOL	BRA	CHL	COL	GTM	MEX	PRY	PER	VEN
90/89	-1.0	2.3	-6.5	1.0	1.6	0.0	1.1	0.2	-7.5	3.6
91/90	7.2	2.0	-1.7	5.4	-0.5	0.4	0.9	-0.4	0.0	7.2
92/91	7.0	0.3	-3.3	9.1	1.9	1.4	-0.3	-1.0	-5.0	2.4
93/92	4.4	1.5	3.1	4.4	2.9	0.6	-2.6	0.9	3.6	-3.3
94/93	5.4	1.6	1.9	2.7	3.3	1.1	0.7	0.7	9.9	-6.1

Source: Guasch and Monteagudo, 1996.

TABLE 9

Contributions to GDP Growth

SUBPERIOD 1986-90

	ARG	BOL	BRA	CHL	COL	GTM	MEX	PRY	PER	VEN
Actual GDP growth (%)	0.283	2.222	1.941	6.588	4.631	2.912	1.38	3.895	-1.757	2.591
Phys. Cap Contrib. (%)	0.46	-1.02	1.6	2.85	1.94	0.92	1.47	3.01	0.95	0.38
Labor Contrib. (%)	0.047	0.11	0.082	0.084	0.1	0.12	0.125	0.114	0.112	0.125
TFP Contrib. (%)	-0.22	3.13	0.26	3.92	2.59	1.87	-0.22	0.77	-2.82	2.09

SUBPERIOD 1991-93

	ARG	BOL	BRA	CHL	COL	GTM	MEX	PRY	PER	VEN
Actual GDP growth (%)	7.795	3.83	1.489	8.128	3.77	4.136	2.359	2.618	2.263	5.045
Phys. Cap Contrib. (%)	1.02	-0.4	0.84	4.08	2.41	1.96	2.28	2.78	0.69	1.09
Labor Contrib. (%)	0.06	0.1	0.085	0.067	0.091	0.131	0.12	0.11	0.111	0.117
TFP Contrib. (%)	6.72	4.13	0.56	3.98	1.27	2.05	-0.04	-0.27	1.46	3.84

Source: Guasch and Monteagudo, 1996.

BOX 1

**Argentina Wage and Productivity Growth
Percent Indicator**

	1990-1994	1991-1994
Cumulative Labor Productivity Growth	21.2	16.0
Cumulative Total Factor Productivity Growth	18.8	11.9
Cumulative Dollar Wage Growth	40.0	33.0
Cumulative Real Wage Growth		
- Deflated by Consumer Price Index	28.5	18.1
- Deflated by Wholesale Price Index		45.3

Source: "Estimating the Employment Benefits of Labor Market Reforms in Argentina," The World Bank, 1997.

Labor markets and institutions in LAC countries

Undoubtedly, improvement in the employment/unemployment outlook depends on sustained high growth rates. In this environment, the impact of labor policies while important, might not be overly determinant (i.e., the East Asia experience).⁶ However, the lagged employment response to sustained high growth rates implies that their

impact on employment is for the medium to long term. In low to moderate growth environments and in transition periods of structural reforms (the LAC environment), however, labor market policies and institutions can significantly impact employment outcomes. The magnitude of the impact is a non-trivial empirical question. This paper provides some estimates of that impact. The examples of U.S. vs. European Union labor market employment performance, or that of the East Asian countries, and the *OECD Jobs Study* and that of a number of countries in LAC are powerful evidence of the impact of labor market policies, as illustrated below. Clearly the best course is a mixture of sustained GDP growth and reforms that lessen labor protection, costs, and uncertainty, and add flexibility to labor market operations. The focus here is on the latter; the impact of labor market structures and of their effects on employment/unemployment outcomes, to complement continued efforts to secure sustained high GDP growth.

Most labor markets in LAC countries are riddled with protection and rigidities that forestall efficiency in the allo-

TABLE 10

**Latin America Urban Real Minimum Wages
(1980 = 100)**

	1990	1991	1992	1993	1994	1995	ANNUAL RATE 1990-95
Argentina ^a	40.2	52.9	45.3	70	81.1	78.4	14.3
Bolivia ^a	31.2	49.3	50	54.1	59.3	58.0	13.2
Brazil ^a	55.4	64.6	56.5	63.9	60.8	67.1	3.9
Colombia ^a	105.7	103.5	101.8	104.6	102.8	102.4	-0.6
Costa Rica ^b	127.2	123.3	125.4	130.6	134.6	129.9	-0.4
Chile ^a	73.3	79.9	83.4	87.5	90.8	94.8	5.3
Ecuador ^a	36.2	30.4	29.5	33.7	38.5	44.4	4.2
El Salvador ^b	33.9	34.6	29.2	35.9	37.3	36.8	1.6
Guatemala ^b	108.7	99.5	87.5	78.4	74.7	89.3	-3.9
Honduras ^b	81.9	83.5	100.1	100.9	82.8	80.2	-0.4
Mexico ^a	42	39.6	38.3	37.8	37.7	33.3	-4.5
Panama ^b	98.4	97.1	95.5	107.2	105.8	105.6	1.4
Paraguay ^a	132.1	125.7	114.7	110.2	113.2	112.8	-3.1
Peru ^a	21.4	14.9	15.6	12.1	14.4	14.7	-7.2
Uruguay ^a	68.8	62.9	60	51.5	46.0	42.9	-9.0
Venezuela ^a	55.2	61.5	70.2	50.8	52.7	53.7	-0.5
Average ^c	69.3	70.5	68.6	69.6	69.1	72.0	0.8

Notes: a. National minimum wages.

b. Lowest industrial minimum wages.

c. Arithmetic average.

Source: ILO, based on official figures.

cation and pricing of labor resources. They include restrictions on temporary contracts, large costs for firms in adjusting labor force (inducing high job protection), relatively high labor taxes, non-competitive wage determination mechanisms, direct government intervention in the wage setting mechanism, disincentives for performance-based compensation, and inefficient conflict resolution schemes. Labor market policies and institutions in LAC countries have often been designed as instruments for social policy, rather than as instruments to secure constrained efficiency in the allocation and mobility of labor. Their design as instruments for social policy has tended to ignore the often perverse incentives of such design, with the end result securing neither an efficient allocation of labor resources nor an effective social outcome. Job protection legislation in many Latin American countries is attempting to achieve two policy objectives, with the same instrument: penalizing wrongful dismissals and providing unemployment insurance. The problem is that neither objective is well served. Firms devise ways of reducing the costs of mandated severance payments and employees attempt to transform voluntary quits into dismissals in order to receive severance payment. The law has the effect

of making labor a fixed factor. Because of this, hiring and firing decisions are subject to delays and temporary contracts are informal (*WDR 1995*). There are more effective and less damaging instruments than labor market policies to secure social objectives. Labor market policies that appear to protect low-income workers give rise to inflexibility, especially at the low end of the labor market, and to long-term unemployment. Generous income support acts as a floor on wages and discourages low-income job creation, as demonstrated by the performance of labor markets in European Union countries, described below, and the rising of informality in LAC. Faced with adverse shocks, a labor welfare policy that ignores labor market incentives can be more costly in terms of foregone jobs, output and financial costs than a policy that does not. When protections and rigidities are in place, the market response to shocks is weaker labor demand and increased informality.

Factors affecting labor demand

Labor demand is affected by the level of economic activity and by the level (absolute and relative to others factors of production) of (unit) labor costs. The focus here is on labor costs, with the understanding that growth is essential in

order to increase labor demand. It should also be pointed out that labor costs also favorably impact growth: cost reductions, increased competitiveness and productivity, reduced product prices, and increased product demand stimulate growth. This section reviews the current causes of high labor costs and opportunities for lowering them.

Labor costs have two major components, wages and non-wage. The level of wages can be made more flexible through increased competition in the labor market (e.g., greater contractual freedom and decentralized collective bargaining). Non-wage costs include labor taxes and transaction costs associated with adjusting employment levels. Non-wage costs to employers can be lowered through a reduction in labor taxes and transaction costs (severance and compensation payments). There is also a third element that impacts effective or unit labor costs, and that is productivity, because any level of labor costs increases in (labor) productivity decreases unit labor costs.

The key mechanisms by which labor markets affect labor demand through labor costs are the following:

- (a) Direct and indirect costs of labor. This refers to wage levels, labor taxes, and other imputed costs such as

absenteeism, non-working days, accident liabilities, imputed compensations, etcetera. Mandated payroll contributions as a percentage of gross wages range between 22 percent and 45 percent for the LAC countries. Many of those rates are high by international standards (see Figure 2). The effective tax is actually even higher because of the other costs associated with current labor regulations (such as effective hours worked, severance liabilities, insurance costs, etc.). When imputations are made to reflect these implicit costs, the effective tax rate rises to almost 60 percent for the top countries.

(b) Contractual flexibility. This refers to the mechanism used to determine the level and structure of wages; including contractual modes legislation, labor-management relations, and the structure of collective bargaining. Wage and contractual flexibility is constrained in a number of countries in the Region by a number of institutional arrangements. Tables 11 and 12 illustrate the underlying labor legislation clauses in the Region. The most salient factors affecting labor market flexibility are:

FIGURE 2
Payroll Tax as a Percent of Gross Wage

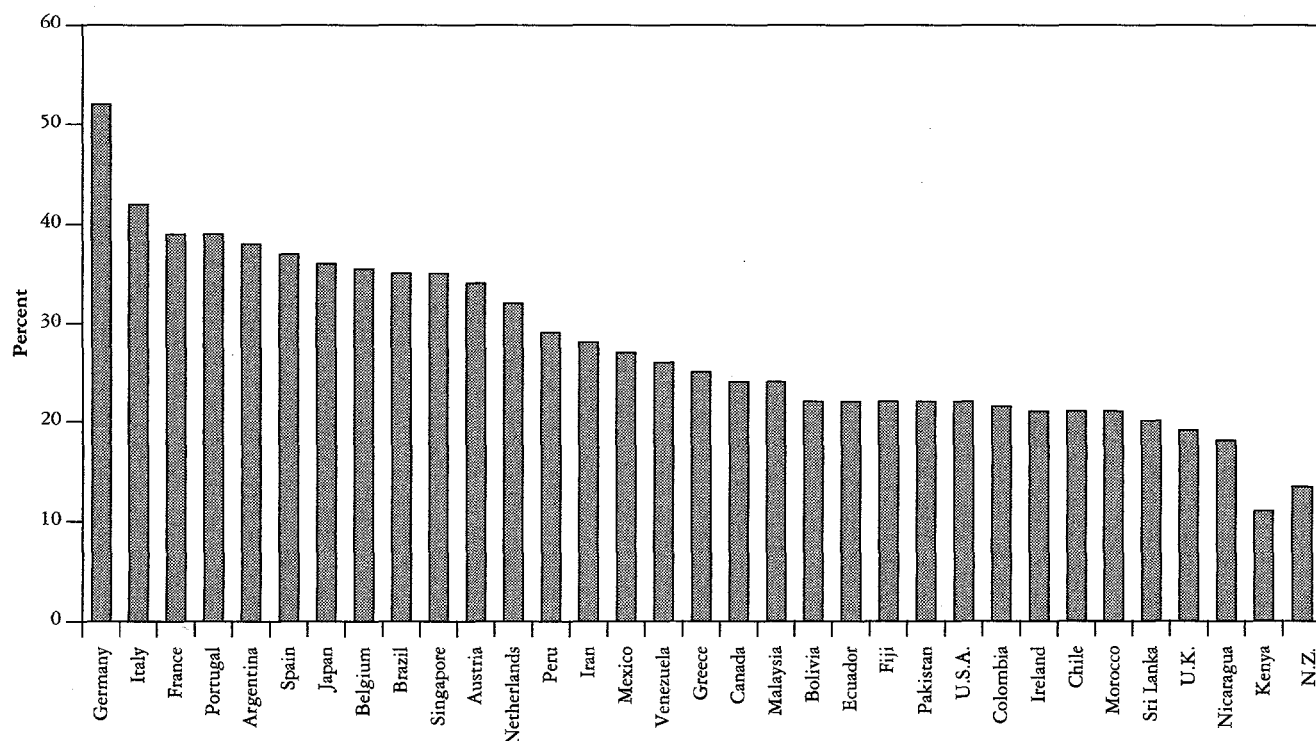


TABLE 11

Job Protection Legislation in 10 Latin American Countries

COUNTRY	RESTRICTIONS ON TEMPORARY CONTRACTS	PROBATIONARY PERIOD	ADVANCE NOTICE BEFORE DISMISSALS	SEVERANCE WITH "JUST CAUSE"*	SEVERANCE WITHOUT "JUST CAUSE"	SEVERANCE ECONOMIC CAUSE
ARGENTINA	2 years, non-renewable	3 months	1–2 months	no severance pay	$W * T^1$	$.5 * [W * T]^1$
BOLIVIA	renewable once	3 months	3 months	no severance pay	$W * T$	$W * T$
BRAZIL	2 years, non-renewable	12 months	1 month	FUND	$1.4 * [FUND]$	$1.4 * [FUND]$
COLOMBIA	3 years, non-renewable	2 months	45 days (2)	FUND	$FUND + [15–40 \text{ days' wages}] * T$	$FUND + [15–40 \text{ days' wages}] * T$
CHILE	1 year, non-renewable	12 months	1 month	no severance pay	$1.2[W * T]^{3,4}$	$W * T^3$
ECUADOR	2 years, non-renewable	3 months	1 month	$.25 * [W * T] + FUND$	$.25 * [W * T] + FUND$ $+ 3 * W$ if $T < 3$ $T * W$ if $25 < T < 3$ Pension if $T > 25$	$.25 * [W * T] + FUND$ $+ 3 * W$ if $T < 3$ $T * W$ if $25 < T < 3$ Pension if $T > 25$
MEXICO	no restrictions		1 month	$W * 3$	$[20 \text{ days' wages}] * T$	$[20 \text{ days' wages}] * T$
NICARAGUA	2 years, non-renewable	12 months	1–2 months	$W * T$	$2 * [W * T]$	$2 * [W * T]$
PERU	2 years, non-renewable	3 months		FUND	$FUND + W * T^3$	$FUND + W * T^3$
VENEZUELA	renewable once	3 months	1–3 months	$[10–30 \text{ days' wages}] * T$	$2 * [10–30 \text{ days' wages}] * T$	$2 * [10–30 \text{ days' wages}] * T$

Notes: W represents a monthly wage. T represents years of tenure on the job.

* The legislation generally lists a number of reasons that make a dismissal "justified." These include serious misconduct (absenteeism, drunkenness) but do not include technical requirements or economic factors.

1. In this case, the law establishes a maximum W. Thus, there is a cap on severance.

2. A minimum severance payment equivalent to 45 days wages is payable in case of dismissals.

3. In this case, the law establishes a maximum T. Thus, there is also a cap on severance.

4. The burden of proof is on the employer. Failure to prove allegations of "just" cause may involve a penalty of up to 50 percent over the normal severance ($W * T$).

(i) The highly centralized collective bargaining structure (*legally granted monopoly power over negotiations in the hands of sector unions*), and "*ergo omnes*" clauses (labor laws that give extraordinary bargaining power and influence on market conditions to "representative unions," allowing them to negotiate conditions that apply both to their own enterprise and to the competition). A similar effect is produced by administrative extensions, which extend collective bargaining agreements to the entire sector and are common in the Region. Representation is guaranteed by the affiliation of large numbers of workers. This means that large enterprises or highly concentrated sectors are likely to be the core of union activity, and that representation is oriented toward the interests of workers in large enterprises. Enterprise unions are often discouraged by law, and they tend to exist mostly in monopolistic sectors. In a number of LAC countries labor laws establish that union contributions agreed upon by "convenio" are required from all workers covered by an agreement, and that employers must deduct them. This means that while

affiliation is optional, contributions to the union movement are obligatory and that agreements apply to all workers covered, independent of their participation or representation in the negotiation process, or in the election of leaders (*ergo omnes* principle).⁷ The legal framework in a number of countries in LAC makes unionization a sector choice. It is not a decision made at the firm or individual level. Oftentimes, the law also establishes that collective agreements signed between employers and workers covered by convenios cannot contradict the conditions established by the respective convenios.⁸

Overall, such an environment hinders wage flexibility, since it does not allow a firm to respond unilaterally to changing local and general economic conditions in terms of its wage offers. Decentralization would also produce a greater wage dispersion, essential to foster vigorous job creation, as illustrated by the OECD experience reported below. Moreover, the highly centralized collective bargaining structure tends to lead, not surprisingly, to gains for employed union members often at the expense of other workers' income and employment opportunities

TABLE 12

Dispute Resolution

COUNTRY	JUDICIAL PROCEDURE RESTS ON	RIGHT OF EMPLOYEES			RIGHT OF EMPLOYERS		
		TO STRIKE	TO WAGE REPLACEMENT	TO RENOUNCE UNION MEMBERSHIP AND GO BACK TO WORK	TO LOCK OUT	TO TEMPORARILY REPLACE WORKERS	MAXIMUM DURATION OF A STRIKE
ARGENTINA	Civil Courts	Must be called by union. After conciliation channels are exhausted. Ministry of Labor pronounces legality.	NO, if workers fail to accept arbitration. YES, if the employer locks out workers.	NO	NO, unless the strike is illegal.	NO	No maximum
BOLIVIA	Labor Courts	After arbitration process has failed (requires at least 24 days after presentation of petition to labor inspector). The majority of union of 2/3 of workers must agree.	NO. Strike suspends labor contracts.	YES	YES	NO	No maximum. In spite of the law, many strikes start before the Tribunal decision.
BRAZIL	Labor Courts	YES, in the context of collective contracts negoc. Quorum requirement to be decided by union. Decided by head count vote.	NO	YES Strike does not suspend contract.	Requires prior authorization.	NO, unless the strike is declared abusive by the Court.	No maximum
COLOMBIA	Labor Court. Within 2 days of a declared strike, the Ministry of Labor may call for an Arbitration.	After direct negotiations period. Must be agreed on a secret ballot by absolute majority of enterprise workers.	NO, strike suspends labor contracts.	NO		NO, unless there is a risk of serious damage to the facilities.	60 days
CHILE	Labor Courts have jurisdiction over questions arising out of the application of the law.	YES, in the context of collective contracts negotiations.	NO	YES	YES, if the strike affects more than 50% of workers. YES, if the strike leads to stoppage of essential work.	YES, from the first day of the strike if the last offer is equivalent to the previous contract adjusted by CPI. Only after 15 days otherwise.	If more than half of the workers has returned to work the strike ends.

ECUADOR	Labor Inspectorate	If direct negotiations fail, as long as the absolute majority of workers agrees. "Solidarity" strikes permitted.	YES	NO	NO	NO	Once the tribunal resolves, the strike ends.
MEXICO	Labor Courts	Tripartite Board must declare it "existent" or legal.	NO, unless the Board decides the strike is "imputable" to the employer.	NO	NO		No maximum
NICARAGUA	Civil Courts	YES, if agreed by head count majority. Does not have to occur in the context of collective bargaining.	YES	Workers can go back to work. But wages are paid anyway.	YES. After conciliation. If authorized by Labor Inspectorate.	Prohibited	No maximum
PERU	Ministry of Labor	YES, if the majority approves. Very few limitations.	NO. Strike suspends labor contracts.	Not regulated	NO	Not regulated	No maximum
VENEZUELA	Labor Inspectorate	If direct negotiations fail, as long as the absolute majority of workers agrees. "Solidarity" strikes permitted.	NO. Strike suspends labor contract.	NO	Not regulated	Not regulated	No maximum

Source: Cox-Edwards, 1996.

rather than at the expense of firms' profits, as is often thought.

(ii) Restrictions on the modes of contracting, particularly limitations on temporary or fixed-term contracts and on part-time contracts, reduce the flexibility of firms to use labor efficiently. Such restrictions are common in most LAC countries. While their broad use, if allowed, does induce some substitutability, their impact on net employment is positive and impacts positively on youth and unskilled employment, two of the most affected groups. Also, while not barred by legislation, the lack of broadly based incentive pay remuneration in many LAC countries is a concern, and is in contrast to the extensive use of performance-based compensation in East Asian countries. Often the cause has been poor labor-management relations and union resistance. Yet, the evidence of their positive impact is overwhelming. Where it has been used, significant productivity gains have been secured, often in the 15 to 35 percent range, and usually over half of the worker-specific increases in productivity have been passed on to workers in the form of higher wages. It does also lead, not surprisingly, to higher dispersion of workers earnings, often a concern to the unions (Fama 1991; Lazear 1996; Paarsch and Shearer, 1996).

(iii) Job security and labor stability clauses significantly increase the cost of labor force adjustments. Most labor legislation in LAC countries offers significant job security, as established by labor stability laws, with no distinction between just cause and unjust cause dismissal, and high levels of compensation in the event of dismissal (see Tables 11 & 12).

(iv) In a number of countries in LAC, there is no established workmens' compensation insurance in the event of a labor-related accident. The consequences of such an absence are high imputed costs to the firm, mostly resulting from costly and uncertain litigation, with most of the expenses going to lawyers and experts. Quite often, the most affected are small firms, where a single suit can lead them to bankruptcy. Adopting a modern workmens' compensation insurance scheme can reduce these costs significantly and thus increase job creation. For example, in Argentina, the imputed costs to firms before the adoption of a national insurance system was 8

percent of the wage bill. After the enactment of an insurance bill, the insurance premiums, through competition among providers, has fallen to 1.5 percent of the wage bill, on average.

(v) In some LAC countries there is further tampering with the competitive wage determination process by direct government intervention, as in Ecuador, with the government mandating periodic across-the-board wage increases, or through indexation, or through changes in the minimum wage; and through the administrative linkages of the minimum wage to the general level of wages, as in Colombia. While minimum wages in most LAC countries are non-binding, they do affect the general level of wages through administrative links in a number of countries such as Colombia, Ecuador, Mexico, etcetera. Thus an increase in the minimum wage or indexation automatically increases the general level of wages. Since workers cannot be paid above their marginal contribution to production, these forms of government intervention can result in fewer jobs. This should not be misconstrued that governments should not intervene in labor markets. There is indeed a role for government intervention, but it should be limited to the establishment and protection of workers' rights, such as the right to associate and organize, the right to bargain collectively, the right to engage in industrial action-strike; the protection of the vulnerable through minimum working age, equality of wages and employment opportunities, special provision for women; establishment of minimum compensation for work, through minimum wages and minimum non-wage benefits and overtime pay; assurance of decent and safe working conditions and provision of income security through social security and severance payment or unemployment insurance, and emergency public works programs.

(vi) There are also, in a number of LAC countries, institutional elements that create disincentives to the use of performance-based worker compensation. The normative in those countries is to include any productivity bonus in the computation of severance payments in the event of separations, thus increasing the imputed cost of labor. This disincentive, along with unions' traditional reluctance to negotiate compensations leading to wage variance within a job classifi-

cation, is to some extent responsible for the limited use of performance-based worker compensation in LAC countries. The end effect is an adverse impact on productivity and labor demand.

(c) Quality and skill level of the labor force. The key factors affecting the quality of the labor force are levels of education and training, and both are deficient in LAC. As Figures 3 and 4 show, the percentage of the population with less than four years of schooling is unacceptably high. The average percentage of the population with at least four years of schooling is 66 percent in Central America and Caribbean countries and 48 percent in South American countries. The average (private) expenditure on training in the Region is below 0.5 percent of the wage bill; again, a deficient number by most standards. These factors determine the value of labor to entrepreneurs and thus affect the level of economic activity.

Remedies to address the employment issue

The solution to the employment/unemployment paradigm is increased labor demand. Labor demand will increase with increased economic activity and a reduction of labor costs. The wage elasticity of labor demand provides an estimate of the employment increase that can be expected from labor market reforms that lower the price of labor relative to capital and other factors. The output elasticity of labor

demand, holding wages and other labor costs constant, provides a quantitative estimate of how much employment can be expected to increase with renewed output growth if labor market policy remains unchanged. While sustained high economic growth is essential to reduce unemployment over the medium to long term (and arguably sufficient, as the East Asia experience might indicate), labor policy reforms can both reduce unemployment in the shorter term, and ensure a stronger linkage between output and employment growth, and can be particularly effective in low to moderate growth environments, as is the case in LAC countries. Moreover, the usual estimates of those elasticities in most countries show a stronger labor demand response to reductions in labor costs than to increases in growth. The labor cost elasticity (-0.75 to -2.5) tends usually to be twice the value of the output elasticity (0.15 to 0.5).

In the short run, as the discussion so far has shown, the employment/unemployment outlook will only improve significantly with a reduction in labor costs. This reduction can come from two sources: lowering payroll taxes and other indirect labor costs, and eliminating existing institutional rigidities that hinder wage flexibility. This section points out the opportunities to reduce labor costs, and also assesses the potential impact of making the wage determination process more competitive (e.g., by decentralizing the collective bargaining process) on the basis of experience in other countries and simulations.

FIGURE 3
Percent of Children that Complete Four Years of Schooling

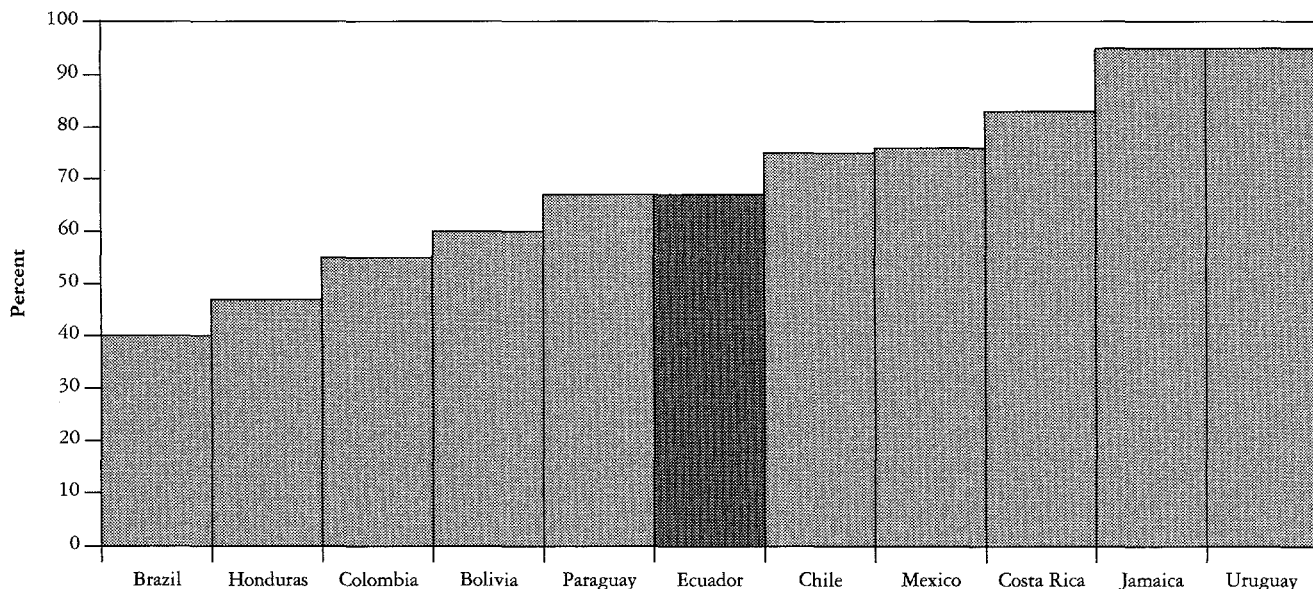
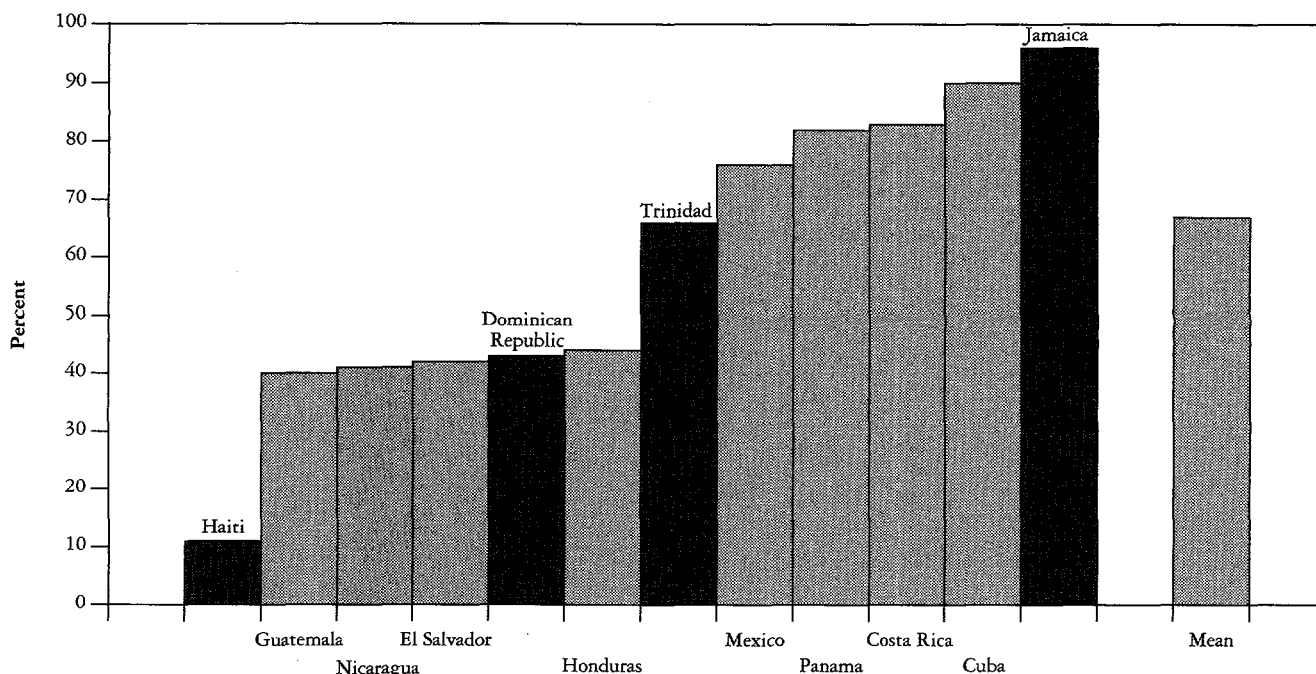


FIGURE 4
Percent of Children that Complete Four Years of Schooling



Lowering payroll taxes

These relatively high levels, and the weak link to benefits, suggest that there is some room for efficient reduction of payroll taxes to stimulate labor demand. Given the standard own wage elasticity of employment, payroll tax reductions (incidence issues aside) can have a significant impact on employment. There is, however, a cost, and that is the *fiscal effects*. The tradeoff of payroll tax reductions is their adverse fiscal impact. Tax reductions typically have a negative effect on tax collections in the short run, as the lower tax rate applies to the initial payroll and to any additional employment induced by the lower tax. For example, given an own-wage elasticity of -0.5, a 10 percent reduction in labor taxes will induce a revenue reduction of 5.5 percent.⁹ However there are fiscal benefits as well. First, if a sizable number of the workers newly employed as a result of the tax reduction had been receiving unemployment benefits at the current replacement rates, that could favorably impact net revenues. Second, a lower tax rate tends to induce an increase in employment, encourages the formalization of labor contracts, and increases compliance. This increases the tax base, and in that way increases tax collections. Studies for other countries have shown that the probability of contributing to

the system is inversely related to the tax rate, and that the revenue maximizing tax rate is often below the actual rate. This was, for example, the case for Brazil in the period 1982–1991, and in Argentina, where prior to the tax increases in the early 1980s, the noncompliance rate was estimated at 18.7 percent. With the payroll tax increases, noncompliance estimates rose to 23.7 percent in 1986, and 27.6 percent in 1990.¹⁰

Employment cost of the current severance system

The financial cost of severance also needs to be recognized as an employment growth barrier. Under the current system, on termination of employment without “just cause” the employer must pay a severance indemnity equal to between two weeks’ and two months’ salary, at least, for each year of service based on the highest salary during the last year of employment, often with a minimum of two months compensation plus one month for pre-notification. In some countries, the severance payment may be pre-funded on a tax-advantageous basis through a book reserve of that amount. The employer liability in case of dismissal is a function of tenure and wages. The continuous increase in employers’ liability as tenure and/or wages rise up to the limit (if there is one) is the most serious problem with

the current severance payments system. Unlike the case of a defined contribution payment, employers cannot shift the liability to lower salaries. One of the clear effects of this mandate (Cox-Edwards, 1996) is to make hiring decisions subject to the same delays that apply to investments in fixed assets as indicated by evidence from Zimbabwe and India (Fallon and Lucas, 1991); OECD countries (Lazear, 1990); and Brazil (Anderson Schaffner, 1993). The imputed cost of these mandated payments ranges from 5 percent to 9 percent of payroll wages with significant uncertainty, since most cases end up in courts, adding up litigation and transaction fees. Small and medium size firms tend to be the most affected, and a single case can often lead them into bankruptcy (World Bank, 1997). Thus their elimination (grandfathering the obligations and substituting it with an individual worker-capitalized fund, funded by employer contributions of around 3 to 4 percent), would imply an employment increase of between 2 percent and 3 percent, incidence issues aside, given standard own-wage elasticities of employment.

In addition to the labor market barrier presented by the current structure of the severance system itself, having both a severance payment system and unemployment insurance as some countries do, (e.g., Argentina), further aggravates labor market distortions. Their replacement with a fully funded severance payment system (defined contribution system) needs to be considered. Some Latin American countries have already successfully transformed their severance payment systems into a deferred compensation scheme. Brazil, and more recently Peru and Colombia, for example, have replaced the traditional formula based on a month's pay times the number of years of service with a capitalized fund. Employers make a monthly contribution to a fund in the worker's name, portable to any job, accessible to the worker in the event of separation or retirement. For example, in Bolivia, workers have access to severance payments in all separation cases (quits and layoffs) after five years on the job. This type of fund, a sort of a savings account, is non-distortionary, as opposed to unemployment insurance, since it does not create disincentives to search for a job once unemployed. When the worker secures another job, whatever amount in the fund not used moves with the worker to his or her new job.

An additional benefit of reforming the severance payment regime is that inasmuch as it reduces labor adjustment costs and uncertainty about them, it tends to reduce

the level of informality in the economy, as was shown in Colombia (Lora and Henao, 1995).

Decentralization of collective bargaining

Many countries in LAC have a highly centralized collective bargaining system. This provides a high degree of bargaining power and influence on market conditions to "representative unions," allowing them to negotiate conditions that apply both to their own enterprise and to the competition. Reforms can be implemented that would *lower negotiation costs at all levels, removing the legally granted monopoly power over negotiations in the hands of sector unions*. Decentralized bargaining obliges employers to bargain with plant-level unions, but does not preclude them from bargaining at a more centralized level, such as within industry-level unions. The effects of these reforms—decentralization—would be a reduction in labor costs, each firm adapting its compensation package to its own conditions, and an overall increased labor demand and greater economic activity. Flexibility of wages is most necessary particularly in non-inflationary environments, which is the case in many LAC countries today. An additional advantage of this mode of reform is that, as opposed to lowering payroll taxes, it does not have an adverse fiscal effect.

Evidence and insight into the likely impact of opening the labor market to wage competition can be obtained through international comparisons and simulation models. The international evidence described below suggests a powerful impact of decentralization of collective bargaining on employment creation. Over a fifteen-year period, countries with decentralized systems outperformed countries with centralized systems on employment creation by over 30 percent. In fact, for those countries with centralized collective bargaining, private employment slightly declined.

Cox-Edwards (1996) provides results of simulations on the impact of the competitive opening of the labor market in Argentina.¹¹ Under specific assumptions on the values of basic parameters (which were calibrated to fit the starting conditions of the Argentine economy), this exercise suggests that *a reduction of payroll taxes in the absence of a reform in the industrial relations system can result in lower labor costs and more jobs, but may worsen the unemployment problem in the very short run (due to increased labor force participation)*. The reason behind this result is that the tax reduction might allow an increase in real wages in the short run, and an increase in LFP, and thus it might increase unemploy-

ment as a market clearing mechanism. A simulation of the effect of a change in the *industrial relations* system, which lowers inertia, points clearly in the direction of an equilibrium characterized by lower net wages and *significantly lower unemployment rates and duration*. The unemployment rate decreases by 4 percentage points. There is no reduction in unemployment until a reform in labor law eliminates inertia (statutory extensions of collective bargaining agreements at the sector level).

Evidence of the impact of labor reforms

This section draws on international evidence for insight into the potential impact of reducing labor protection and of making the labor market generally, and wage determination in particular, more competitive. It will first present the experience of those Latin American countries that have reformed their labor markets, then look at New Zealand's labor reform experience, and finally compare the U.S. and Western European labor market performances and examine

more broadly the lessons from the *OECD Jobs Study* on the impact of labor market structures on job creation.

The impact on employment of labor market reforms: Latin American experience

Labor reforms in Chile, Colombia, and Peru made union representation contestable, extended the freedom to organize unions, and reduced the costs (or procedure-related uncertainties) of dismissals. All three countries reformed their labor codes to internalize the costs of labor disputes to the parties directly involved. Peru, in addition, replaced the tradition of tripartite negotiations for "final-offer" arbitration and eliminated job security legislation. Peru has seen significant growth in labor demand in the 1990s, on the order of 3.7 percent per year, as well as wage adjustments (Table 12A). Labor reforms in Chile took place in the context of broad market-oriented reforms, the combination of which brought back dynamism in economic growth and employment creation. As Figure 5 shows, employment has

TABLE 12A

Peru: Evolution of Structure, Levels, and Growth of Urban Employment^a

	PERCENTAGE					PEOPLE			RATE OF ANNUAL GROWTH		
	1990	1991	1992	1993	1994	1990	1992	1994	1990-92	1992-94	1990-94
Employed	91.7	94.1	80.6	90.1	91.2	2,330,875	2,471,709	2,685,932	3.0	4.2	3.6
Formal Sector	44.2	45.4	41.1	41.3	40.0	1,123,482	1,122,156	1,179,124	-0.1	2.5	1.2
Private	33.6	34.2	32.2	32.2	32.8	853,100	877,457	966,936	1.4	5.0	3.2
Public	10.6	11.2	9.0	9.1	7.2	270,381	244,699	212,189	-4.9	-6.9	-5.9
Informal Sector	42.8	44.2	45.0	44.7	47.0	1,088,518	1,228,439	1,383,255	6.2	6.1	6.2
Microenterprises ^b	10.5	11.4	11.2	13.3	14.9	265,720	306,492	437,807	7.4	19.5	13.3
Self-Employed ^c	32.4	32.8	33.8	31.4	32.1	822,799	821,947	945,448	5.9	1.3	3.5
Household Workers	4.7	4.5	4.4	4.1	4.2	118,875	121,114	123,553	0.9	1.0	1.0
Total Unemployment	8.3	5.9	9.4	9.9	8.8	210,973	256,447	259,169	10.3	0.5	5.3
Labor Force	100.0	100.0	100.0	100.0	100.0	2,541,848	2,728,155	2,945,101	3.6	3.9	3.7
Real Wage Index	195	224	216	214	248						
GDP Growth Rate	-3.8	2.9	-1.8	5.9	12.8						

Notes: a. Refers to Metropolitan Lima.

b. Corresponds to establishments with 5 employees or less.

c. Includes self-employed workers and non-remunerated household workers.

TABLE 12B

The Sequencing of Reforms and the Problem of Unemployment

COUNTRY	TIMING OF REFORMS		OPENING OF THE FORMAL LABOR MARKET	PEAK RATE OF UNEMPLOYMENT
	STABILIZATION	TRADE LIBERALIZATION		
Chile	1974-80		1980-82	19% (1982)
Peru	1990-93		1992-93	10% (1993)
Colombia	ongoing ^a		1990	10% (1994)
New Zealand	1984-89		1991	1.5% (1992)

Notes: a. Colombia has had annual inflation rates on the order of 30 percent for a long time. Stabilization efforts have taken that rate to about 20 percent in 1995.

Source: Cox-Edwards (1996).

been growing steadily, and in particular, wage employment has seen a very sharp increase since the mid-1980s. While wage employment has grown at an average annual rate of 3.6 percent since 1977 and at 4.5 percent since 1984, the overall number of unionized workers has remained at levels similar to the early 1970s, resulting in a decline in unionization rates. Real wages rose 20 percent between 1989 and 1994, and strike activity has been substantially lower than in the pre-military period. Estimates of the level of labor-related conflicts for the period 1988–1991 are about 20 percent of the 1966–1970 level (OIT, 1994).

After labor reforms, the export sectors have become very dynamic, leading those economies out of stagnation and unemployment (see Tables 13, 14, and 15). Unemployment duration has fallen to 2.8 months, expected tenure has been steadily increasing, and the unemployment rate plummeted to 6 percent in 1996 (Table 16) and to 5.6 percent in the first quarter of 1997. In Colombia, labor reforms were enacted in 1990 affecting hiring conditions, severance payments, cost of dismissal, social security (reformed under a different piece of legislation), minimum wages, and rules regulating collective bargaining. What makes the Colombia case interesting is that in contrast to just about all other

Latin American and Caribbean countries, it implemented its labor reforms very early in the transformation process, less than six months after the newly elected president took office. As a result, although unemployment reached a historical low of 8 percent in 1994, labor demand did not grow as much as elsewhere. Further analysis reveals, however, a significant labor demand effect associated with labor reforms and a structural change in the output-employment elasticity after the labor reforms. This effect did help labor market performance, although it was obscured in the aggregate figures because of a sharp increase in the capital output ratio between 1992 and 1994, associated with declining user costs of capital. “[H]ad the coefficients remained at their previous levels, labor demand would have been up to 28 percent smaller than it actually was” (Lora and Henao, 1995). Also, Lora and Henao show that there was an important reduction in the degree of labor market informality between 1988 and 1994 and based on their analysis, conclude that the reduction was the result of both the labor reforms and of a fall in the real level of the minimum wage. Overall, in all the countries mentioned in this section, unemployment fell within twelve months of the enactment of the labor reforms (see Table 12B).

FIGURE 5

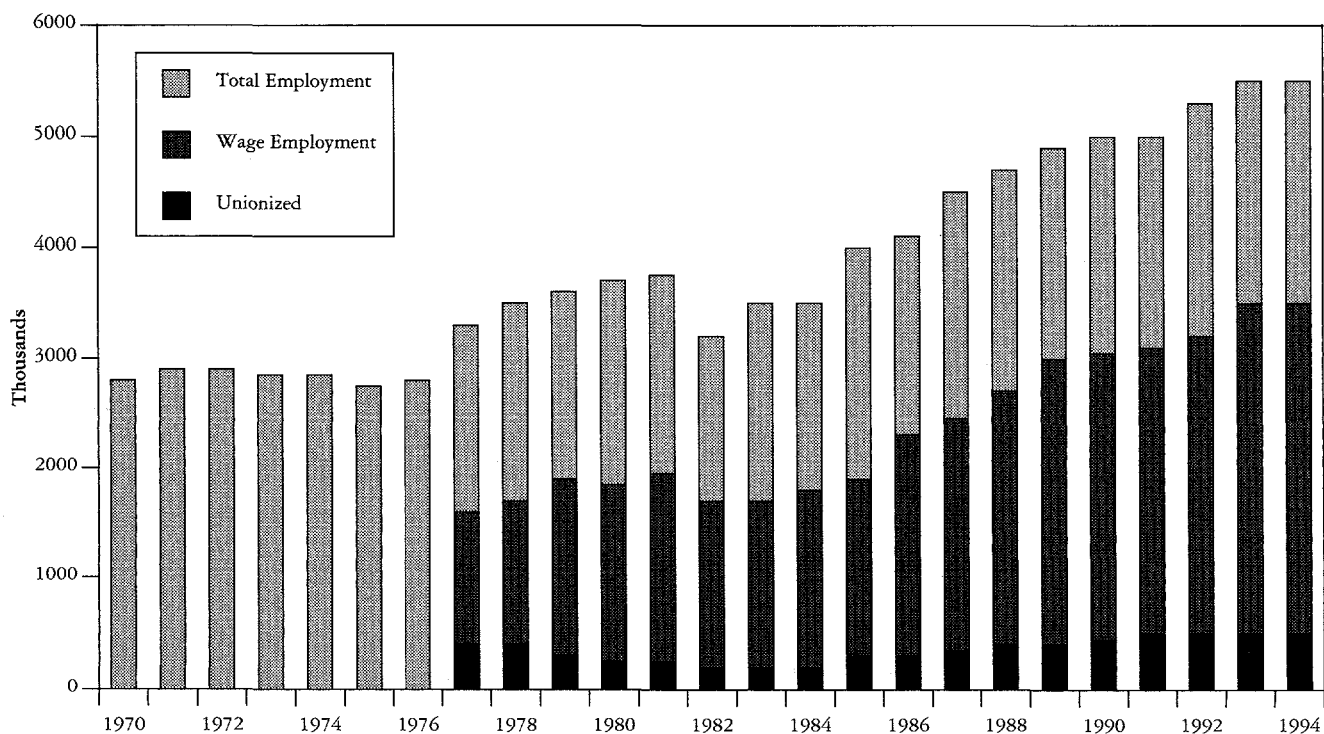
Employment Growth and Unionization in Chile

TABLE 13

Chile: Evolution of the Share of Wages of Gross Domestic Product, 1987–1993
(Percentage Annual Variation)

YEAR	(1) GDP	(2) EMPLOYMENT	(3) AVERAGE PRODUCTIVITY	(4) REAL WAGES	(5) SHARE OF REMUNERATED WORK IN GDP
1987	6.6	3.5	3.1	-0.2	-3.3
1988	7.3	4.9	2.4	6.5	4.1
1989	9.9	5.2	4.7	1.9	-2.8
1990	3.3	2.0	1.3	1.8	0.5
1991	7.3	0.7	6.6	4.9	-1.7
1992	11.0	4.1	6.9	4.5	-2.4
1993	6.3	5.5	0.8	3.4 ^a	2.6
1994	4.2	0.9	3.3	4.2 ^a	0.9
1995	7.7 ^b	1.1	6.6	4.2 ^a	-2.4
Average 87–93	7.4	3.7	3.7	3.3	-0.4
Average 90–93	7.0	3.1	3.9	3.7	-0.2
Average 90–95	6.6	2.4	4.3	3.8	-0.5

Notes: (1) Annual variation in GDP.
 (2) Annual variation in employment, yearly average, INE.
 (3) Rate of variation of average productivity = (1)-(2).
 (4) Variation of real average wages, INE.
 (5) Rate of change in the share of remunerations in GDP = (4)-(3).
 a. Due to changes in methodology, figures for after 1993 are not comparable to pre-1973 series.
 b. Average of first three quarters.

Source: Data for years 1987–1993 is from Agacino (1994) cited in Leiva and Agacino (1994).
 Data for 1994 and 1995 as well as 1990–1995 average, updated by author on the basis of INE.

The Chilean labor reform made union representation contestable by establishing voluntary union affiliation even in enterprises with union representation, allowing more than one union to coexist in the same firm. This was a significant departure from the tradition of exclusive union

representation given to a majority group. If voluntarily agreed upon by workers' representatives and employers, negotiations could take place at the sector level between sectorwide unions and sectorwide employer representatives. Yet, the reform eliminated the "duty to bargain" at

TABLE 14

Chile: Evolution of Poverty, Inequality, Unemployment, and GDP, 1987–1994

	POVERTY		GINI COEFFICIENT		UNEMPLOYMENT	GDP
	PERCENTAGE OF HOUSEHOLDS ^a	PERCENTAGE OF POPULATION ^b	URBAN AREA ^c	COUNTRY TOTAL ^d	URBAN	PERCENT VARIATION IN GDP
					UNEMPLOYMENT RATE ^e	
1970	17.0	28.5	—	—	—	3.2 ^f
1980	-	-	—	—	9.0	6.8 ^g
1987	39.0	44.6	0.485	—	11.9	5.1 ^h
1990	33.0	40.1	0.417	—	6.5	6.8 ⁱ
1992	28.0	32.8	0.474	0.474	5.0	7.2 ^j
1994	24.0	28.5	0.479	0.483	6.3	7.2 ^k

Notes: a. CEPAL, *Panorama Social de America Latina*, 1996, Table 10, p. 145.
 b. MIDEPLAN, Departamento de Planificación y Estudios Sociales, CASEM 1990, 1992, 1994.
 c. CEPAL, *Panorama Social...* Table II, p. 147.
 d. CEPAL, 1995, "Situación de la Pobreza en Chile. Encuesta CASEN 1994 (Cuadros de Resultados)" Julio.
 e. CEPAL, *Panorama Social*.
 f. Average for 1967–1970.
 g. Average for 1976–1980.
 h. Average for 1984–1986.
 i. Average for 1987–1990.
 j. Average for 1990–1992.
 k. Average for 1992–1994.

Source: Compiled by author based on indicated sources.

TABLE 15

Chile: Variation in Employment and Real Income from Employment According to Income Quintiles and Economic Sector: 1990–1992 (Percentage)

	RATE (%)		RATE (%)		RATE (%)		RATE (%)		RATE (%)		RATE (%)	
	QUINTILE 1 EMPLOY- MENT	INCOME	QUINTILE 2 EMPLOY- MENT	INCOME	QUINTILE 3 EMPLOY- MENT	INCOME	QUINTILE 4 EMPLOY- MENT	INCOME	QUINTILE 5 EMPLOY- MENT	INCOME	TOTAL EMPLOY- MENT	INCOME
Agriculture, forestry, and fishing	20.7	28.2	11.3	14.0	-1.0	15.3	-2.5	15.5	-15.8	-8.8	5.3	-3.2
Mines and quarries	-6.5	32.6	0.2	8.3	2.6	15.1	3.8	5.6	20.6	13.0	6.7	16.1
Manufacturing	10.3	9.9	1.6	9.0	0.4	10.2	11.4	9.6	12.8	15.7	6.8	15.2
Electricity, gas, water	68.2	0.0	22.4	0.0	82.5	0.0	-1.3	0.0	4.0	0.0	20.0	1.1
Construction	34.5	18.4	36.0	8.4	24.5	11.8	23.7	9.2	38.8	74.7	30.6	38.8
Trade	13.4	15.8	5.6	4.4	12.2	10.8	13.3	11.2	15.7	19.2	12.3	16.9
Transport and communications	15.8	15.7	15.5	14.5	20.6	14.2	22.7	12.0	14.4	1.4	18.1	5.9
Finances, Insurance, and Real Estate												
Services	16.6	0.6	30.0	21.9	35.0	21.0	13.8	12.0	-7.0	3.4	5.8	-2.9
Services	8.9	10.8	8.7	11.4	13.1	3.9	10.9	5.8	-4.1	18.9	6.5	8.8
Total	16.1	18.3	11.0	10.7	10.0	11.2	11.5	9.9	5.1	15.9	10.2	11.3

Source: Leiva and Agacino (1994) on the basis of data in Berta Teitelboim, 1994.

any level above the enterprise. Employers were obliged to negotiate with enterprise unions only. Not surprisingly, the structure of worker representation has changed significantly since the reform, with clear reductions in the rate of unionization and average membership per union. Estimates for the Greater Santiago Area in Chile show that average hiring and firing rates increased from 20 to 30 percent per year after economic reforms, resulting in a net employment gain.

TABLE 16

Chile: Labor Market Performance

YEAR	EXPECTED LENGTH OF UNEMPLOYMENT (UE DURATION)	EXPECTED PERMANENCY ON THE JOB (TENURE)	UN- EMPLOY- MENT RATE
1982	10.2	34.0	22.1
1983	10.1	41.8	22.2
1984	7.8	41.8	19.2
1985	6.8	49.0	16.4
1986	4.9	39.6	13.5
1987	5.4	46.6	12.2
1988	4.0	41.5	10.9
1989	3.7	48.7	9.1
1990	3.3	38.2	9.6
1991	3.3	53.8	7.4
1992	3.0	56.6	6.0
1993	2.7	49.1	6.3
1994	2.8	49.1	6.8
1995	2.8	54.8	6.8

Source: Haindl, Gill, and Sapelli (1997), using Universidad de Chile surveys for the Greater Santiago area.

The New Zealand labor market and institutions reform

New Zealand is an important case study in this context because of the systemic character of the labor reforms introduced by the Employment Act of 1991, designed to promote competitive behavior in the labor market. This Act removed a long-standing bargaining obligation on employers. The Act's intention was to make employment contracts similar to contracts in any other sphere of activity, with the effect being to replace centralized bargaining structures with decentralized enterprise bargaining. Under this Act, employees freely choose their own bargaining agent, which can be themselves, a union, or any other agent (e.g., a lawyer or labor relations specialist). The Act gives no special status to unions, except to protect unions and union members from discrimination. No bargaining agent can bargain on behalf of any employee unless they have written permission to do so.

Administrative extensions of collective contracts are a particularly potent mechanism by which to stifle competition in the labor market. When unions know their wages will be imposed on non-union workers, an important restraint on wage demands—namely, the need to avoid pricing their members out of work—is removed. Moreover, incumbent firms may be more willing to yield to high wage demands if they are sheltered from competition from firms engaging lower-wage workers. Abolition of administrative extensions would most likely result in a

sharp reduction in the coverage of multi-employer collective contracts, since individual employers would have the freedom to attempt to gain a competitive edge in the product market by lowering labor costs. This is precisely what happened in New Zealand after the 1991 Employment Contracts Act (OECD, 1994), with remarkable effects, at least from the perspective of employers. Union security legislation has been important, but closed shops are generally prohibited in Europe. The United Kingdom removed closed shop arrangements in the 1980s; New Zealand eliminated all obligations of workers to belong to unions in 1991, and made compulsory membership illegal. The Supreme Court of the United States declared the pre-entry closed shop to be unconstitutional in the 1960s. Australia is one of the few countries where union security clauses are used extensively (OECD, 1995). (See Box 2)

As mentioned, New Zealand represents an important case study because of the systemic character of the labor reforms introduced by the Employment Act of 1991. In spite of sluggish economic growth in the 1980s, real wages had risen steadily from 1984 to 1988. A broad economic reform program was implemented in the late 1980s which had lowered inflation (from a moderate rate) and liberalized trade. Unemployment started to rise in 1987 and accelerated again in 1990, climbing above 10 percent. The effects of tight monetary control and the restructuring induced by increasing competition in the products market had produced significant job losses. The economy needed a favorable aggregate activity shock to add dynamism to employment creation. The experience of New Zealand has some commonalities with that of Chile. Although Chile started from a much more distorted position (600 percent inflation, and much higher effective rates of protection), in both countries stabilization was followed closely by trade liberalization, and domestic markets and labor reforms took some time. In both countries the real exchange rate went out of line, indicating that the economy was unable to compete in the exports market. After labor reforms, the exports sectors have become very dynamic, leading these two economies out of stagnation and high unemployment. These two cases contrast sharply with the experiences of Colombia and Peru, where labor market reforms were implemented earlier, improving the real exchange rate position and maintaining the unemployment rate at a moderate level.

Figure 6 summarizes survey results from a sample of

BOX 2

Unionization Impact on Employment and Wages

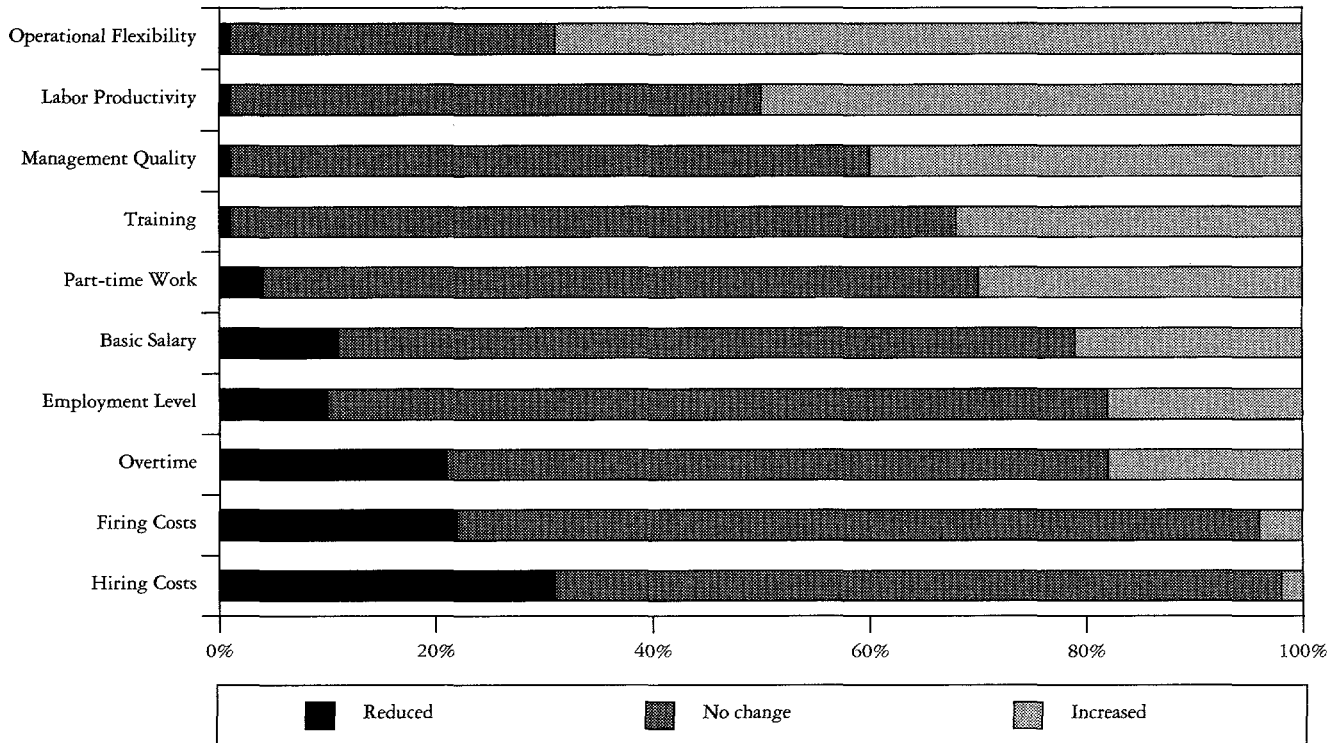
As expected from wage determination mechanisms in the Caribbean, unionized sectors appear to earn higher wages than non-unionized sectors. For example, in Trinidad & Tobago, manufacturing sector workers in unionized firms earn over twice as much per hour as workers in small, non-unionized firms for the same work. More generally, union wage premiums (estimated percentage difference between union and non-union wages) tend to range from 10 to 30 percent (WDR, 1995). Also, a recent labor market study of Jamaica (Rama, 1996) shows that the average level of employment is higher in firms where unionization is low. Employment is on average 4 percent lower in sectors where unionization is above average as compared to sectors where it is below average. In addition, there are differences in the way firms adjust to an expansion in economic activity. In sectors where firms are private and union membership is below average the elasticity of employment to aggregate economic activity is about 3. But the elasticity falls to 1.2 in highly unionized sectors. Likewise, the elasticity of wages to economic activity is 1.1 in sectors with a low union presence, but 2.9 in sectors with a high union presence.

673 New Zealand enterprises in 1993, which were asked to evaluate their business situation relative to what they thought it would have been in the absence of the labor reform. Their assessment indicates that reforms improved incentives for job creation by increasing operational flexibility, labor productivity and management quality, and by reducing hiring and firing costs.

The United States vs. European Union Labor Market Models: A Performance Comparison of Flexible vs. Rigid Labor Market Models

To further illustrate the consequences on employment of pursuing alternative patterns of labor reform, a comparison can be made between two salient approaches to labor market policies in the developed world.¹² There is the U.S.-type of labor market policies with its emphasis on fully flexible labor markets with basic welfare protection, con-

FIGURE 6
The Impact of New Zealand 1991 Labor Reform



tractual freedom, low cost of labor adjustments, and decentralized collective bargaining. Then there is the European Union (EU) labor markets approach based on generous benefits and welfare protection (financed by high non-wage labor costs), high levels of job security, reduced contractual freedom and highly centralized collective bargaining (see Figure 3).

Cost of labor adjustment in the EU. The average cost of firing a worker in the European Union is 22 weeks wages (26 weeks for white collar workers and 16 for blue collar workers), and most countries require statutory consultations with unions or the state. Denmark, Ireland, and the U.K. have the fewest restrictions; Spain, Italy, Greece, Portugal, and the Netherlands have the most; Belgium, France, and Germany lie in between the two extremes. Many southern European states with their low workforce participation rates and high long-term unemployment illustrate the point that the more regulations there are to protect full-time jobs, the fewer jobs employers will offer. In Spain and Italy it can cost over two years' pay to fire a worker.¹³ Restrictions on temporary work have resulted in only 9 percent of EU workers being temporary.

Unemployment in the EU. In OECD countries between 1979 and 1994, unemployment rose from 17.7 million and a rate of 5.1 percent, to 34 million and a rate of 8 percent. In European Union countries the unemployment numbers are particularly worrisome, reaching historical highs in most countries. The European Union countries lost 6 million net jobs between 1990–1996. The unemployment rate in France during the 1960s and early 1970s was 2.6 percent; since the early 1990s it has been gradually increasing, reaching 12.8 percent in 1997. Germany's unemployment rate was below 1 percent in previous decades but reached 11.2 percent in 1997. In Italy it reached 12 percent in 1997; in Canada, 9.6 percent; in Spain, 21.8 percent. In Belgium the unemployment rate has quadrupled over the past twenty years, reaching 13.1 percent in 1997. Sweden's unemployment rate reached 8.4 percent in 1997. French and German interventionist policies maintain wage levels and social safety nets at the cost of higher unemployment; high tax rates are stifling to business development, as well. Even in Japan, which used to have negligible unemployment rates, the level reached 3.4 percent in 1996. Only the U.K. has shown some improvement among these OECD

countries, with employment growth and a reduction of the unemployment rate to 6.1 percent in 1997. The U.K. has the most flexible labor market among the EU countries; which to a large extent explains its differential employment performance. In all, there are now 22 million unemployed workers in the G-7 countries, and most of them are long-term unemployed. In the EU, over 50 percent of the unemployed have been without a job for over a year (Table 17). While some level of unemployment is desirable, long-term unemployment is not. The incidence of high long-term unemployment and rising levels of unemployment are clear failures of labor markets.

Unemployment/employment in the U.S. While the European Union lost 6 million jobs between 1990–1996, the U.S., on the other hand, gained 12.6 million jobs. As of 1997, the U.S. reached a twenty-four-year low in unemployment with a rate of 4.9 percent, and has enjoyed unemployment rates below 7 percent during the 1990s. The U.S. economy created 8.5 million new jobs in three years (1993–1996). In further contrast with the EU is the number of the long-term unemployed. In the U.S. only 5.6 percent of the unemployed are long term (Figure 4). The difference between the numbers is even more striking considering that the growth of the labor force in the U.S. has been significantly higher than in the EU. While the population and labor force and the labor force participation in the U.S. has been growing by over 1 percent annually, in the EU that growth has been on the order of only 0.2 percent per annum. Labor force participation is also considerably higher in the U.S. as compared to the EU (77.8 percent vs. 67.5 percent, respectively, as of 1996) (Table 17).

Earnings in the U.S. vs. EU. Large job creation has come at the cost of lower earnings growth in the U.S. than in the EU, particularly for unskilled workers. Real earnings in the EU have increased significantly while there has been a much lower increase in the U.S. At the bottom decile of the earnings distribution in the U.S., real earnings have decreased by over 10 percent for men and about 3 percent for women during 1985–1995 period. Men and women in the top decile have seen their earnings grow by about 4 percent and 16 percent, respectively, over the same period. While it is very difficult to pinpoint the factors which have contributed to growing wage dispersion in the U.S., the most compelling explanation is that technological advances have increased the productivity of highly trained workers more than less skilled workers. Over the last ten to

TABLE 17

US vs. European Union Labor Market Performance

	UNITED STATES	EUROPEAN UNION
Net jobs created 1990–1996	12.5 million	-6 million
Unemployment rate mid-1996	5.3%	11.2%
Incidence of long-term unemployment	5.6%	53%
Real earnings growth 1976–1996	2%	25%
Average annual return on equity 1974–1994	9%	7%
Average annual labor productivity growth: 1979–1995	0.85%	1.8%
Labor force participation (1995)	77.8%	67.5%
Labor force (1995)	131 million	164 million
Annual growth of labor force 1980–1995		1.2%

fifteen years, the supply of highly educated workers in the U.S. has simply not kept pace with the steadily increasing demand for them. It may be too soon to tell where the trend toward increased income dispersion in the U.S. is headed. Individual earnings are only a part of the household well-being equation, moreover. The 1997 Economic Report of the President found, in fact, that incomes grew among households at every income level between 1993–1995, with the greatest increases (of 3.5% over 1993–1995) registering among families in the bottom quintile of the income distribution.

At the low end of the earning distribution in the U.S., real earnings (minimum wages) have decreased by 11 percent since 1972, while at the top of the earnings distribution they have increased by 4.4 percent. However, this statement about increased earnings inequality in the U.S. is based on the earnings of full-time male and female workers separately. In the U.S. there has been a narrowing of male/female average wage differentials; and when all earners are included, there has been an increase in the real earnings at the bottom decile. Clearly it makes a large difference to consider full-time earners only (about 70% of all earners). But the consideration of all earners, the pooling of their earnings into household earnings, and the question of earners' mobility are important to assess U.S. labor market developments from the point of view of equity. In the U.S., nearly half of the displaced, formerly full-time wage and salaried workers report increased earnings in their new jobs, and only 8 percent of the displaced workers end up in part-time jobs; nearly 60 percent of dismissed workers who find jobs after a layoff do so only at lower levels of pay, and most of those workers are still earning much less even five

years later. This trend holds across all levels of schooling. The overall comparison of these two types of labor markets and institutions appears to favor (in terms of efficiency and welfare) the U.S.-type of labor market. Its benefits significantly outweigh the losses when compared to the EU type.

Job tenure in the U.S. vs. EU. The flexibility of the U.S. labor market has led to stronger job creation, lower unemployment rates, and shorter unemployment spells. The possibly negative aspects of such labor market flexibility may be less real earnings growth and less job security and the effect that higher turnover rates may have on the quality of labor force (training). The relationships between labor market flexibility, turnover rates, training, and labor force quality are debatable, however. The evidence suggests that in the more flexible labor market environment of the U.S., workers spend fewer years with any single employer (i.e., job tenure is lower), on average, than do their European counterparts, though the difference varies by country (see Table 18). The average tenure of workers in Britain, Canada, Australia, and Holland, for example, is close to the U.S. figure of 6.7 years, while Germany, Italy, France, and Spain have numbers closer to the average tenure of employees in Japan, or 10.9 years (see also Figures 5 & 6).

The difference in average tenure is greatest between the U.S. and Japan. In Japan, 10 percent of all workers have been at their current job less than a year, and 37 percent for less than five years, whereas in the U.S. those figures are 29 percent and 62 percent, respectively. The current tenure-years figure does not predict how long employees *will* stay with their current employers, though it does reflect greater turnover in the U.S. relative to Japan. Only 25 percent of Americans stay at their job for more than ten years, in fact, while 40 percent of Japanese do so.

Training. One possibly negative effect of a more flexible labor market, in which firms face lower costs of hiring and

shedding labor, is the impact that fewer average tenure-years may have on firms' willingness to train their employees. Indeed, only 10 percent of U.S. recruits receive formal training compared with 70 percent of Japanese and German workers. While employers may have fewer incentives to train workers who switch jobs more frequently, however, those employees may face greater incentives to acquire skills training on their own, based on the perceived demand for those skills in the labor market. Higher turnover rates may reflect better matching between employers and employees, moreover, given the lower costs to firms of hiring and shedding labor as needed.

Added deregulation benefits. Finally, further evidence of the adverse impact of rigid labor markets comes from a number of studies analyzing the annual GDP benefits of broad economic regulatory reform. Most of these studies show that the benefits double when labor markets are flexible. For example, in the Netherlands (Westerhout & van Sinderen, 1994) the annual GDP benefits of regulatory reform were estimated at 0.5 percent, and at 1.1 percent provided labor markets were flexible.

Reasons behind EU and U.S. differential employment performance. It should also be clear that the significant *employment performance differences between the markets in the U.S. and EU are not due to insufficient demand, growth, or investment in Europe, as is often argued, but more likely to rigidities in the labor market.* As illustrated in Figure 7, real GDP growth has been the same in both the U.S. and the EU, and the capital stock has actually grown slightly faster in the EU than in the U.S. Thus the unemployment differences cannot be attributed to those two factors.

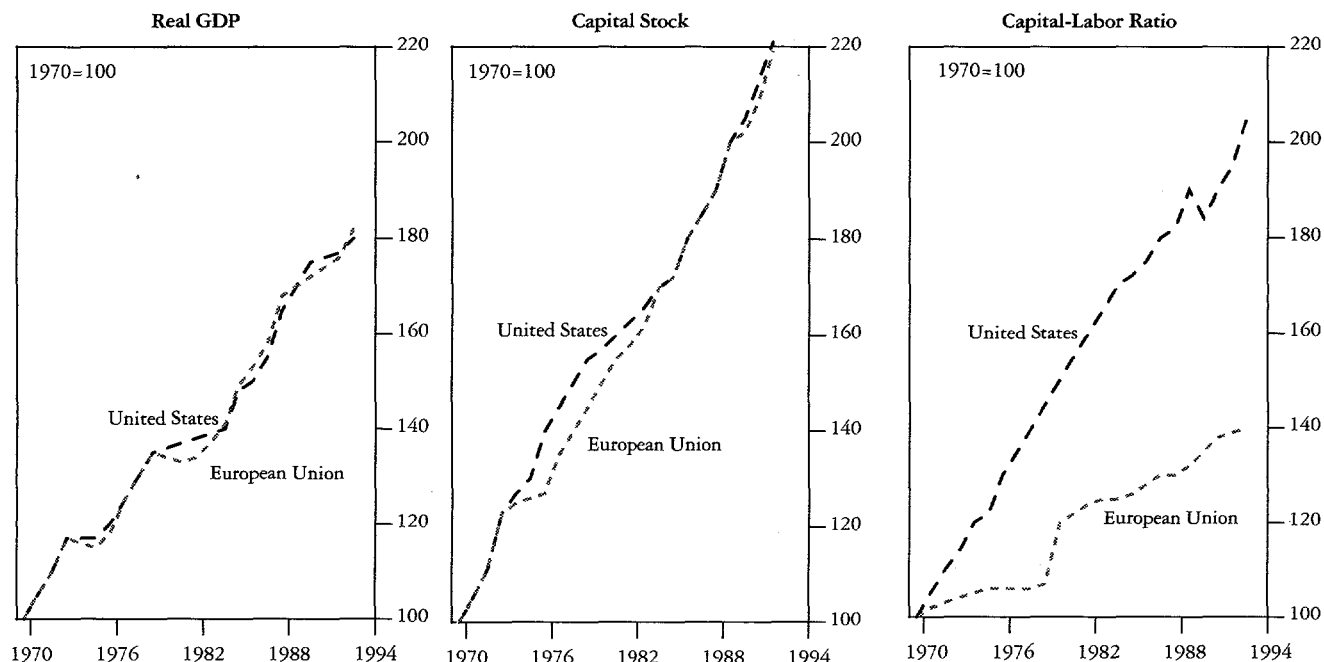
There is, not surprisingly, a difference in the capital-labor ratio in the U.S. and the EU, as illustrated in Figure 7. In Europe the amount of capital per worker has been rising sharply, indicating capital deepening, or a substitution of capital for labor. In contrast, the lower increase in the U.S. capital-labor ratio suggests capital widening, or the expansion of capacity. This difference is consistent with, and most likely is induced by, the different flexibility of labor market structures. While the U.S., with a much more flexible structure, encourages employment growth, the EU does not. Rapid real wage growth in Europe has encouraged capital-labor substitution, while that has not been the case in the U.S., given its tepid growth in wages. A further difference affecting employment growth is the frequent increases in wages outpacing increases in productivity in EU countries,

TABLE 18

Average Tenure-years of Workers with Same Current Employee, as of 1994

United States	6.7
Australia	6.8
Holland	7.0
Canada	7.8
Britain	7.9
Switzerland	8.8
Spain	9.8
France	10.1
Germany	10.4
Italy	10.5
Japan	10.9

FIGURE 7

United States vs. European Union: GDP and Investment Performance

while the opposite is the case in the U.S., as reported in Table 19. The pay of workers in the EU rose by nearly 3 percent per year in real terms during the 1980s (above productivity growth), while it stayed the same in both the U.S. and Japan. Centralized collective bargaining was in part responsible for that growth (at the expense of employment growth). As long as productivity increases are fully absorbed in wage increases, there are no increases in competitiveness or reductions in labor costs and thus, employment growth is hampered. The strikingly different employment performance of the U.S. and the EU can by and large be attributed to their different labor market structures.

TABLE 19

Wage and Productivity Increases (Percent) 1994-1995

COUNTRIES	A.	B.	C.
	PRODUCTIVITY (OUTPUT/ HOUR)	HOURLY WAGE	NET PRODUCTIVITY GAIN (A-B)
U.S.	3.4	2.8	0.6
Canada	1.6	1.2	0.4
Japan	5.4	3.2	2.2
Germany	3.2	5.1	-1.9
Sweden	3.4	5.4	-2

Source: U.S. Bureau of Labor Statistics, 1996.

Prospects in the EU. While the European labor welfare system appeared sustainable under the old economic order of relatively closed and protected economies and moderate growth, it has begun to unravel under the competitive pressures induced by ever-increasing openness and globalization of economies, and lower growth. The high cost induced by a protected labor market system and generous benefits is undermining productivity and competitiveness in the EU vis-à-vis lower cost countries. Not surprisingly, the lower productivity and lower growth experienced in the developed world during the last decades has created strains in the labor market and shown the employment impact of different labor policies. Productivity in the U.S. averaged 1.1 percent annually for the 1973-1994 period, while it was 3 percent during 1960-1973. In the EU, productivity growth has been 1.7 percent over the 1973-1994 period and 2.5 percent in Japan. GDP growth in most of those countries averaged 3.5 percent in 1960s, and in the 1990s has declined to 2.1 percent per annum. Without labor reforms, the employment numbers in the EU are likely to worsen. Under globalization, the current structure is not an equilibrium, and thus is not sustainable. High labor costs, induced by high labor taxes and high real growth leads to reduced competitiveness, loss of EU firms'

market share, the transfer of productive activities to low labor cost countries, and to increased substitution of labor for capital, all with the obvious adverse effects on job creation. The lessons for developing countries are clear and the choice is theirs.

The East Asia experience

The job creation performance comparison of East Asia with LAC is also of interest, since the severity of labor market regulations in LAC contrasts sharply with the extreme flexibility in the East Asian countries. A proxy for degree of regulation is the number of ILO conventions ratified by countries, as of October 1994. Among East Asian countries that number is Korea 4, Malaysia 11, Thailand 11, Hong Kong 0, Indonesia 10, and Singapore 21. The number of ILO conventions ratified in LAC is Argentina 67, Brazil 76, Colombia 52, Guatemala 67, Ecuador 56, Mexico 76, Peru 67, Uruguay 97, Venezuela 52, and Nicaragua 58. The numbers in other countries for comparison purposes are U.S. 11, Spain 124, France 115, Italy 102, Germany 75, and the Netherlands 94. The economic performance of most East Asian countries since the 1970s has been spectacular.¹⁴ Most of the East Asian countries have experienced robust employment growth (1.5 to 3%), real wages growth (4 to 6%) and very low unemployment rates (3 to 8%) since the 1970s, in an environment of high GDP growth (5 to 8%). A relatively high level of efficiency in the allocation of labor was achieved by allowing wages and employment to be determined by and large by the interaction of those supplying and those demanding labor services, rather than by government legislation, public sector leadership, or union pressure. Wages were pulled up by increases in the demand for labor, rather than being pushed up artificially; earnings growth was determined more by the growth of the economy as a whole than by the growth in any particular sector (Fields, 1992). A number of East Asian countries intervened in labor markets to suppress the activities of industry or economywide unions and to ensure that wage agreements were set at the enterprise level. The flexible labor markets allowed wages to be responsive to changes in the demand for labor, and as a result adjustments to external macroeconomics shocks, such as those induced by the oil crisis of the 1970s, were often quicker and less painful in these East Asian countries (Mazumdar, 1995). While there are a plethora of factors that contributed to that excellent performance, the labor market conditions in those East Asian

countries was indeed one of the major factors, as it is shown and argued in *The East Asian Miracle* (World Bank, 1993).

Lessons of the impact of labor market structure on employment creation from the OECD jobs study

The *OECD Jobs Study* provides further evidence on the employment impact of job protection, contractual flexibility, and centralized collective bargaining (*OECD Jobs Study*, 1995 of Part II).

(a) **Job protection measures:** There is a clear relation between the degree of employment protection legislation and job turnover and consequently between employment protection legislation and long-term unemployment (Nickell, 1982). The *OECD Jobs Study* also shows a strong and significant correlation between various employment and self-employment ratios and various measures and indices of the strength of job protection. Most measures of the employment/population ratio in 1990 tend to be lower in countries with high levels of employment security. There is also a tendency for self-employment and non—agricultural self-employment to be higher in countries which have strict protection. In a 1989 EC Commission survey, for example, well over half of the firms surveyed in countries with relatively strict employment protection reported that hiring and firing procedures and associated costs were one reason for not hiring more workers. This was not the case for firms in countries with fewer restrictions on employee dismissal.

(b) **Centralized collective bargaining:** The *Jobs Study* also examined how the degree of centralization of collective bargaining correlated with employment growth over the 1973–1989 period. For this purpose, countries were classified in terms of: (a) bargaining levels as centralized, sectoral, and company-plant; and (b) bargaining coordination as high, low, and none (Table 20). The study found a much more robust employment growth in the private sector—30 percent higher—in the countries with decentralized (company/plant) bargaining. Any employment growth in the centralized countries over the period occurred in the public sector. The results did not depend on the initial employment conditions, since both sets of countries had similar employment/unemployment rates. *The 30 percent differential in private sector employment in the decentralized countries is at least suggestive of the impact that decentralization of collective bargaining could have in those countries in LAC that still have centralized collective bargaining.*

TABLE 20

Bargaining Levels, Bargaining Coordination, and Labor Market Performance

CLASSIFICATION ¹	LEVEL IN 1989 (1973 = 100)		
	TOTAL EMPLOYMENT	PRIVATE EMPLOYMENT	PUBLIC EMPLOYMENT
Bargaining Levels²			
Centralized	111	99	160
Sectoral	109	105	137
Company/plant	129	130	127
Bargaining Coordination³			
High	115	114	128
Low	106	101	145
Zero	133	135	128

Notes: 1. Classification based on bargaining arrangements in the 1970s.

2. Centralized: Austria, Finland, Denmark, Norway, Sweden; sectoral: Belgium, France, Germany, the Netherlands, Portugal, Spain, Switzerland, Italy, Australia, New Zealand; company: United States, Canada, Japan, United Kingdom.

3. High: Japan, Australia, Germany; low: Sweden, Switzerland, Belgium, Denmark, Finland, France, the Netherlands, Norway, Portugal, Spain; zero: United States, Canada, United Kingdom, New Zealand.

Source: OECD Jobs Study, Part II (Table 5.15), p. 19.

(c) **Impact of labor cost:** International experience confirms the importance of labor costs in the employment picture. Private job creation in the 1980s and 1990s has been fastest in countries where the relative wage of lower skilled workers has fallen the most. Thus, the U.S., Canada, Australia, and Japan have all seen solid gains in private sector employment at a time when their earnings distribution was widening. In the U.K., in particular, the sharp decrease in the relative wage of low-productivity workers in the latter part of the 1980s is likely to have contributed to the strong gains in private sector employment. Institutional constraints on wages at the lower end can prevent wages from being aligned with productivity levels and can increase the danger that some workers are barred from employment anywhere in the economy because of wages in excess of expected productivity.¹⁵

There is substantial evidence that demand for labor is negatively related to labor costs in the long run, particularly in the market sector of the economy. Empirical labor demand equations suggest that long-run reactions of employment in the private sector to changes in labor costs are similar across countries, but point to striking differences between countries as to how quickly labor demand responds (Hamermesh, 1993; Jarret and Torres, 1987; Turner, Richardson, and Rauffet, 1993). The OECD estimates suggest that a 1 percent reduction in labor costs typically increases labor demand in the private sector by 1 per-

cent; that is, the wage-employment elasticity is close to -1 (see Table 21). However, there are differences across countries in the speed of adjustment. The U.S. and Canada, where the lock-in of wage contracts is the weakest, and which have the most flexible labor markets, are, not surprisingly, the countries with the fastest adjustments.

Public policy implications

In designing public policy in labor markets, there should be compatibility among policies, instruments, and objectives. Unfortunately, that is not often the case. If the concern and objective is income equality, policies should be designed to close the income gap. However, labor policies are not very well suited to secure that objective. Education reforms are a much better instrument, albeit one with only a long-term impact. If the concern is unemployment, policies should have the objective to create jobs not by the government providing jobs directly, except in emergency situations, but rather by fostering an environment for wealth creation and reducing as much as possible the transaction costs on firms' labor force adjustments and allowing each firm to offer employment packages that reflect its own specific circumstances. Consequently, indeed, labor policies can have a major impact on job creation. Securing flexible labor markets driven by market conditions induces wages to be set marginally below rather than well above market clearing levels, which tends to increase economic activity, affect profits favorably, and usually increase savings rates. This, in turn, facilitates increased levels of investment, greater competitiveness in international markets, and faster rates of growth of output, employment, and, ulti-

TABLE 21

Wage-employment Elasticity

	WAGE-EMPLOYMENT ELASTICITY	MEDIAN LAG (YEARS)
United States	-1.0	1.0
Japan	-0.8	3.0
Germany	-1.0	2.0
France	-1.0	2.0
Italy	-0.5	5.0
United Kingdom	-1.0	4.0
Canada	-0.5	1.0
Australia	-1.0	2.0
Sweden	-0.9	7.0
Finland	-1.0	3.0

Source: T. Tyrvainen, "Real Wage Resistance and Unemployment: Multivariate Analysis of Cointegrating Relations in 10 OECD Countries," *The OECD Jobs Study*, 1994.

mately, earnings (*The East Asian Miracle*, 1993). Moreover, wage restraint encourages the use of more labor-intensive technology and further employment growth as the cases of the U.S. and East Asian countries illustrate.

It is often argued, citing the case of the U.S., that labor market flexibility leads to job insecurity and increased precariousness of jobs. As shown above, the evidence regarding job insecurity is not that conclusive, and the precariousness argument is misconstrued. What could be more precarious than the current job situation in many LAC countries, with large numbers of informal, underemployed and unemployed workers? Those workers who do not have any benefits or social protection are indeed in a precarious situation. Consequently, policies that foster job creation, based on reduction of labor costs and uncertainty about them, and create an environment for wealth creation and sustained growth, are the salient solution to the unemployment and wage stagnation problems plaguing Latin America and Caribbean countries. While it appears to be the case that many of the jobs created in flexible labor markets, as in the U.S., are of mediocre quality, it is a better option than no or negative jobs growth, as in the EU, where society is being segmented, with the lucky few in high-paying, secure jobs at the expense of a increasing number of workers marginalized from the labor market with deteriorating or no skills and with little opportunity to upgrade or acquire the needed skills. In summary, the main implications for public policy are, then, as follows.

Temporary measures are often inadequate. When faced with increasing unemployment, countries' temptation to resort to temporary employment-promotion measures is strong, but it should be resisted. Given the long-term trends in labor supply and employment, and the scale and structure of unemployment, temporary interventions are likely to be inadequate, prohibitively costly, or even distortionary. While active labor programs and other temporary measures can be used as social safety nets and to build support for broader, more permanent reforms, they cannot be sustained for long periods. The often suggested policy options to help dislocated workers are: (a) reverting (temporarily) to protectionism, which might help in the shorter term but would be counterproductive in the longer run since national income would fall with its corresponding impact on employment; (b) better educating the workforce, which is appropriate, but is not a near-term solution; and (c) funding government training. The benefits of the latter

option are uncertain, and the costs of universal training are prohibitive (the average cost of retraining per worker in OECD countries is \$7,000). While in LAC countries the costs would be lower, the total cost of training a significant number of the unemployed would still be prohibitive. Clearly, government-funded training is not the solution to the unemployment and underemployment problem, and can only provide a partial remedy at best. While effective as emergency measures, they often have no lasting effects. These programs are at best an effective short-term, stop-gap option with limited impact. Employment subsidies are an intervention which can be moderately effective. However, they run the risk of unproductive substitution of subsidized for unsubsidized workers. Evidence of the limited effect of these measures is shown in Box 3, which describes the lessons from OECD countries.

Relying on growth will help mainly in the medium to longer term, and only under a regime of sustained high GDP growth rates. While the resumption of sustained growth will improve the employment outlook, it will do so only over the longer term. Relying on growth will not be enough in most countries, given the scale of the problem, to reduce unemployment in the short term. With output elasticities of employment around the 0.2 to 0.4 range, the implication is that, *ceteris paribus*, to increase employment by 4 percent, a healthy 10 percent to 20 percent annual GDP growth would be needed. On the other hand, the wage elasticity of labor demand is usually much larger, between -0.4 and -0.8, meaning that a reduction of labor costs by 10 percent would increase employment by 5 percent to 8 percent. Moreover, reforms that lower the costs of labor, directly or indirectly, are also likely to raise the output elasticity of employment and stimulate economic activity, so that their benefits are not one-shot in nature.

Further permanent labor reforms are urgently needed. Authorities can influence market power in the labor market by modifying laws. Four groups of instruments can be distinguished: union recognition procedures (the right to represent workers in collective bargaining and the obligation of employers to negotiate with unions); statutory or administrative extension practices (that make collective agreements extend to third parties); union security (*ergo omnes* principle, for example); and regulations concerning industrial disputes (e.g., rights to strike and lock-out, right to replace striking workers, resolution of conflicts mechanisms). The government can make a difference in labor demand and

BOX 3

Main Lessons on Active Labor Programs from OECD Experience

Since active labor programs are a common government intervention in spells of high unemployment, this section provides an overview of the OECD experience. The main conclusion from that experience is that programs have to be designed with a clear population target and measurable objective. Furthermore, to become effective, programs have to be continuously monitored, evaluated, and revised.¹

Public work programs. Direct job creation programs are among the most costly of active employment policies. In addition, experience in OECD countries shows that they are among the least effective in moving the unemployed back into employment. Although there may be an increase in the flow out of short-term unemployment, there is little impact on long-term unemployment. Examination of the post-program employment rates shows that the participants have relatively low probabilities of becoming employed. These programs can be effective only as a temporary emergency measure.

Self-employment promotion. Self-employment assistance can be beneficial. Experience shows, however, that well-designed self-employment programs will attract at best about 5 percent of the unemployed. Those who participate are likely to be primarily male, better educated, and in their 30s. The programs tend not to attract women. Program costs, excluding administration, are equivalent in most cases to paying unemployment benefits. Lump-sum benefits cost about 20 percent more per claimant than unemployment benefits, but the added cost appears to be offset by higher overall employment rates and higher productivity where the self-employed create more capital-intensive enterprises. This conclusion may not hold in countries where unemployment benefits are relatively low or non-existent, because program benefits will substantially exceed the unemployment benefits available. There are also questions about the added value effect. Roughly one of every four small businesses would have been started without program assistance. This is the so-called "deadweight effect" of these programs. An estimated one of every two businesses started will fail during the first year, though each business started will, on average, create 1.5 jobs.

Retraining for displaced workers. Retraining programs are generally no more effective than job search assistance (JSA) in increasing either reemployment probabilities or earnings. Retraining programs for displaced workers, moreover, appear to be two to four times more expensive than JSA in the OECD experience. Combined with the previous finding, this implies that JSA may be more cost effective than retraining in assisting displaced workers to get jobs.

Retraining for the long-term unemployed. Few programs result in gains either in reemployment probabilities or in wages. Some evaluations indicate that these programs are more beneficial for specific groups such as women. Where gains in reemployment are observed, longitudinal studies indicate dissipation of the effects of retraining within a couple of years after the program.

Implications. First, it is necessary to evaluate retraining (and other) public interventions using sound techniques. It is instructive that while the non-scientific evaluations of retraining programs present a rosy picture based on placement rates and other informal evidence, analytic evaluations are quite discouraging. Relying on non-scientific evaluations may lead countries to incorrect policy conclusions. Second, rigorous evaluations, while not necessarily allowing a complete social cost-benefit analysis, can be useful for policymakers in allocating public expenditures on labor programs. Reviews of evaluations find, for example, that job search assistance measures—which cost less than retraining but appear equally effective—may be a more cost-effective device in assisting displaced workers.

Note: 1. The importance of understanding what should be and what are the aims behind government policy in job creation are illustrated in the following story reported by Jerry Jordan ("Job Creation and Government Policy," *Economic Commentary*, Federal Reserve Bank of Cleveland, October 1, 1996): While touring China a western businessman came upon a team of nearly 100 workers building an earthen dam with shovels. The businessman commented to a local official that with an earth-moving machine, a single worker could create the dam in an afternoon. The official's curious response was, "Yes, but think of all the *unemployment* that would create." "Oh," said the businessman, "I thought you were building a dam. If it's *jobs* you want to create, then take away their shovels and give them spoons!"

employment, by making wage and employment-setting practices more flexible, reducing payroll taxes, and minimizing interventions that raise the reservation wage of workers. Since unemployment rates are highest for relatively disadvantaged groups such as workers with lower education levels, these reforms may promote equity and income distribution as well or better than targeted interventions to help the disadvantaged. Certainly, labor market flexibility will lead to some job destruction, but that should be viewed for its positive effects; job destruction is usually a necessary antecedent to job creation. In the U.S. and other countries with robust employment growth, sectors and industries that claim the highest rates of *net* new jobs created are generally those that have the highest rates of jobs destroyed. Similarly, nations with high rates of job creation also tend to have high rates of job destruction.¹⁷ Given the employment/unemployment outlook in the Region, further labor reforms with permanent rather than temporary impact should not be postponed. These reforms fall into two main groups, those that make the labor market more flexible and thus indirectly reduce labor costs, and those that reduce the cost of labor directly.¹⁸ The following recommendations represent both classes of reforms:

- **Collective bargaining and contractual modes reforms:**

(a) Modernize the wage determination mechanisms, through decentralization of collective bargaining to the firm level and reduce the government role in determining workers compensation. The general level of wages should be determined by the macroeconomic and the international competitiveness conditions of the country. Wages with reference to specific industries, occupations, firms, and individual workers should be determined by the profitability of the sector or firm and by the effort and productivity of the workers and by labor supply and local conditions.

(b) Restrict government intervention in wage determination mechanisms to minimum-wage setting; eliminate indexation, and sever direct government-union links to limit the latter's use of their political influence in wage negotiations and eliminate monopolies in wage-setting mechanisms. Removing the legally granted monopoly power over negotiations in the hands of sector unions and decentralizing collective bargaining to the firm level can have a significant effect on employment and wage flexibility. This

is likely to result both in higher long-term employment growth and smaller cyclical swings in unemployment, and have a positive fiscal impact with the increase in employment. International experience on reform of collective bargaining is quite compelling. Chile, Peru, Colombia, and New Zealand saw employment growth of 3 to 4 percent annually as a consequence of labor reforms. The *OECD Jobs Study* shows that private sector employment in countries with decentralized collective bargaining grew by 30 percent more than in countries with centralized collective bargaining. Finally, simulation exercises of the effect of decentralization of collective bargaining indicate a reduction of 4 percentage points in the unemployment rate.

Additional *flexibility* in contractual modes is warranted. Its positive impact on employment growth is illustrated by the OECD experience. Unless wage negotiations are opened to market forces through a reform to the industrial relations system, unemployment will continue to be the mechanism that brings the labor market to equilibrium.

- **Contractual modes reforms.** Allowing for broader use of fixed-term, temporary, and part-time contracts, exempted from compensation obligations, should induce increases in job creation even after accounting for substitution effects. These types of contracts should at least be allowed for the most affected and economically vulnerable workers.
- **Reducing payroll taxes.** A reduction in payroll taxes would raise labor demand and, *ceteris paribus*, lower unemployment. This would directly impact the relative cost of labor. Importantly, it will improve market efficiency by closing the gap between labor costs for employers and the opportunity cost of time for workers. Given standard employment elasticities, a reduction of 10 percent in labor costs can increase employment by 5 percent. While payroll tax cuts are politically easier to implement than are collective bargaining reforms, they involve an adverse fiscal effect which may be considerable in the short term. The adverse fiscal effects of lower payroll taxes contrast with collective bargaining reforms, which actually would have a positive fiscal impact.
- **Reforming the severance payment system.** Severance pay is already an issue for short-term employ-

ment spells and, sooner or later, the impact of the severance formula will become a major labor market concern. Eliminating mandated severance benefits entirely and replacing them by a fully funded severance payment system should be considered. Since severance payment obligations impose an imputed tax of between 5 percent and 9 percent of wages, replacing this obligation by a capitalized fund for each individual worker funded by employer contributions of 3 to 4 percent of wages up to a maximum, would imply an employment increase of about 2 percent, given common wage elasticity of employment of -0.5. Some Latin American countries with similar severance legislation have already successfully transformed their severance payment systems into a deferred compensation scheme. Moreover, those types of funds are non-distortionary, since they do not create disincentives for job searching once an individual is unemployed, as opposed to traditional unemployment insurance schemes.

- **Workmen's Compensation Insurance.** In a number of countries in LAC, there is no established workmen's compensation insurance in the event of a labor-related accident. The consequences of such an absence are high imputed cost to the firm, mostly resulting from costly and uncertain litigation, with most of the expenses going to lawyers and experts. Quite often, the most affected are small firms, where a single suit can lead them to bankruptcy. Adopting a modern workmen's compensation insurance scheme can reduce those costs significantly and thus increase job creation. For example, in Argentina the imputed costs to firms before the adoption of a national insurance system was 8 percent of the wage bill. After the enactment of the insurance bill, the insurance premiums have fallen to 1.5 percent of the wage bill, on average, due to competition among providers.
- **Data and information system reform.** The systematic and periodic collection of labor data needs to be implemented in all countries in the Region, through the creation of a Bureau of Labor Statistics. Data on employment, unemployment, and wages and earnings is now highly deficient and is essential for policy analysis and design. Special emphasis on service sector data needs to be developed, given its major and growing contribution to employment.

Also the current system of collection, filing, and processing of unemployment claims and vacancies is ineffective and inefficient. An accessible database on vacancies should be developed for countries in the region in cooperation with firms.

Notes

1. The main sources of the data quoted in this paper are World Bank studies, ILO and CEPAL, OECD, and countries Household Surveys.

2. For example, in Argentina the price of capital relative to labor fell by 40 percent during the 1990–1993 period.

3. For example, in Argentina the average annual employment growth during the 1980s was 1 percent, while the average annual GDP growth was -1 percent.

4. In countries with flexible labor markets (wages), the main effect of those demand shifts tends to be substantial declines in the relative wage of the unskilled (as has happened in the U.S.).

5. Even in Chile the 4.5 percent growth rate in 1994 was accompanied by an increase of more than 2 percent in urban unemployment to the 6.3 percent level.

6. However it should be noted that there are important, albeit indirect, linkages. Flexible labor markets facilitate increased economic activity and thus GDP growth, as has been argued in the East Asian countries (*The East Asian Miracle*, 1993).

7. For example, in Spain 75 percent of employees are covered by collective agreements, although only 10 to 15 percent are union members. Similar patterns exist in LAC countries.

8. In some countries such as Argentina, the law allows that if a "convenio" lapses, the conditions established by it will be maintained until a new convenio is established. This is generally referred as "*ultra-actividad convencional*." The effect of this type of normative structure depends on other aspects of the organization of the economy. For example, in the context of an inflationary environment, "ultra-actividad" encourages workers to go back to the negotiation table as soon as possible, while in an environment of general price stability, "ultra-actividad" discourages workers from doing so. To illustrate how binding the "ultra-actividad" clause is in Argentina, as of 1997, though 85 percent of collective bargaining agreements have lapsed, they have not been renegotiated but their clauses remain in effect as a result of the "ultra-actividad."

9. If t is the current labor tax level and x is the reduction in labor taxes, the decline in revenue in percentage terms will be given by $1 - (1-x)(1 + 0.5t)$, incidence issues aside.

10. See Kane (1992) for Brazil, and Bour (1995) for Argentina.

11. Her model is based on the Mortensen and Pissarides (1994) job creation and job destruction model, which focuses on the frequency and duration of unemployment spells. The basic feature of the model is that wages are determined by voluntary agreements between employers and workers, and employment and unemployment decisions are made as a function of cost-benefit analysis. Prices and wages reflect relative scarcity in the economy but in the labor market, bar-

gaining power affects real wages, job search and, thus, unemployment. Payroll taxes tend to increase labor costs and tend to reduce real wages, with a negative effect on employment. The effect on unemployment is a function of the parameters of the model including the degree of bargaining power. The higher the level of workers' market power the higher the resulting wage, whatever the tightness of the market. The model simulates that, in the absence of a change in the industrial relations system, inflation control and trade opening result in *higher and longer duration unemployment*. These two necessary and successful policy changes (trade opening and inflation control) were followed by payroll tax reductions. Tax reductions generally result in higher net wages and lower labor costs, inducing more employment creation and also attracting more participants into the labor force. Given the level of initial unemployment in Argentina, tax reduction would be expected to mainly generate reductions in labor costs and additional employment creation. But, in the absence of reform of the industrial relations system, the labor market may clear with a further increase in the unemployment rate (although shorter unemployment durations). The effect of a reform in the labor law that eliminates inertia in collective bargaining is simulated through a reduction in workers' bargaining power. The simulated impact is lower labor costs, higher employment, a negative effect on unemployment, and a reduction in unemployment duration.

12. The data quoted in this section is from various OECD reports and the U.S. Bureau of Labor Statistics.

13. As a consequence of those labor market restrictions, Spain has lost 510,000 jobs since 1990, 17.2 percent of total employment, in part to exodus of multinationals. Spain had no more jobs in 1994 that it had in 1964, even though population grew by 25 percent in that time.

14. This should not be construed as an indictment of all of the ILO conventions. In fact a number of them are quite desirable with a significant positive welfare impact. Also their impact on labor markets depends on how they are implemented. They are used here essentially as a proxy for the extent of labor market regulation.

15. Sectoral employment performance has also been found to depend on intra-industry wage dispersion. In Germany, for example, intra-industry wage dispersion and employment growth are linked through higher entry rates of new businesses, particularly small firms that can compete with incumbent firms via the hiring of lower paid workers (Boeri, 1990; Hamermesh 1993).

16. In modern economies, job creation tends to be preceded by the destruction of some less efficient and, therefore, less prosperous jobs. The correlation between jobs creation and destruction rates by industry in the U.S. over the 1973–1988 period is 0.77 percent, as calculated from data in Steven J. Davis, John C. Haltiwanger, and Scott Schuh, *Job Creation and Destruction*, Cambridge, MA: MIT Press 1996, Table 3.1.

17. Given the adverse short-term fiscal effects of further reductions in payroll tax rates, the latter are usually preferred.

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The Prospect of Reducing Poverty and Improving Social Balance in Latin America: The Improvement of Employment Opportunities

GERARDO MARTÍNEZ

WE WHO ARE FIGHTING CONSTANTLY FOR A FAIR WORLD AND FOR A FEELING OF WELL-being find ourselves facing the harshness of the end of this century. The market economy and globalization of the economy forced almost every nation to improve its levels of competitiveness in order to live by exporting. On the way to this goal, countries found themselves caught in a spiral in which it became essential to cut costs. This made employment and salaries the main variables to adjust.

Economic stability does not last without social balance

Since 1990 the story of economic activity in Argentina, concerned with the creation of jobs, was unique. Between 1990 and 1994 the gross domestic product increased by 34.7 percent, investment by 120.6 percent, and employment by only 8 percent. In addition, the macroeconomic projections of the government for 1994 and 1995 became a reality: convertibility, the exchange rate, the convergence of domestic prices with international equivalents, and the increase in competitiveness and exports. But these facts represented nothing when compared with employment and unemployment levels. By 1995 the estimated rate was 8.3 percent while, in reality, it reached a maximum of 18.4 percent. Job vacancies were underestimated, and the guidelines to generate employment were not adhered to. In short, the official numbers show that in May 1996 the unemployment rate was 17.1 percent and the rate of underemployment was 12.7 percent. This means 2,120,000 workers are unemployed and 1,570,000 are underemployed. Moreover, the unemployed are the most unprotected. According to official data, three out of five people in low-income sectors are unemployed.

The transfer of the production of goods and services to the private sector by privatization and concessions, deregulation, the higher level of competitiveness that leads to an internationalization of economy, and the modification of relative prices in favor of imported technology distorted the comportment of demand for manual labor. This alteration caused a lower rate of employment growth instead of a lower domestic product. The consequence of post-transformation is the high level of unemployment that workers must endure.

We, the union leaders, emphasize the importance of having reached the level of economic stability in which we have played a part, and we remain the guarantors of efforts made by our workers. However, economic stability does not last long without social balance.

It is not enough to have fiscal and monetary balance for economic growth; it is necessary to know how society is organized and how its wealth can be distributed.

Union questions

The government estimates that the sequence of consolidation of the fiscal position, more trust, the entry of capital, and the increase in investment will be very important for a

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future expansion of employment. Meanwhile, an intermediate stage characterized by a simultaneous creation and destruction of employment and the modification of the required qualification profiles is taking place. As a result, union questions concerning the duration of this stage and the dimension of the creation-destruction employment process are numerous. It is well known that solidarity implies taking care of those workers who do not have job opportunities, but this does not solve the main problem: the lack of jobs. Workers and their unions do not ask for social assistance, they are pleading for jobs, and the only response is insufficient unemployment compensation. They will receive help for sure, to overcome the crisis; but help must come from both government and social powers, these being socially balanced in terms of efficiency and equality to make short-term economic projections possible.

The increase in unemployment disregards the policy of flexibility

The main effort to combat unemployment was labor reform.

The policy of flexibility within the market is an appropriate solution in a globalized world that is constantly changing. The labor sector is not blind to this reality. But the difference is in the method, time, and objectives required by this policy. It should be a tool to increase jobs: Companies must generate more jobs in a context of productivity and incremental income, but in Argentina we have followed this policy and the objectives are far from being fulfilled. On the contrary, we have found that this new model of labor relations has caused, in many cases, a problem of evasion. This means that temporary jobs at lower cost are required to uphold these new norms without being detrimental to businesses, because of all the benefits enjoyed by permanent staff. This can be accomplished by rotating payrolls in the same economic group and by using different means of promotion. This is not evasion; it is legal informality. Therefore, it is necessary to reward the companies that are capable of constantly creating jobs.

To think that union power is responsible for distortions in the labor market in Argentina—and, therefore, also for its unemployment—is a pathetic fallacy. On the contrary, unions are trying to help with these new changes, always thinking that they are in favor of productivity and social justice. Hence, the call for consensus is an appropriate tool in democracy to find solutions and overcome conflict. The inter-

national monetary organizations suggest that if market reforms have any unfavorable consequences in income distribution, they should be supported by well-designed projects to transfer it, correctly identifying the beneficiaries. These projects foster retraining and education, and promote long- and short-term productivity and higher incomes for workers.

During the last few years, the policy of flexibility has been widely applied, but unemployment, instead of falling, has actually increased. In practice, the policy has been reduced to the elimination of indirect labor costs, forgetting the importance of a major adaptation in terms of knowledge, information, and the modernization of management. That is the reason why this policy in our country should be seen as one that makes the employment market a highly fragile one.

Investment in training

An essential condition for the success of the policy of flexibility is the increase in the demand for jobs. This can be possible through investment in training, because professional formation is extremely rigid and the worker does not have any access to it in a technologically evolving market. While the circulation of capital increases steadily, employment remains static. Therefore, national companies must be eager to invest in training. This will enable them to look for a major share in the added value of a global economy and, at the same time, to contribute to the achievement of better standards of living for the people as a whole. The anti-unemployment bias and the historical decline in real wages are related to the lack of knowledge and abilities required by the new technological circumstances in various productive sectors. This means that investment in training is fundamental to the policy of flexibility.

Incentives for subsidiary companies (PYMES)

A real economic revolution must be based on specific policies toward subsidiary companies because they are the ones that generate most jobs. This does not mean that old-fashioned methods such as subsidized credit, quotas, or high customs duties for imports, and the unification of regional environment must be applied. It all makes sense for these companies to have tax rates similar to international ones, accepted by the largest economic conglomerates.

The South (MERCOSUR)

The union of countries of the South, MERCOSUR, implies a market of more than 200 million people. Its main

achievement is the possibility of improved production with high profitability in different activities. This will create opportunities for new trade agreements and will expand investment. It will help GDP growth and generate jobs for all the members of MERCOSUR. In this context, singular importance is given to the topic of informal jobs and to the social benefits of each worker (medical care, education, pensions), since each country has different labor costs, and this affects competition between them.

Corruption: A direct tax on work

Non-economic causes that create certain negative effects coexist with economic processes. One of these is corruption. Hence, there is no point of discussion. What is being debated is the immoral and unlawful conduct of some private and public leaders. Society demands ethical conduct from public servant and private employee alike, from us, the union leaders, and from all people whose activities are related to the wealth of the nation and the satisfaction of public needs. For workers, corruption is also a direct tax on work because it represents a surcharge on prices that we, as consumers, have to pay, while those who have not participated in the productive process do not suffer. Corruption implies, in any labor sector, not only lower competitiveness

and, therefore, lower job creation, but also higher costs to labor because of evasion. Hence, there are fewer benefits for workers.

Conclusion

To conclude, we can say without a shadow of a doubt that up to this point labor reform has not increased employment as expected.

Globalization is becoming a commercial conflict, and specialists tell us that we have lost our way. They remind us that the past does not progress, saying that comfort is the only thing that can still develop further, while restating that happiness and the human heart are still the same. Five hundred years ago, the peace in an individual's heart depended on having goods to satisfy his and his family's needs for the next day. Today, the situation is exactly the same. There is no real difference between a wood-fired stove and a microwave oven.

What do we gain if we lose our way and continue to engage in constant change? Is it possible to create advanced technology that nobody will ever use? There are many questions to be asked. It is high time for us to examine our conscience and, for the common good, to become fair and fraternal players in this inner conflict.

Comment

G E R R Y R O D G E R S

THIS PAPER STARTS WITH A DIAGNOSIS OF THE POOR EMPLOYMENT PERFORMANCE OF LATIN American economies in recent years. While employment has risen, this has not been enough to compensate for the increase in the labor force, due both to population growth and rising female labor force participation. The result has been both persistent informalization and a growth in open unemployment, notably a growth in long-term unemployment. This has aggravated poverty. (In passing, note that it is now regarded as obvious that unemployment is associated with poverty; for many years, this idea was rejected because the dominant view was that unemployment consisted mainly of extended job search by the better off. This was never true if a broad definition of unemployment was used.) To this description of the problem, I would add that such employment as has been created is increasingly precarious. An example can be seen in Figures 1 and 2, which show the increase in the share of precarious jobs (defined as unregistered wage employment and self-employment) in Metropolitan Areas of Brazil in the first half of the 1990s. Even when growth in aggregate employment started to recover in 1993, the share of precarious jobs continued to increase.

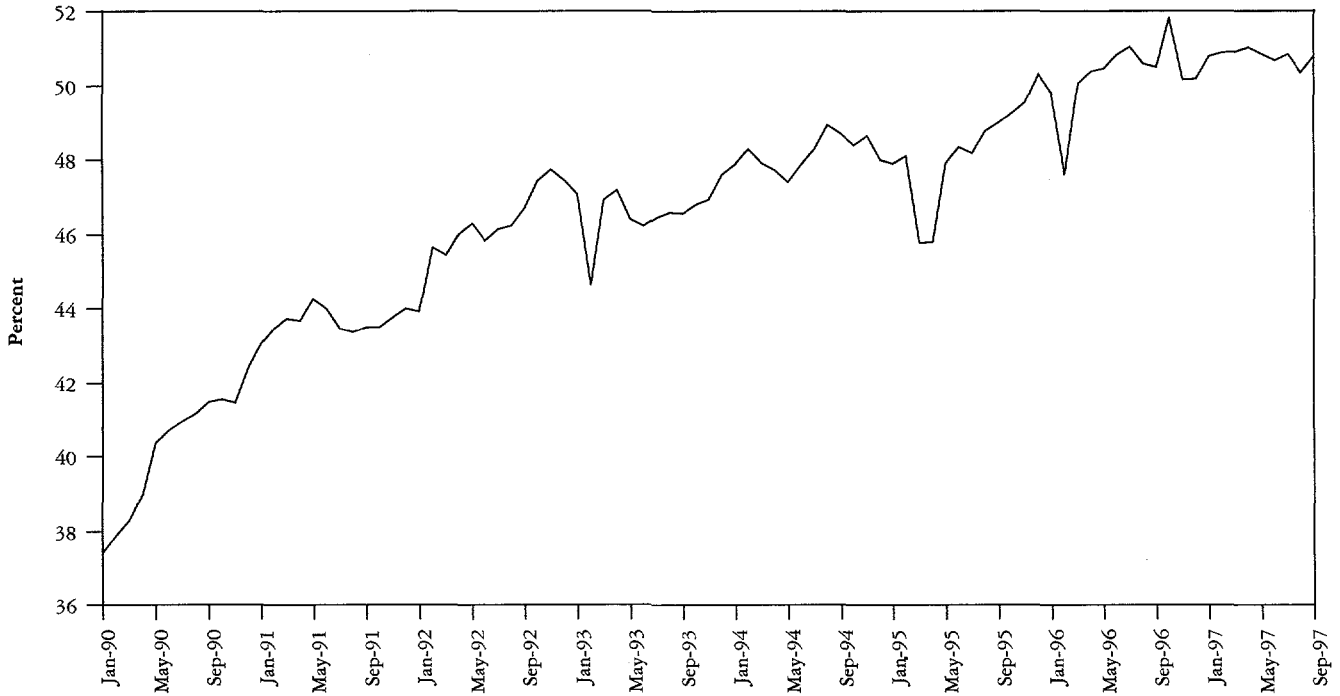
While some of the problem can be traced to inadequate growth, according to Guasch, labor market rigidities are a major culprit. His solution is to raise labor demand. This should be done by reducing excessive labor costs (including reductions in wages and payroll taxes), decentralizing collective bargaining, and reducing dismissal costs and other rigidities in employment contracts. (Some of these involve shifting the demand curve, some moving along it; there is also a mention of labor force quality on the supply side). The author argues that countries in LAC which have deregulated their labor markets have been more successful in creating employment, and that the experience of industrialized countries supports this point of view. Direct employment creation measures are ineffective, so policy should concentrate on flexibilization.

In commenting on the paper, I shall start from the premise that the labor market is a social institution as well as an economic one, and that economic analysis which ignores the social content of the employment relationship is incomplete. To treat economic and social policy in the labor market as distinct spheres is not only impossible, but theoretically incorrect.

Another basic premise is that an employment objective is not just a question of more or less employment. It is important to consider the quality of jobs at the same time. It might be argued that the first priority is to create jobs, and worry about their quality afterward. But this carries many dangers; exclusion from the labor market may simply be replaced by exclusion within the labor market.

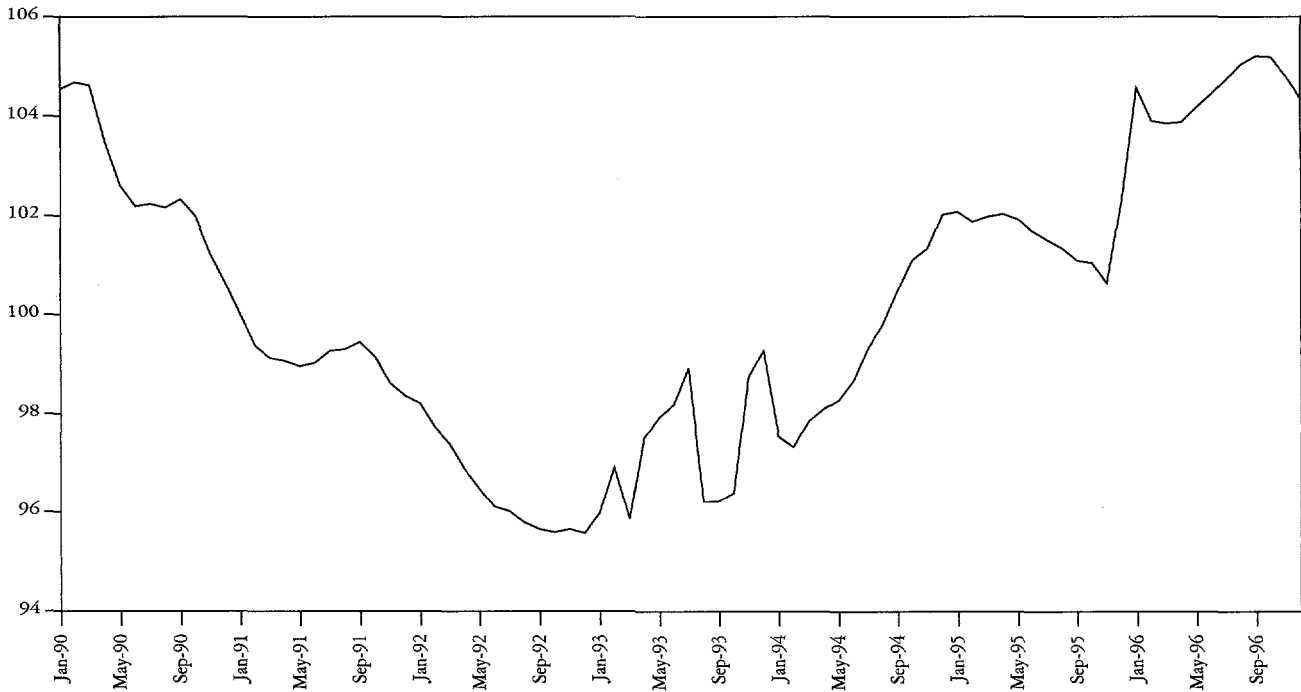
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FIGURE 1
Index of Precarious Employment (% of all employment)



Source: Pesquisa Mensual de Emprego, IBGE (PUC-Rio data file).

FIGURE 2
Formal Sector Employment Level (January 1991 = 100)



Source: Ministry of Labour, Brasilia (PUC-Rio data file).

The empirical evidence

A basic contention of this paper is that the empirical evidence uniformly supports the hypothesis that market-oriented labor reforms, especially those which make wages flexible, reduce the costs of hiring and firing, eliminate regulations and institutions which distort labor market outcomes, and promote employment creation.

Colombia, Peru, and Chile are cited as cases which support this contention. I do not know enough about recent developments in Colombia to be able to comment (though I note that the decline in unemployment up to 1994, quoted in the paper as evidence of success, has since been reversed). Peru, on the other hand, seems to me to be a poor example to cite as a success story. Real wages in Peru fell at the end of the 1980s to less than 40 percent of their 1986 level, and have recovered only slightly. If the wage-employment elasticities were anything like the levels suggested in this paper, the employment problem in Peru would have been resolved by 1992. In fact, unemployment has declined only slightly, and informalization continued.

Chile is a more interesting case. The paper states that employment growth of 3 to 4 percent annually in recent years was the consequence of labor reforms. There were indeed extensive labor reforms in 1979, which among other things contributed to the exceptionally high unemployment rates in the early 1980s. Since the mid-1980s, there has been steady growth of 6 to 7 percent in output, which has generated sufficient employment growth to bring unemployment down to 6 or 7 percent. This is a major success, and it has been accompanied by a decline in absolute poverty. It is, however, by no means clear that labor reforms have contributed much to the growth in output. The latter has been driven by export growth; 40 percent of Chilean exports are copper, 10 percent other minerals, sectors in which labor costs are not a primary concern; growth has been driven by large-scale, capital-intensive investment. In other sectors, export growth has relied on an extremely intelligent strategy of identification of niches where Chile's natural resources give it the possibility to develop comparative advantage, along with innovation and high-quality management. While market-oriented reforms in capital and product market can surely claim some credit, labor market deregulation seems to have been of secondary importance at most. On the contrary, the slow reregulation of Chile's labor market since the reestab-

lishment of democracy in 1989 does not seem to have adversely affected growth.

This rapid growth would have created jobs anyway. Did deregulation increase the employment elasticity of growth? Wage levels were held down until the late 1980s, which may have led to a faster rise of employment than would otherwise have been the case, though it is hard to demonstrate it rigorously. But at the same time, there was a growing polarization of the Chilean labor market. The Chilean Minister of Labor, Jorge Arrate, himself stated, in the ILO Conference this June, that while the Chilean economy has successfully created jobs, many of these jobs are of poor quality. Inadequate training is a serious concern, which is difficult to address in a deregulated labor market. Meanwhile, informal employment in Chile shows no signs of declining. One cannot adequately analyze this experience in two paragraphs, but my point is that there is much more to the story than appears in Guasch's paper. Labor market reform in Chile probably had some effect on employment growth, at the cost of creating other problems—in other words, there is a trade-off.

Let me say a word on the comments in the paper about the experience of industrialized countries. First, the comparison between the U.S. and Western Europe (see Guasch Table 17) can be interpreted in more than one way. Western Europe in fact generated greater growth in labor incomes than the U.S., but so far has been unable to create the institutions to distribute available work opportunities in a satisfactory way, hence unemployment. In the U.S., on the other hand, there was an intensification of labor; Americans had to work harder to stand still. The U.S. created more jobs, but taking into account the decline in the quality of the jobs and their incomes, it is hard to say that Americans as a whole were better off than Europeans because of the relatively lower degree of labor market regulation. I see a great deal of ambiguity in these figures.

On the more general issue of labor market regulation and economic performance in industrialized countries, the ILO's World Employment Report looked at this in some detail last year. It concluded that the evidence that high unemployment could be primarily traced to labor market rigidities was weak. While in some cases, for example, employment protection at the lower end of the income scale, there was evidence of an adverse employment impact, the main problems lay in shifts in trade and technology, to which labor market deregulation provided inadequate answers. There

was a stronger case that anticompetitive product market regulation had adverse impacts on employment.

An important part of this debate lies in the estimation of employment-output and employment-wage elasticities. The paper consistently argues that it is important to make wages more flexible downward, because employment-wage elasticities are high (in the -0.5 to -1.0 range), while employment-output elasticities are low (in the 0.2 to 0.4 range). The ILO review last year, on the other hand, found estimated labor cost elasticities of employment to be extremely variable, but most frequently in the range of -0.3 to -0.5. The report estimates that under plausible assumptions in a European context, a 40 percent decline in wages would be required to reduce unemployment from 10 percent to 5 percent. In Latin America, the aggregate evidence suggests that this elasticity is low. Over the last twenty years or so there have been enormous shifts in real wages throughout the continent. Not only have wages been extremely flexible, this has evidently not solved the employment problem, since dramatic wage declines have coincided with increases in open unemployment and, with some lag, with informalization. Employment-wage elasticities of the order of -1 seem utterly implausible.

In contrast, the employment-output elasticity may well merit further study. During recession in Latin America in the early 1980s, the aggregate elasticity appeared to be around 0. In recovery, it rose to close to 1. Thereafter, it has declined to something around 0.5. But these aggregate figures hid enormous variations within economies. Modern industries, competing on international markets in Brazil and Argentina, clearly have negative elasticities. Informal sectors may be showing values in excess of 1. The problem is that this elasticity is not a very meaningful concept, because it is so unstable. But raising the employment elasticity of output is much more interesting as an objective than driving down wages.

Labor institutions

There is a general presumption in the paper that any interference in market mechanisms is necessarily bad. Much of this interference involves social institutions such as trade unions, legal frameworks and their enforcement, and state intervention. There is, of course, a large and rapidly growing literature which attempts to incorporate institutions into economic analysis. Let me just mention a couple of relevant concerns which one can find in that literature.

(a) The route to increasing competitiveness and productivity may lie through promoting institutions for cooperation and trust, promoting commitment of workers and employers to common goals, and establishing rules of behavior which are perceived as fair and receive recognition. This is because the social content of the employment relationship is as important as its economic content in determining how much work is actually done, at what level of productivity. If this is so, then wages above market-clearing levels may be needed to generate worker commitment, or wages may well be correlated positively with productivity (witness the efficiency wage literature); indeed, many labor standards will contribute to enterprise competitiveness in the right institutional framework. A basic shared concept of what constitutes a decent job is likely to constitute a powerful basis for coordinated action between employers and workers. Job protection, far from being a distortion, may be essential to generate participation in innovation or the development of adequate training.

(b) Many institutions have powerful long-term effects on the way labor markets function. These dynamic effects need to be considered alongside the static efficiency considerations which dominate empirical analysis. Table 11, which is taken from an article by Robert Boyer, illustrates some of these differing effects with respect to some dimensions of labor market regulation. For example, the column on dismissal legislation suggests six effects, three short term—slower employment adjustments, lower profits, and perhaps some macroeconomic stabilization through the effects on consumption; and three long term—reduced hirings, increased internal flexibility within enterprises, and stimulation of technical change. In the long-term effects in this table we have issues such as raising labor and product quality, greater voluntary labor mobility, technical change, and improved organization of production—all vital for the promotion of employment

Of course, not all institutions have desirable effects. Many protect vested interests, perpetuate inequality, undermine efficiency, and hinder investment or innovation. Such comments are sometimes addressed to trade unions, but insofar as this is true it would equally apply to certain business, agrarian, financial, and political interests which intervene in the labor market. The important point is that a broad analysis is required to identify the appropriate institutional framework for different production structures.

A case in point, which is also a particularly interesting section of the paper, concerns the decentralization of collective bargaining. Here the empirical evidence in the paper seems stronger, the argument tighter; but the proposed institutional reform in favor of decentralization is expressed purely as a means for generating wage flexibility. In reality, the issue is much more complex. There are other reasons for decentralization, such as effective representation and increased participation at the local level. At the same time, there are issues, of importance for employment policy, which enterprise-level bargaining does not adequately capture: training, the development of local labor markets, research and innovation, etcetera. In particular, there is a macroeconomic impact of wage bargaining which cannot be internalized if bargaining is wholly decentralized. In the end, the most efficient institutional framework might combine decentralized enterprise-level flexibility with some degree of central coordination.

National labor markets and the world economy

A repeated point in the paper concerns the undesirability of protecting the wages and working conditions of unskilled labor, in the face of pressures from world markets. In Europe and in Latin America alike, the pressures are strongest at the bottom of the skill ladder. Guasch argues that it is important for competitiveness in an open economy that these wages be flexible downward, and that labor reform aim to reduce labor costs. But there is a major problem here: Given structural shifts in production systems in many sectors, and the progressive opening up of Latin American economies to the world market, in many tradable production sectors there may be no wage at which production based on unskilled labor is viable. This is all the more so, since with increasing numbers of developing countries following similar strategies, there is the risk that unskilled wages will be driven into a downward spiral through an intensification of international competition. There are, of course, sectors less exposed to competition, but the basic message is not an optimistic one.

This is not an argument against reducing labor costs by cutting payroll taxes where this can readily be done. In fact, costs such as severance pay and social security contributions are not exceptionally high in Latin America compared with other parts of the world, but even if the labor cost-employment elasticity is low, shifting some of these taxes and contributions to consumption or to capital

would contribute to employment promotion. There is a particularly good case for doing this for vulnerable groups such as the long-term unemployed, new labor market entrants, and groups subject to discrimination. However, the crucial issue is not one of lowering labor costs, but of raising productivity; and for increasing productivity to be associated with employment growth, output has to rise faster. We are back to the question of successful growth strategy.

But there is an additional, crucial point, which the paper underestimates: the importance of human capital. If production systems worldwide are demanding less unskilled labor, the only viable route to employment creation is through a massive upgrading of skills. But education and training have to be linked to a growth strategy. In Europe, as the paper comments, training programs for the unemployed have been relatively unsuccessful, because they were not combined with an effective demand-side strategy to integrate the newly trained into the labor market. In the more successful East Asian countries, coordination between the state and the private sector has helped to provide the demand side as well as the supply side. In Latin America, it would be desirable for such coordination to include trade unions, as well.

Concluding remarks

Why has there been such little job creation in Latin America, and what can be done about it? The foregoing suggests that the main problems lie in the inadequate pace of growth, linked in turn to macroeconomic policy failures, economic restructuring which has been excessively capital intensive, and the poor preparation of workers in terms of education and training, for the demands of global competition. This shows up in the poor quality of jobs which are being created, and not just in their volume. Why are workers so unskilled? Enterprises do not capture the benefits of training and have too short a time horizon. In addition, the vital role of training has not been fully recognized at political levels. The issue of skills has become much more critical with the opening up of national economies, but there is as yet inadequate recognition of the importance of massive investment in this area. Alongside training, there is a need to develop institutional frameworks which facilitate the emergence of new forms of industrial organization, competitive in the world economy, without sacrificing representation and protection.

I would like to conclude on the issue of coordination. Many of the issues involved in employment creation require the mobilization of social actors around the goal of employment growth and the creation of institutions which both encourage the creation of jobs, and widen access to those jobs to citizens as a whole, whether through training, information, or positive action to reduce disadvantage. *Social dialogue among the main actors concerned—work-*

ers, employers, and the state—in which the conflicting objectives of different groups can be reviewed and zones of common concern and coordination identified, is crucial for employment strategy. Such dialogue is not inconsistent with market-oriented reforms; indeed, it can provide a framework which makes them both more efficient and more sensitive to social mechanisms and objectives.

Comment

FRANCISCO DIAZ GARAYCOA

ON BEHALF OF THE INTERNATIONAL ORGANIZATION OF EMPLOYERS I WISH TO THANK THE World Bank for inviting our organization to participate in this important regional conference. Allow me a brief ad for my organization. This is a private organization, created seventy-six years ago, that simultaneously was the creation of the International Labor Organization (ILO). It has branches in more than 120 countries on the five continents, and its mission is to represent the employers of the world before the ILO, whose three-party commission ensures that all employers and employees can participate before the government in defending their rights and obligations. Our organization is permanently interested in free enterprise, in fostering an entrepreneurial spirit, and in the creation of productive jobs and of good relationships between employers and workers.

I want to congratulate Mr. Guasch for his excellent paper. I think it is a very accurate diagnosis that shows the clear and accurate situation of employment and labor reform in Latin America.

Employment is undoubtedly the key to overcoming the social problems that Latin American countries face. The problem of unemployment in Latin America is approached from a standpoint of structure. Formal employment, which depends on private enterprise and public activity, represents 45 percent of the urban labor force of the continent.

Employment from small companies and informal activities makes up 45 percent of the working, economically active population. More than 20 percent of the labor force belong to unions. These are data obtained from the document entitled *Labor Panorama of Latin America and the Caribbean*, produced by the ILO in 1994. To overcome the problem of the high rate of informality and the high rate of unemployment, it is indispensable for the countries to undertake strategies aimed at increasing employment, allowing it to exceed the normal rate and permitting

economies to reach the dynamics required. The State, even though it has a pure responsibility to combat unemployment, cannot create new jobs through artificial measures. Only companies can create jobs, and they can create them only when they are competitive and profitable.

At the Summit of the United Nations Programme for Social Development held in Copenhagen in 1955, the Organization of Employers issued a statement arguing that the absolute condition for the creation of jobs is the existence of a sustained growth and development rate. And all growth strategies leading to job creation require the implementation of a stable macroeconomic policy without deficits or lack of monetary policies. They require policies that foster the expansion of international investment and exchange, they require an institutional political environment allowing for private investment and the creation and development of companies within a competitive environment, and they require a flexible labor market that allows both employers and employees to adapt to economic changes.

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Labor relations have been for many decades a subject of concern. Their handling has had ideological and political elements that have left them without clarity and transparency. Even in our day, there are companies that intend to keep the relationship between employers and employees within a framework of mistrust. We do not intend to ignore the need to regulate labor relationships and to acknowledge the fundamental rights of workers. Quite to the contrary. That has been the invariable position of the International Organization of Employers in its concern for distinguishing between that which is permanently valid in the world labor market and that which represents excess eagerness to regulate and puts the creative initiatives of the productive sources in a straitjacket. That has given a great moral source to the ILO and it has strengthened the dialogue between the government and the workers. We have had to create an awareness of the need to foster labor relations, and so far that is one of the objectives of the new approach that little by little has been adopted by the International Organization of Employers.

For many years the world and Latin America experienced a period of mistaken criteria that promoted such things as absolute job stability, the indiscriminate exercise of the right to strike, increasingly shortened work weeks, and administrative methods that led to entrepreneurial overcrowding. The argument was that all this would promote social justice and lead to a more egalitarian society. In practice, what it did was to create privileged minorities, inefficiency, and above all contraction in productive investment and job creation. While the Eastern countries were attractive to foreign investment, the Latin American countries and many countries in the Caribbean caused opposite reactions. They rejected investment and aggravated the symptoms of the crisis that began during the 1980s, until they produced its total collapse. The economic decrease rates were dramatic in the region during the 1980s, perhaps with the exceptions of Chile and Colombia. The generalized crisis of the 1980s found us with great structural problems still unsolved, and this has made it difficult to recover our employment rates. That is very serious in the labor field where crises give rise to endless conflicts between employers and employees.

With this scenario, economic liberalization and globalization of the economy presented a great opportunity. At the same time, the opening of markets with the reduction of tariffs opened up unsuspected possibilities of placement

of our raw material products. Our countries had to begin competing for the investors, and at the same time we were forced to overcome our limitations or constraints so that we could become attractive and competitive. It was a great challenge, undoubtedly, and a great opportunity that we could not let go, but first we had to put our house in order. We had to eliminate the obstacles so we could compete, and in that task employers and entrepreneurs have had a key role. We assumed the function of sponsoring change, of fostering change with proposals and initiatives that would make governments initiate action different from their old interventionist guidelines. We also had to foster a rapprochement with the employees, and we had to make them commit themselves to a new vision. We ourselves had to change, because we cannot ignore that many of our people fostered economic models oriented toward protectionism and preserving captive markets. But each sector must assume its role and contribute to common objectives.

In the past ten years, the region has instituted reforms and experienced significant innovations aimed at eliminating rigidities and introducing modifications to make hiring systems flexible for most jobs. Simultaneously, we have made progress in the reform of social security systems and in the implementation of three-party systems for conciliation and consultation. The most important labor reforms took place in Colombia, Peru, Ecuador, and Argentina. The Colombian reform—and allow me to talk about this in your own country—put an end to the concept of endless job stability, because this created problems for the employees themselves. Many employees were fired before their first ten years of work so they would not receive all those benefits they were supposed to get if they were fired after ten years on the job. But it eliminated the absolute immobility. Reforms were also instituted with regard to severance payments made according to years served, and that has constituted an important source of capitalization of financial markets in the country.

The situation in Peru was much more complicated, in my opinion, because besides the absolute stability we have talked about in Colombia, because of seniority there were still traces of the community legislation from the previous years with an entrepreneurial model of growing participation by the employees. Both the 1995 constitution and other labor reforms approved in the last five years in Peru allowed the country to put an end to these old policies, and allowed the workers the sale of their share of participation

in the country that used to be untransferable. They also enacted a law for youngsters' employment, ensuring social security and protection for workers between 18 and 24 years of age. We have to acknowledge that the Peruvian reform was carried out within a framework of institutionalization of the country, and many times through decrees and laws issued by the president himself. The results of the measures in both countries are favorable, and they can be seen in the growth in investment in the productive areas, and in a reduction of conflicts in the labor arena.

Argentina has also created improvements in the labor sector. They passed an employment law that contemplates creative ways of hiring, the main ingredient of which is flexibility. And in Ecuador in 1991, the government approved an important reform to the labor code aimed at improving the way labor conflicts were handled by introducing stages of arbitration and mediation by three-party tribunals or courts when bargaining collective agreements. Thus, they were able to reduce considerably conflicts and strikes. In 1992, there were 336 collective conflicts; in the following years there were less than ten. Obviously there are still conflicts, especially in the public sector.

Because time is short, we will not present an analysis of the progress made by the social reforms in Bolivia, Peru, the Dominican Republic, Panama, etcetera. But we will mention the valuable contribution of the social dialogue between workers and employers to the improvements achieved. This is a very important mechanism we should refer to—the social dialogue that allows for agreement

between workers and employers and the government. There is evidence of a high degree of maturity in its participants, and it represents their will to act jointly in search of common objectives. The objectives reached by Mexico show that these results are good, and I think Colombia is experiencing the benefits of the second year of the social pact executed in 1995. As I have said, only an economy oriented toward the creation of productive jobs is in a condition to fight against poverty and social marginalization.

Even if we overcome all the identified causes for social exclusion, it would also be indispensable to have a well-remunerated job to ensure the complete fulfillment of the person. In fact, we can overcome the problems of discrimination based on race, religion, etcetera, but we cannot do without jobs. The progress pointed out in this field does not guarantee the generation of enough productive jobs. It is necessary to implement the other economic and political actions that we mentioned at the beginning of this presentation, the adoption of which correspond to the public powers. But their implementation is the responsibility of the private companies, and of the workers. Finally, the job ahead of both sectors requires the participation of all involved, and their efforts must be aimed toward the same general goal without giving up their specific differences. There is a great challenge facing the peoples of Latin America and the Caribbean, and the contribution of the World Bank is crucial through the supply of financial resources, technological aid, and support to workers, employers, and governments.

V. The Next Generation

Children of the Poor in Latin America and the Caribbean

JACQUES VAN DER GAAG
DONALD R. WINKLER

Most of the poor are children and most children are poor.
—Children of the Americas, UNICEF, 1992

ACCORDING TO OFFICIAL STATISTICS, TODAY MORE THAN 165 MILLION PEOPLE IN THE LAC Region live in poverty. The incidence of poverty has declined steadily, from 60 percent in 1950, to 37 percent in 1995 (Figure 1.1).¹ However, relatively rapid population growth has offset this decline, and the number of poor continues to grow (Figure 1.2). Though the incidence of poverty is highest in rural areas, the urbanization of the region—73 percent of the population lives in urban areas—has had as a consequence that most of the poor now live in urban areas (Figure 1.3).

Poverty in Latin America and the Caribbean (LAC)

Of the 165 million poor in the region, we estimate that about 58 million, or 35 percent, are under 15 years of age. Thus, the growing number of poor implies that the number of children living in poverty continues to grow. Indeed, by now almost 60 percent of all children are poor, while one-third of them belong to the poorest 20 percent of all households.

In this paper we will address the social needs of poor children. How do they live? What access do they have to health services, education, safe drinking water, and sanitation? What are their chances to escape from poverty and live a long and productive life?

We will assess their living conditions relative to those of their parents when they were young. We will see that despite the growing number of people who live below an income poverty line, social indicators have increased steadily in the region. This suggests that the living conditions of the

poor, as measured by characteristics other than income, have also improved significantly, at least in parts of the region.

Next, we will assess the conditions of poor children relative to their more fortunate counterparts. We will attempt to quantify the “social gap” between poor and non-poor children and assess the investments necessary to fill this gap. We will subsequently discuss policies and programs that need to be put in place to close the social gap for poor children and assess the World Bank’s own efforts in this area.

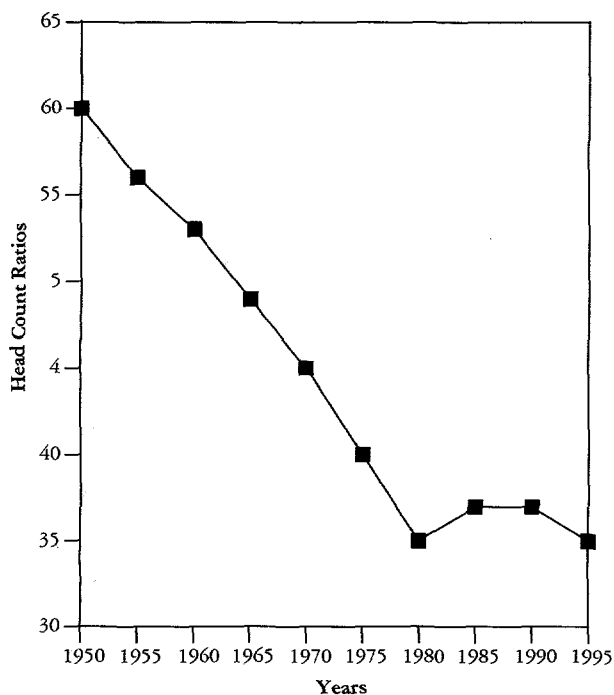
But first we will provide a brief overview of social progress in the region in the past few decades.

Social progress in LAC

The LAC Region experienced rapid income growth during the 1970s, but growth faltered in the early 1980s. By 1990, per capita GDP had reached \$1,850, a level already achieved in 1977 (Figure 2.1). Moreover, the most recent growth projections for the region imply that for the foreseeable future, the number of poor will continue to grow.

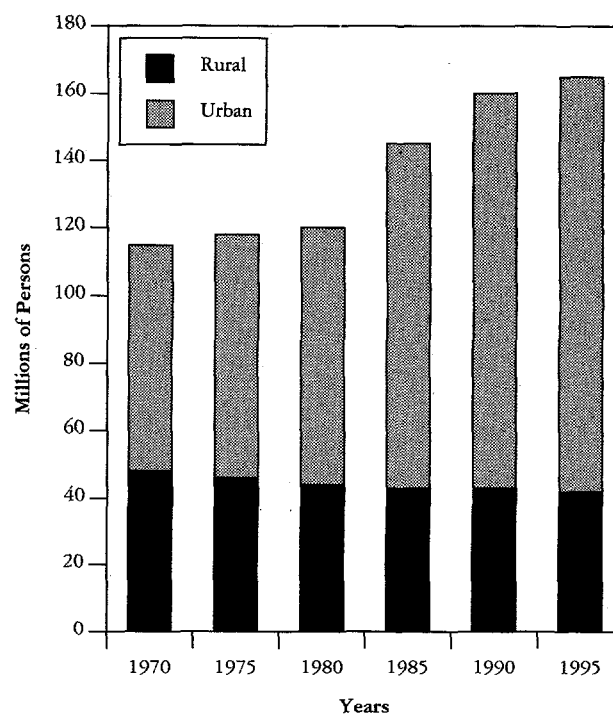
Jacques van der Gaag is chief economist in the Human Development Network of the World Bank. Donald R. Winkler is lead specialist for education in the Latin American Social and Human Development Group of the World Bank.

FIGURE 1.1
Poverty in Latin America, 1950–1995



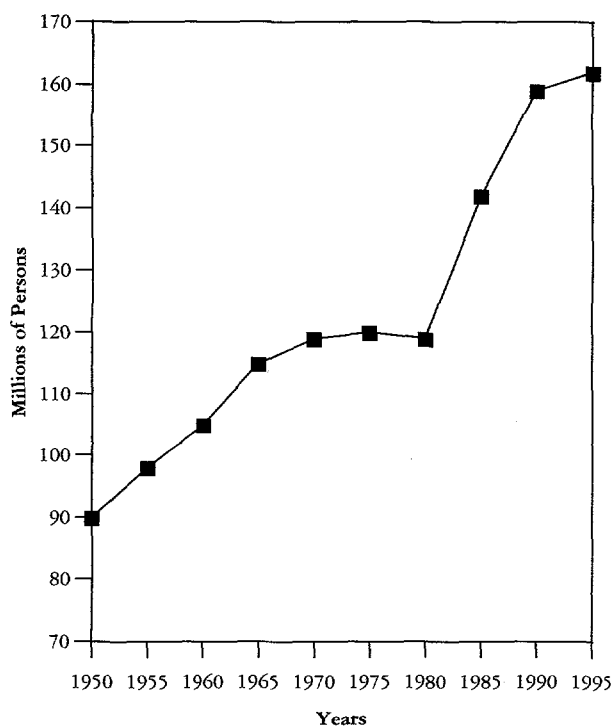
Source: J. L. Londoño, 1996.

FIGURE 1.3
The Growth of Urban Poverty in Latin America, 1970–1995



Source: J. L. Londoño, 1996.

FIGURE 1.2
Poverty in Latin America, 1950–1995

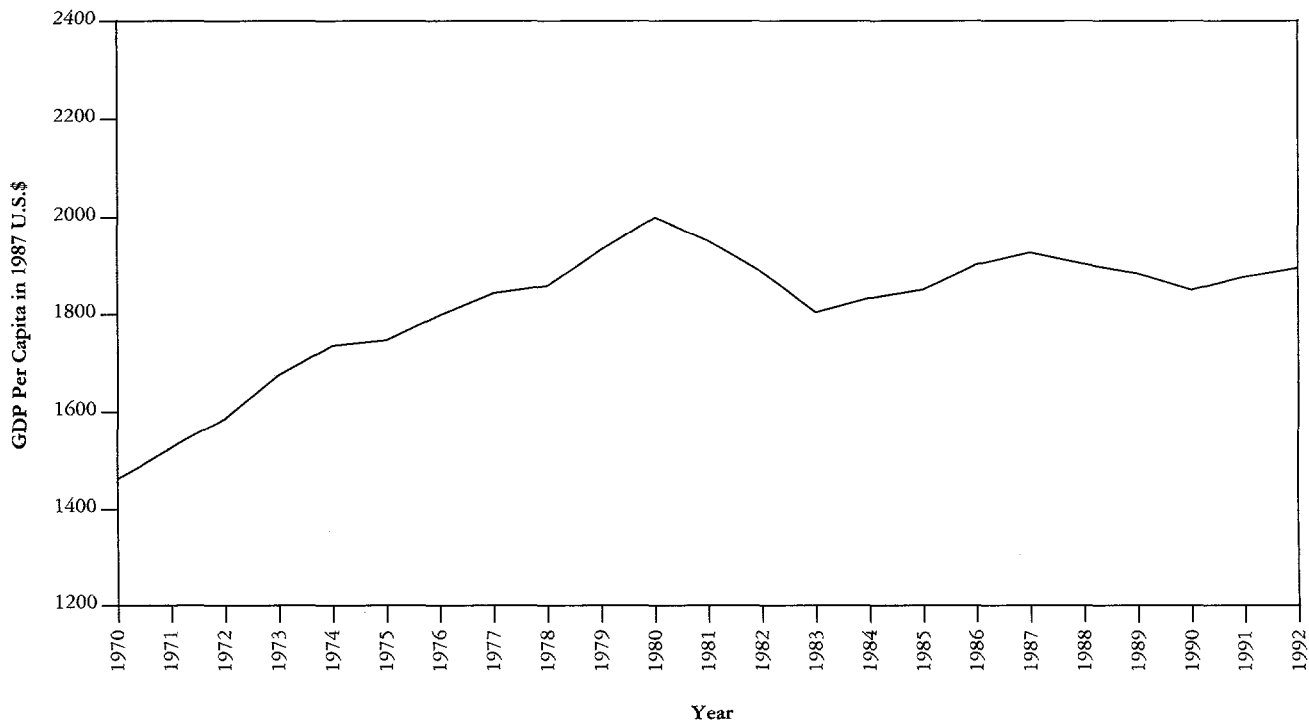


Source: J. L. Londoño, 1996.

Against this erratic behavior of income growth, trends in social indicators look considerably more positive. Infant mortality decreased from more than 80 per 1,000 births in 1972 to about 45 in 1992. While three decades ago gross primary school enrollment was 75 percent, today thirteen countries have achieved virtually universal enrollment, and the region's average net enrollment is now about 88 percent. For secondary education, enrollment increased from 14 percent in 1960 to 55 percent in 1993. Immunization, virtually nonexistent in the 1960s, has reached 85 percent in many countries.

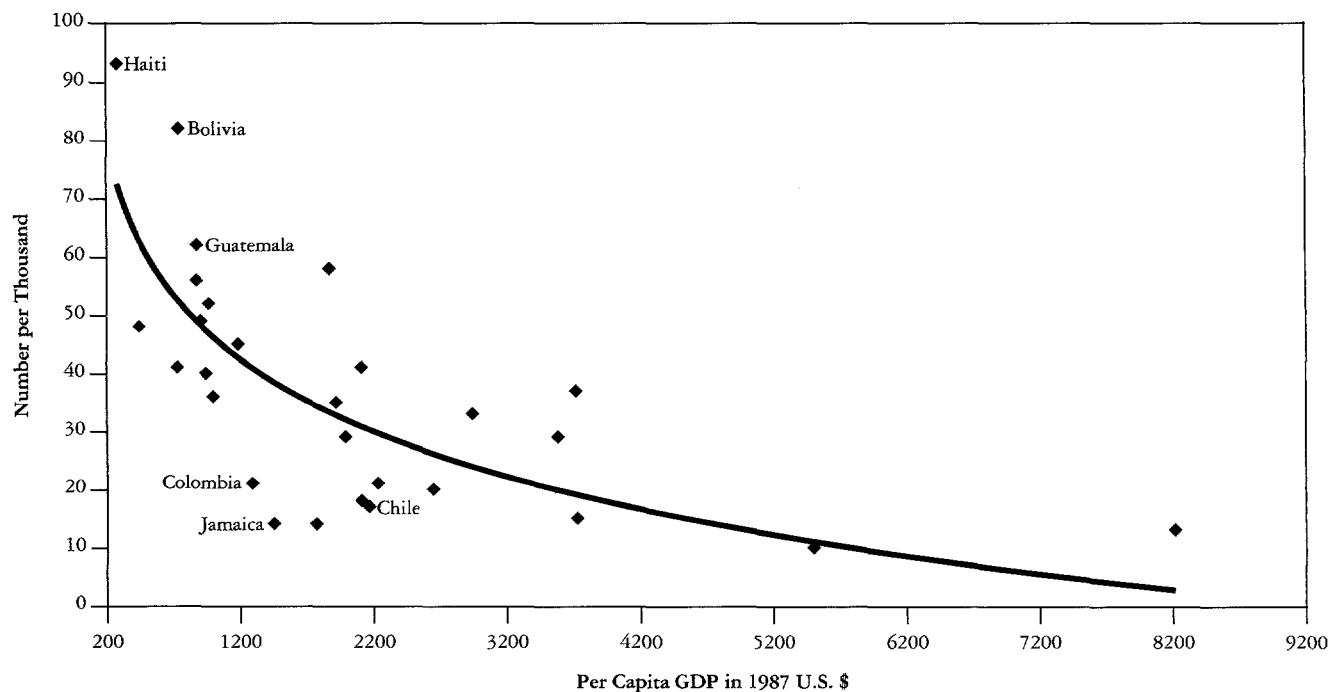
For the region as a whole, the picture appears to be one of tremendous and virtually uninterrupted social progress against a background of uneven economic performance. At the same time, the region falls far short when compared with the developed world. Infant mortality, for instance, is still six times higher, and secondary education is one-third lower, than in OECD countries. Moreover, individual country data reveal that much more needs to be done. Figure 2.2 shows infant mortality rates (IMR) for all LAC countries, ranked by GDP per capita. The IMR is highest in Haiti (93), followed by Bolivia (82) and Guatemala (62).

FIGURE 2.1
Per Capita GDP in Latin America and the Caribbean, 1970–1992



Source: World Bank Data Base.

FIGURE 2.2
Infant Mortality Rate and Per Capita GDP in Latin America and the Caribbean, 1992



Source: World Bank Data Base.

At the other end of the spectrum, Jamaica, Costa Rica, Trinidad and Tobago, Barbados, and Puerto Rico, all have reached infant-mortality levels of 15 or lower. The figure clearly shows (a) that there is a strong relationship between the IMR and GDP per capita, and (b) that policy matters. The latter is revealed by the large deviations from the trend line: Countries can do much better or much worse than expected on the basis of the per capita income level.

Figure 2.3 shows a similar picture for enrollment in secondary education. Clearly, a country's level of development matters, but some countries—for example, Chile, Jamaica, Uruguay—do much better, and others—for example, Honduras, Venezuela—do much worse than expected on the basis of their GDP per capita.

In sum, the region has seen tremendous but uneven social progress during the past few decades. This process implies that in terms of basic needs—safe water and sanitation, basic health services (including immunization), basic education—the children of the poor today are much better off than their parents were several decades ago.

Despite this progress, the social deficit looms large. It provides a major challenge to the governments of the region,

and to the development community, to be met within an uncertain environment for economic growth. This challenge is particularly relevant for the children of the poor, because they are the ones who face premature death, excess disease, and low probabilities to find and complete basic education.

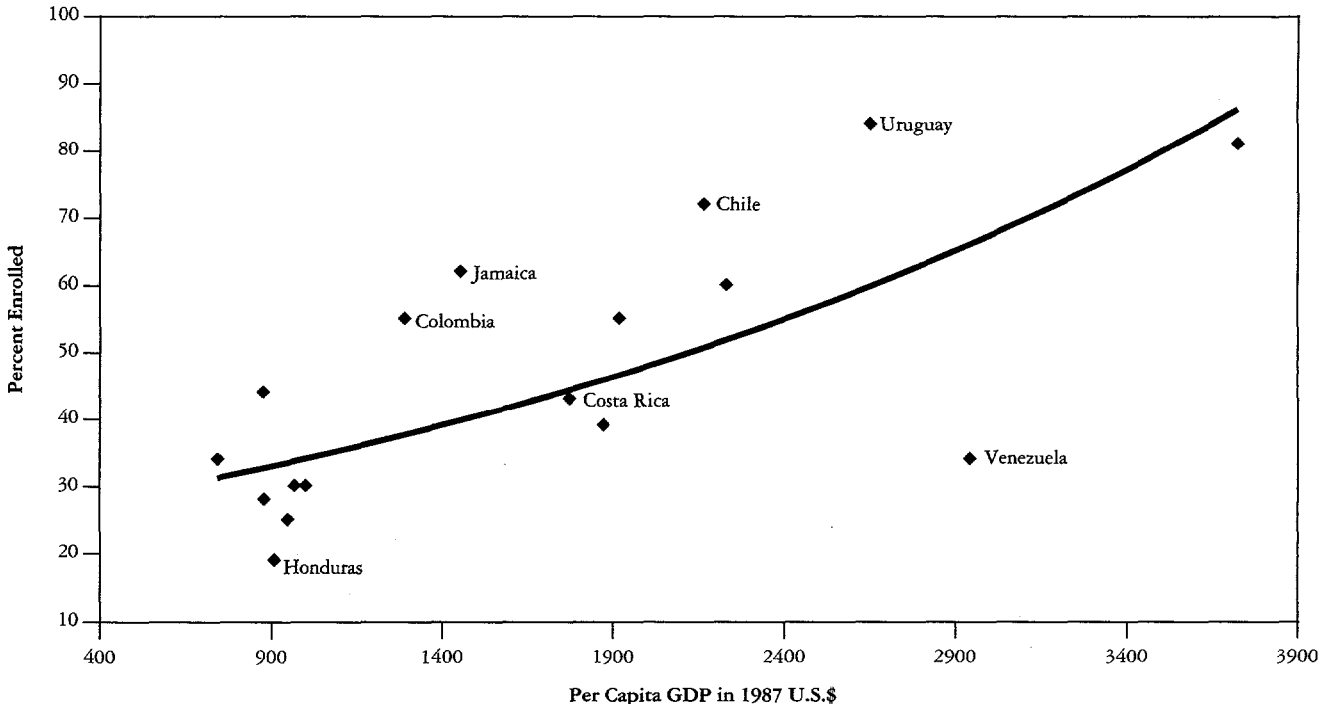
It is to these issues that we will turn in the next section.

The status of poor children

Poverty is hereditary. Like a defective gene, it is passed on from generation to generation. The surest way to break this cycle and to provide children that grow up in poor households with a better chance to escape poverty, is through education. Psacharopoulos et al.,² in a regional study for Latin America and the Caribbean, concludes: "Educational attainment has the greatest correlation with both income inequality and the probability of being poor."

While underscoring the need for high-quality schooling, recent research has stressed the importance of taking a more holistic approach to the development of the young child. Malnutrition at an early age (even as young as at birth), has been associated with stunted cognitive development, late school enrollment, and poor school performance.

FIGURE 2.3
Secondary School Enrollment Rate and Per Capita GDP in Latin America and the Caribbean, 1992



Source: World Bank Data Base.

Sternberg and Grigorenko³ conclude from an extensive survey of the literature that “health deficits in children—whether caused by undernutrition, infection, or intoxication—can have adverse consequences for cognitive development...[D]elay in making suitable interventions can only result in millions of children being consigned to the development of cognitive skills that function at levels well below the children’s potential.”

Moreover, Martorel⁴ has shown that the future consequences of ill health and poor nutrition are aggravated by poor socioeconomic conditions. Indeed, in general, growing up in poor households, with poor and badly educated parents, is a strong predictor for low school enrollment and bad school performance.

Thus, the best way to break this vicious cycle of inter-generational transfer of poverty is to invest in the human capital of poor children, their health, their nutritional status, and their schooling. Numerous studies have addressed this issue. UNICEF, for instance, states: “Today’s children will determine the future of Latin American and Caribbean communities...Health, education, and normal child development are links of a chain that is essential to human development. If any link in this chain is broken, be it through disease, malnutrition, failure in school, or exclusion from society, development is jeopardized and a regressive process sets in whereby poverty is passed from generation to generation.”⁵

At the World Summit for Children, held in New York on September 30, 1990, more than seventy heads of states and an additional eighty-eight official country representatives agreed to a concerted effort to enhance living conditions for children by the year 2000. And the Nariño accord, signed in April 1994 in Bogotá, reaffirms the commitment of Latin American generations to investing in children as a means to sustainable development with equity. The Nariño accord also defines monitoring mechanisms to measure progress toward the regional goals.

In this paper, we will complement these efforts with a profile of children who live in poor households.

Data and definitions

Over the past several years, the World Bank has helped Latin American and Caribbean countries carry out Living Standard Measurement Surveys (LSMS). The resulting data have been used by the Bank and others to construct poverty profiles for the region. For this paper we have selected four recent

LSMS—for Ecuador (1994), Jamaica (1991), Nicaragua (1993), and Peru (1991)—that have national samples and that contain detailed data on the status of children. In addition, we have used the 1992 household survey for Chile (CASEN), which includes similar data on children.⁶

What constitutes poverty can, of course, be defined differently for each country, or it can be defined as an absolute income or expenditure level per individual or per household for all countries in the region. The former definition takes account of each country’s particular circumstances, while the latter permits cross-national comparisons. We have selected a compromise between these two alternatives and defined poverty as the bottom 40 percent of the income distribution. This definition facilitates cross-country comparisons, while also permitting the poverty line (that level of income or expenditure below which a family is declared to be poor) to be set according to the level and distribution of each country’s income.

Also, since children almost always live in households, we have elected to use households rather than individuals as the unit of analysis and to define the poor as the bottom 40 percent of the income distribution of households (ranked by per capita income). We define the very poor as the bottom 20 percent of households.

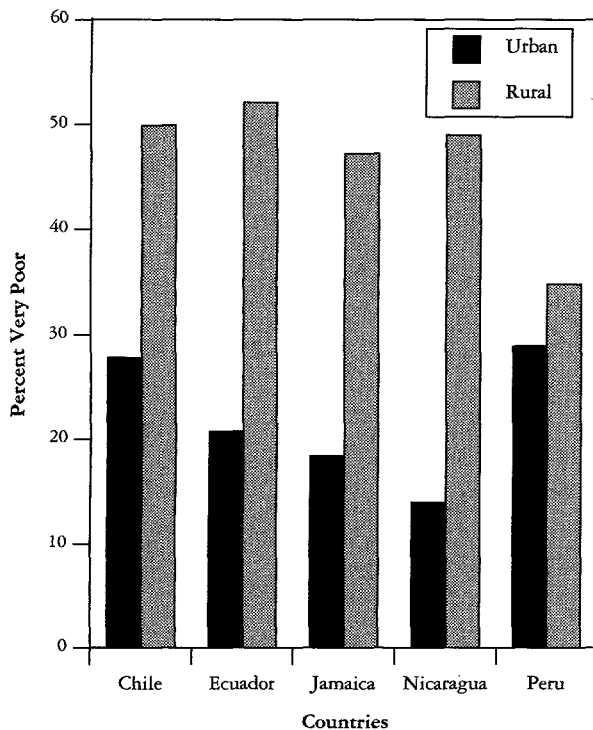
Who are the poor children?

Children are over-represented in poor and very poor households. In the five countries examined, more than 30 percent of children are located in the bottom 20 percent of households, and almost 60 percent of children are in the bottom 40 percent of households. Furthermore, as shown in Figure 3.1, in all five countries the concentration of children in poor and very poor households is much greater in rural areas than in urban areas.

That children are over-represented in poor households is not surprising.⁷ Quite simply, poor families are larger than families that are not poor. The magnitude of this difference, however, varies widely across the five countries studied. Extremely poor families in Chile and Peru are only slightly larger than non-poor families, while in Ecuador, Jamaica, and Nicaragua, extremely poor families have almost two more family members than do non-poor families.

In addition to having larger families, poor households have higher ratios of dependent family members (those below age 15 and above age 65) to adults in the economically active age group (ages 15 to 64). Chile, which is fur-

FIGURE 3.1
The Percent of Very Poor Children in Urban and Rural Areas of Selected Countries



Source: CASEAN—Chile (1992), LSMS—Ecuador (1994), Jamaica (1991), Nicaragua (1993), Peru (1991).

ther along in the regionwide process of demographic transition, has both significantly smaller families and lower dependency ratios for all income groups.

Two other family characteristics appear to be unrelated to poverty status: The average age of the household head varies little across income groups, as does the percent of heads who are female. On the other hand, as shown in Figure 3.2, the percent of household heads who are female varies widely by country and, to a smaller extent, by urban-rural location. In Jamaica, 48 percent of all households are headed by women, and in Nicaragua 27 percent are headed by women, compared with about 15 percent in the other three countries. Also, when household characteristics are disaggregated by location of the household, female-headed households are somewhat more common in urban than rural areas, but, again, there is little difference across income groups.

Finally, as shown in Figure 3.3, what may be the most important household characteristic—the education of the mother—differs greatly by income level. Moreover, the education level of the poor, especially, varies widely by

country.⁸ In Ecuador, the average mother in non-poor households has 9.1 years of education, which is more than double the 4.0 years for mothers in very poor households. And the average 7.3 years of education of mothers in very poor households in Jamaica exceeds both the 5.7 years for Nicaraguan mothers in non-poor households and the 1.2 years for Nicaraguan mothers in very poor households. Finally, disaggregating by urban-rural location shows that education levels are consistently higher in urban than in rural areas for all countries and all income groups.

In sum, from what is known in the literature on poverty, children born in poor households start with a disadvantage for success later in life: They have more siblings and more poorly educated parents, and the very poor often live in remote rural areas—all strong correlates of future poverty.

Of course, public policy could compensate for this disadvantage in early life, by providing basic services (nutrition, health, and education) that will equip the children of the poor to compete fairly as adults in the labor market. We have already seen that in this respect the poor children of today are much better off than their parents when they were young. We will now compare access to basic services between today's poor and non-poor children.

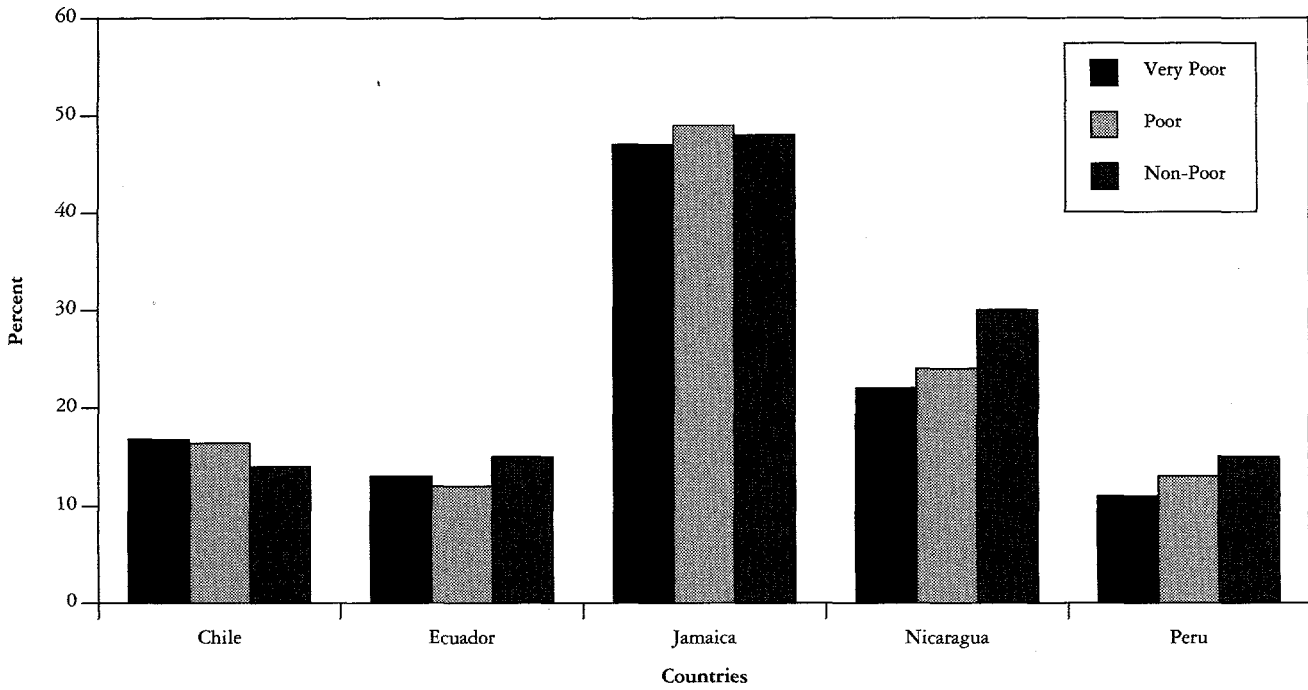
Do poor children have the same access to services as the non-poor?

The 1990 World Summit for Children and the 1994 Naríño Accord specified a number of goals in health, nutrition, water and sanitation, and education. These goals provide a good basis for defining the basic services which all children should receive. In what follows, we examine the data available in the household surveys to assess the extent to which public policies have succeeded in reaching poor children.

As it turns out, the answer to the above question depends very much on the particular service. Figure 3.4, for instance, demonstrates that there is a high level of access to vaccination for young children. The differences between countries and between income groups are relatively minor, although most countries still face the challenge of reaching universal vaccination.

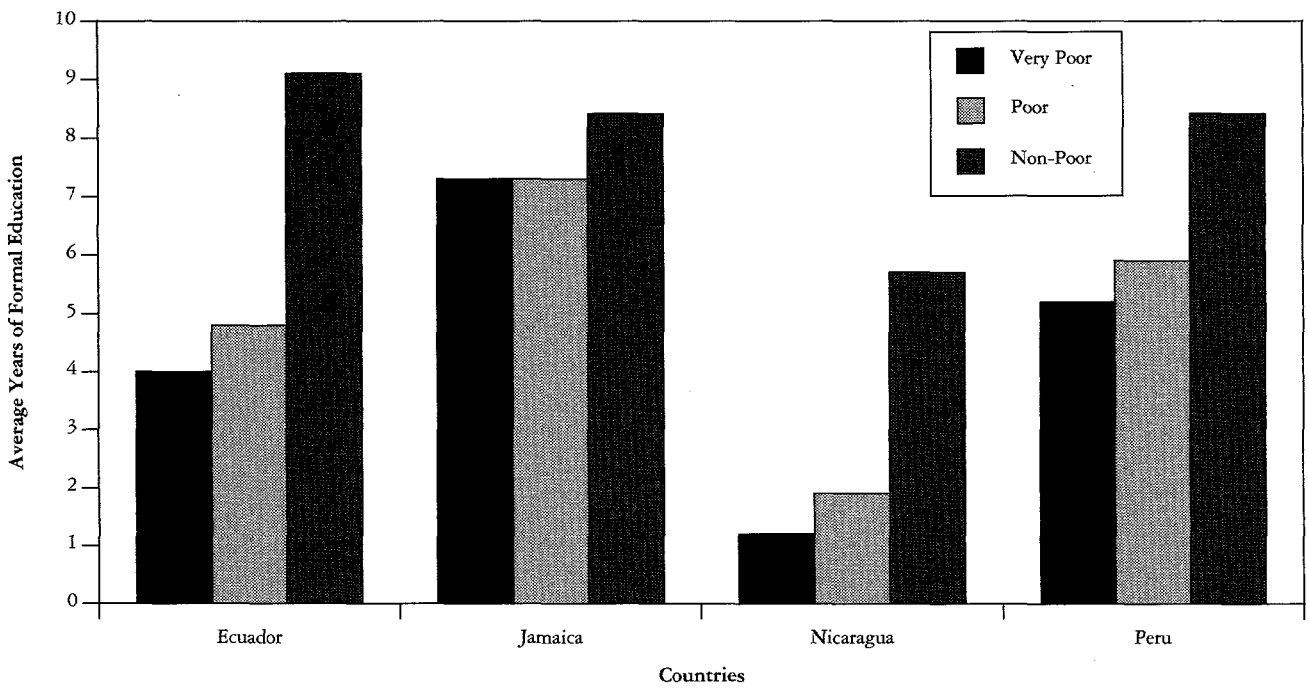
Water and sanitation conditions, which are important determinants of health risks to children, vary widely across countries, across income groups, and, especially, between rural and urban areas. Figures 3.5 and 3.6 show large differences in access to piped water and sewerage between urban and rural areas. However, closer examination of the data

FIGURE 3.2
Percent of Female-Headed Households (of All Households with Children) in Selected Countries, by Poverty Level



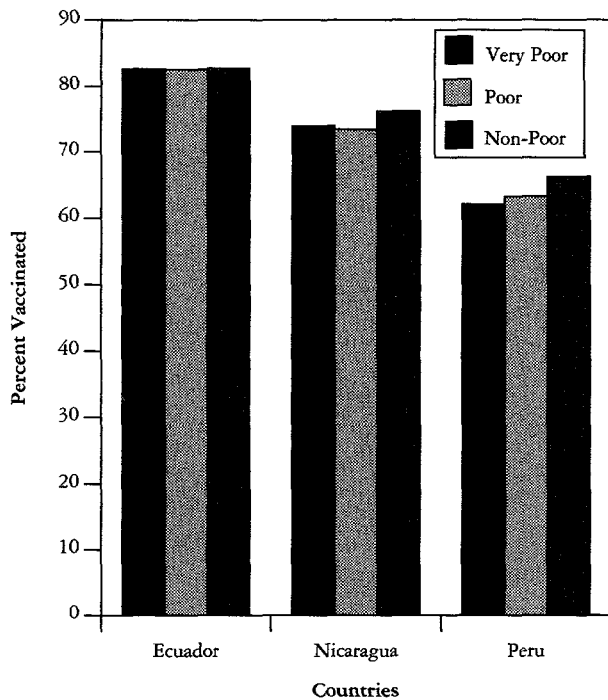
Source: CASEAN-Chile (1992), LSMS-Ecuador (1994), Jamaica (1991), Nicaragua (1993), Peru (1991).

FIGURE 3.3
Education (in Years) of Mothers in Households with Children in Selected Countries, by Poverty Level



Source: LSMS-Ecuador (1994), Jamaica (1991), Nicaragua (1993), Peru (1991).

FIGURE 3.4
Vaccination Rates for Children Less Than 5 Years
in Selected Countries



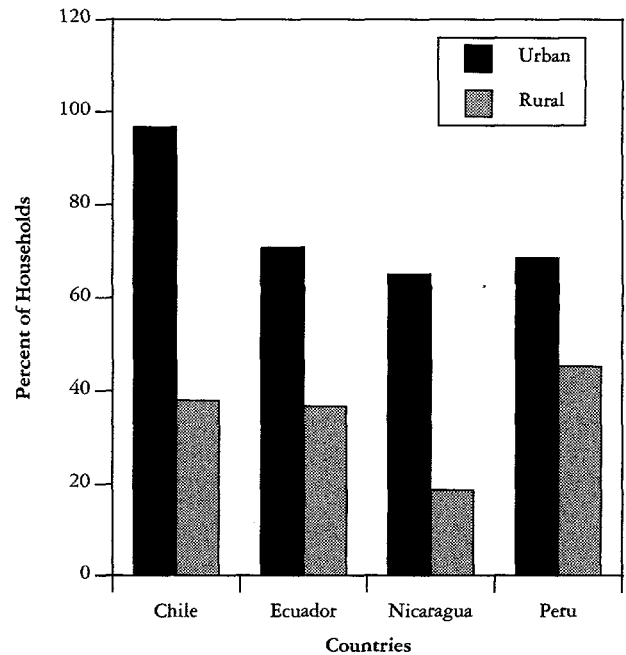
Source: LSMS-Ecuador (1994), Nicaragua (1993), Peru (1991).

shows relatively small differences in access between income groups within urban areas and quite large differences in access between income groups within rural areas. For example, in Peru 80 percent of poor and 94 percent of non-poor urban households have access to water, but in rural areas only 55 percent of poor households have access, compared with 86 percent of non-poor households. The differences in rural areas are even larger in access to sewerage. For example, 14 percent of poor households have access in rural Chile, compared with 38 percent of non-poor households.

Because the conditions that put children at health risk are so unequal, access to health care services for children who are ill is very important in determining their health status. Here we find the patterns vary significantly by country. Even though the average household's access to health care is high in Ecuador and relatively low in Jamaica, in both countries access to health care by children is relatively equal across income groups.⁹ In contrast, as shown in Figure 3.7, there are very large differences in access by income group in Nicaragua and Peru.

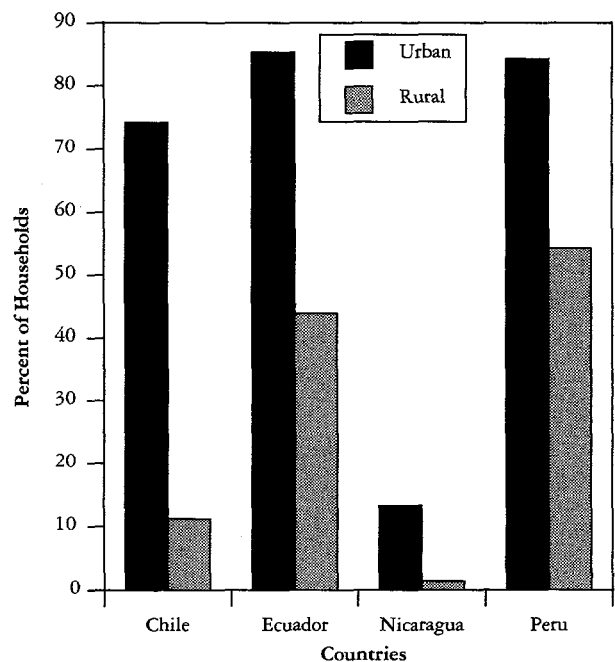
As shown earlier, most children in Latin America and the Caribbean now have access to primary schooling. It is

FIGURE 3.5
Access to Piped Water by Very Poor Households with Children, by Urban and Rural Areas



Source: CASEAN-Chile (1992), LSMS-Ecuador (1994), Jamaica (1991), Nicaragua (1993), Peru (1991).

FIGURE 3.6
Access to Sewerage by Very Poor Households with Children, by Urban and Rural



Source: CASEAN-Chile (1992), LSMS-Ecuador (1994), Nicaragua (1993), Peru (1991).

the quality of schooling that varies tremendously between income groups, not the access to basic education. Still, the enrollment rates for children in Nicaragua show that some countries face large challenges in simply providing access. In Nicaragua, only 52 percent of very poor children age 6 to 11 are enrolled in school, compared with 88 percent of non-poor children.

Inequities in access to schooling now lie mainly at the preschool and the secondary school levels. For the preschool age group (ages 3 to 5), Figure 3.8 shows the disparities that exist between children of poor and non-poor households in all countries. For the secondary school age group (age 12 to 17), enrollment rates vary both by poverty level, as shown in Figure 3.9, and by urban-rural location.

Conclusion

Growing up in disadvantaged socioeconomic circumstances increases the chances that poor children will become the next generation of poor adults. Public policy—that is, providing basic social services to the poor—can compensate for this, at least in part. Whether such policies

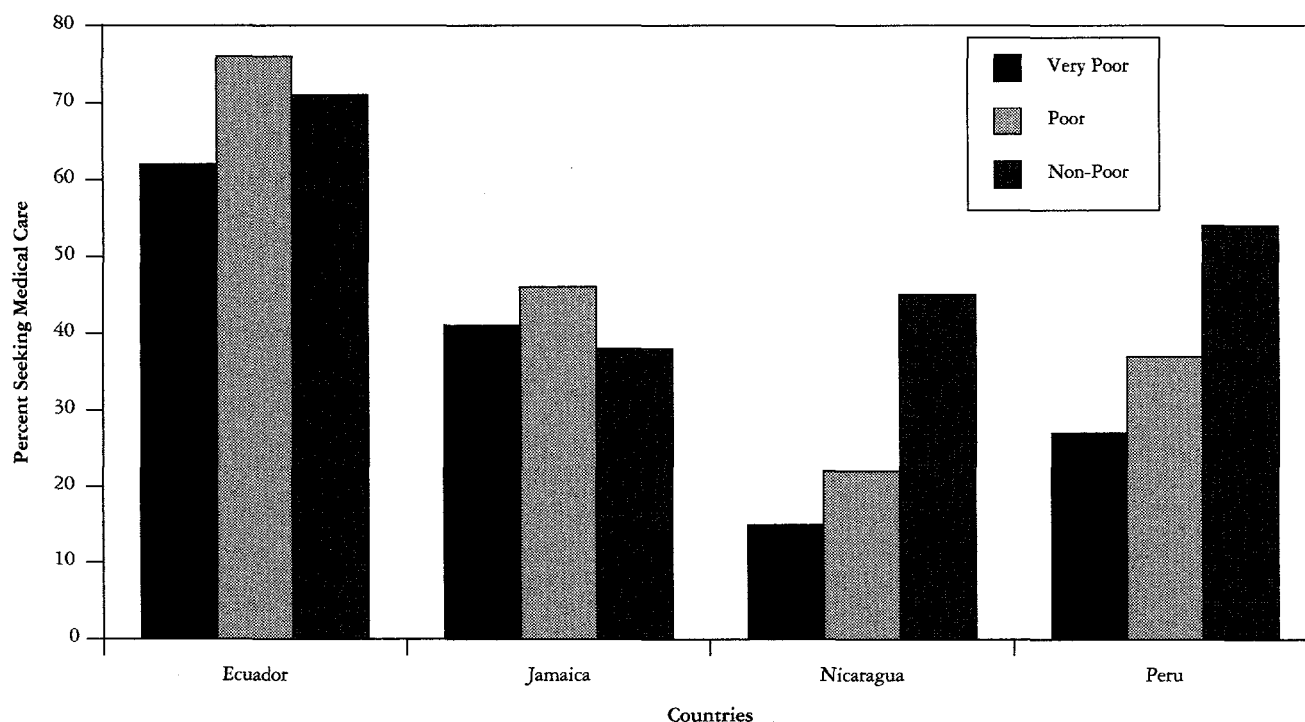
in the countries in our sample have been successful depends on the specific services.

For vaccination and primary education, most countries in the region are approaching universal coverage, and thus—by definition—coverage of the poor. Some countries (e.g., Jamaica and Ecuador in our sample) have also succeeded in providing equal access to health services,¹⁰ but in other countries the poor receive much less care than the non-poor. In all cases we find that access to safe water and sanitation is highly income-dependent. For education, inequities are most severe for preschool and secondary education.

Equally striking as the differences among income groups are the large differences in access to basic services between urban and rural areas. The absolute number of poor is growing in urban areas, but rural areas have higher concentrations of children in abject poverty, and their access to basic services is even lower than that for poor urban children.

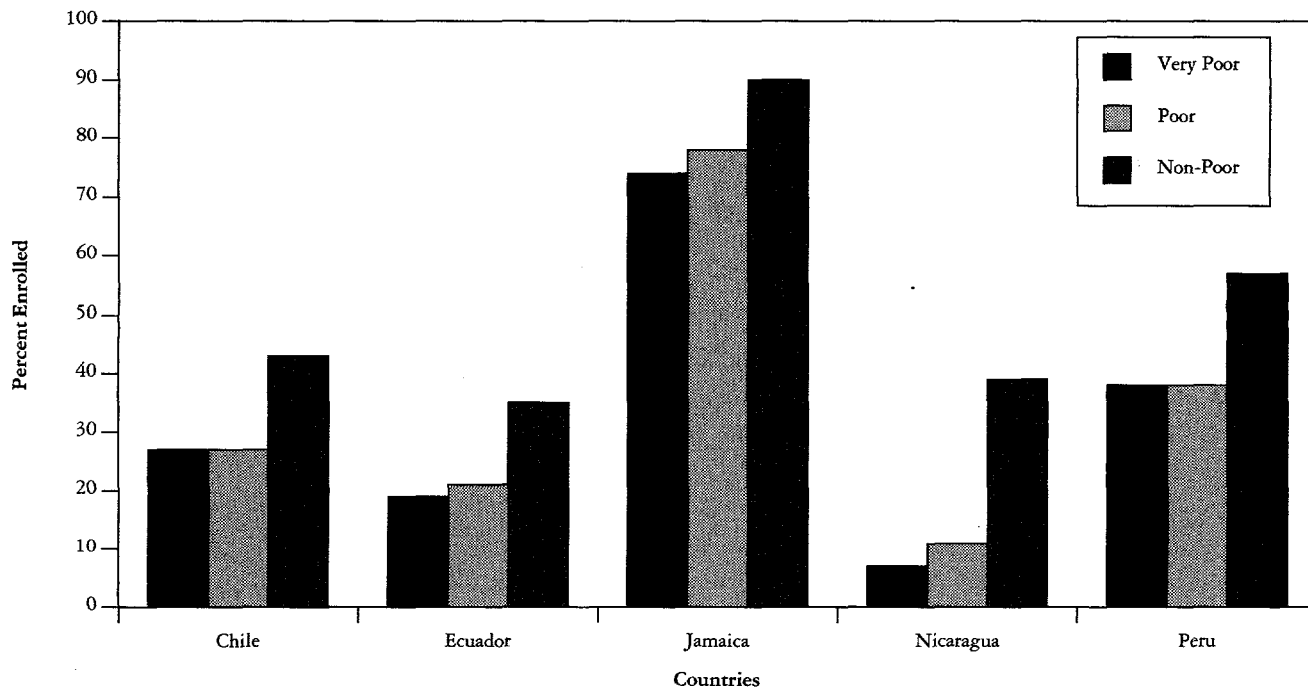
Finally, while these disparities are alarming and discouraging, the data show one lack of disparity that is particu-

FIGURE 3.7
Access to Health Services by Ill Children Less Than 15 Years in Selected Countries, by Poverty Level



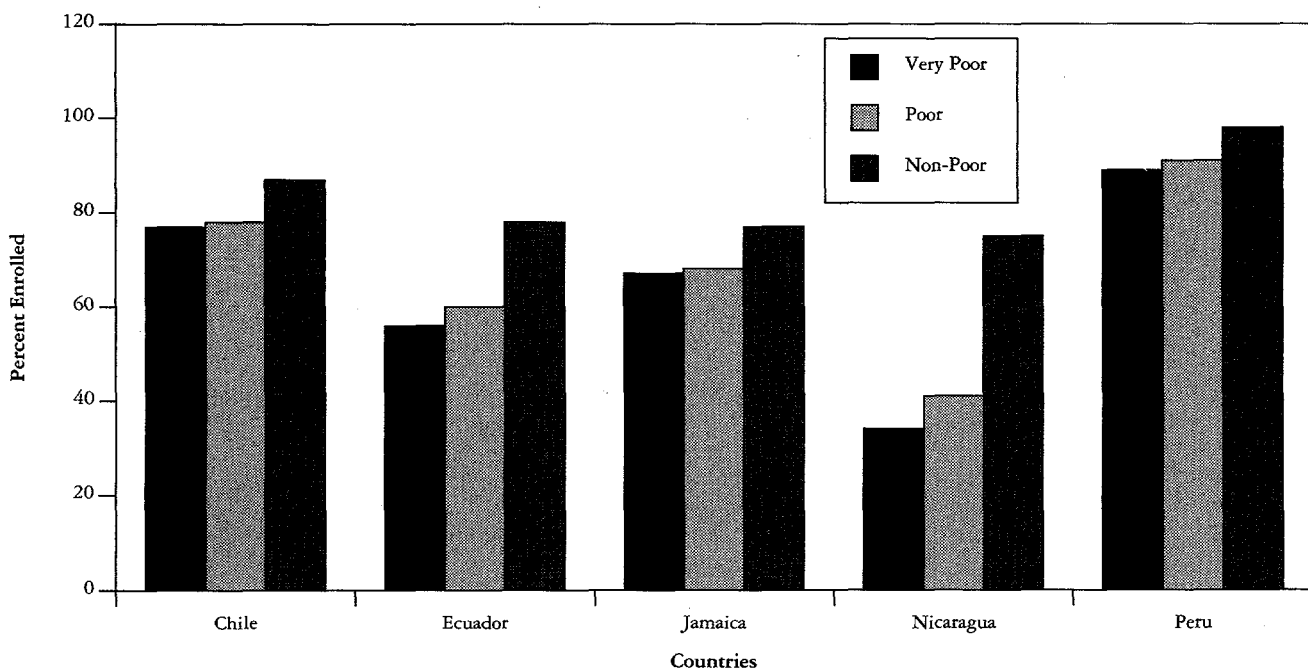
Source: LSMS—Ecuador (1994), Jamaica (1991), Nicaragua (1993), Peru (1991).

FIGURE 3.8
Preschool (3–5 Years) Enrollment Rate in Selected Countries, by Poverty Level



Source: CASEAN–Chile (1992), LSMS–Ecuador (1994), Jamaica (1991), Nicaragua (1993), Peru (1991).

FIGURE 3.9
School Enrollment Rate for the 12–17 Age Group in Selected Countries, by Poverty Level



Source: CASEAN–Chile (1992), LSMS–Ecuador (1994), Jamaica (1991), Nicaragua (1993), Peru (1991).

larly encouraging: Differences in access to basic services appear to bear very little relationship to the sex of the child.

The cost of equal access

Methodology

The statistical exercise reported above allows us to determine how many children fail to receive basic services. In what follows, we estimate the cost, as a percent of GDP, for countries to bring the levels of coverage for poor children up to the average level of their more fortunate counterparts. This goal would go a long way toward providing children living in poor households with a level playing field. By providing them with the basic services needed to augment their human capital, they would no longer be at a disadvantage vis-à-vis children born in richer households.

We will focus on preschool, primary, and secondary education, and on a basic package of health services. The latter is defined in the 1993 *World Development Report*.¹¹ The estimates are calculated by simply multiplying unit costs by the number of children who must be covered to attain this goal. This methodology assumes constant unit costs and ignores the question of whether existing resources could be used more efficiently.¹² Also, as noted earlier, we have ignored the issue of differences in the quality of services received by poor and non-poor children and, thus, have not included in these estimates the cost of raising the quality of services received by poor children.

Estimated costs

Table 4.1 reports the costs of meeting the goal for the selected countries. The estimates range from 0.05 percent of GDP in Chile to 2.29 percent of GDP for Nicaragua. The estimates for Nicaragua are high, of course, because the existing level of access to basic services is so low.

From the rough estimates it is clear that—with the possible exception of Nicaragua—the cost associated with bridging the social gap between poor and non-poor children is well within the financial ability of most countries. Moreover, some of the resources could come from more efficient and better targeted use of existing budgets. In addition, private resources, as well as ODA, could be used to provide basic services for poor children. Clearly, if the political will is there, and if all parties (government, private sector, NGOs, donors, and development agencies) work together, this simple goal—providing a level playing field for poor children—is financially achievable.

Targeting basic services to poor children

Policy matters

Figures 2.1 and 2.2 showed a strong relationship between per capita GDP and infant mortality rates and secondary school enrollment rates. However, the fit between income and coverage of basic children's services isn't always so tight. Figures 5.1 and 5.2 show that countries with almost identical levels of per capita GDP have very different immunization rates and preschool enrollment rates. The Dominican Republic's immunization rate is 47 percent and Honduras' is 94 percent, yet their per capita GDP are not very different. Quite clearly, the spending priorities and public policies of countries matter.

One way in which richer countries attain better coverage of basic services is by spending more than their poorer neighbors. Yet Figure 5.3 shows an imperfect fit between per capita GDP and social expenditures as a percent of GDP. Countries like Chile and Costa Rica spend more than expected given their incomes, while Peru and Venezuela spend less. Furthermore, the allocation of social expenditures across services and its distribution by income quintile vary by country.¹³

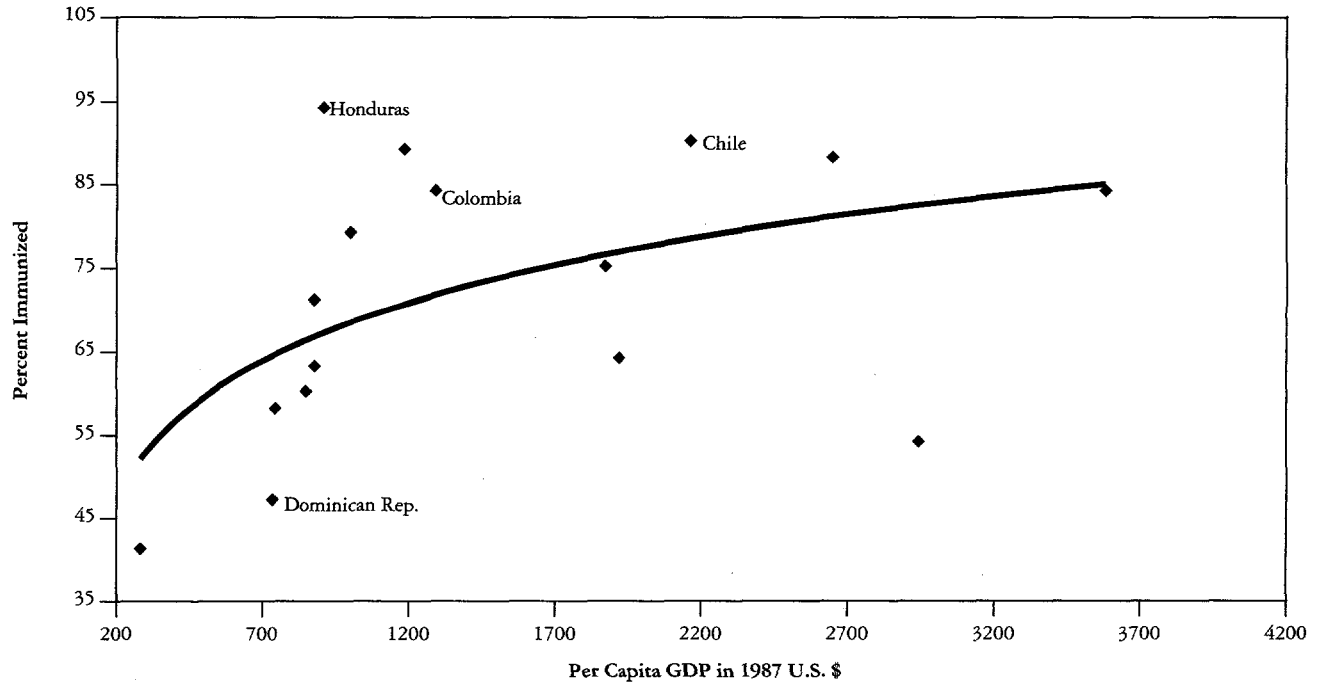
TABLE 4.1

Cost as Percent of GDP for Bringing Poor Children up to the Level of Access to Basic Services Equal to the Average of Non-Poor Children

BASIC NEEDS	CHILE	ECUADOR	JAMAICA	NICARAGUA	PERU
Preschool	0.02	0.11	0.04	0.27	0.09
Primary Education	0.01	0.06	0.01	0.91	0.00
Secondary Education	0.02	0.24	0.24	0.98	0.02
Health	0.00	0.00	0.00	0.13	0.07
Total	0.05	0.41	0.29	2.29	0.18

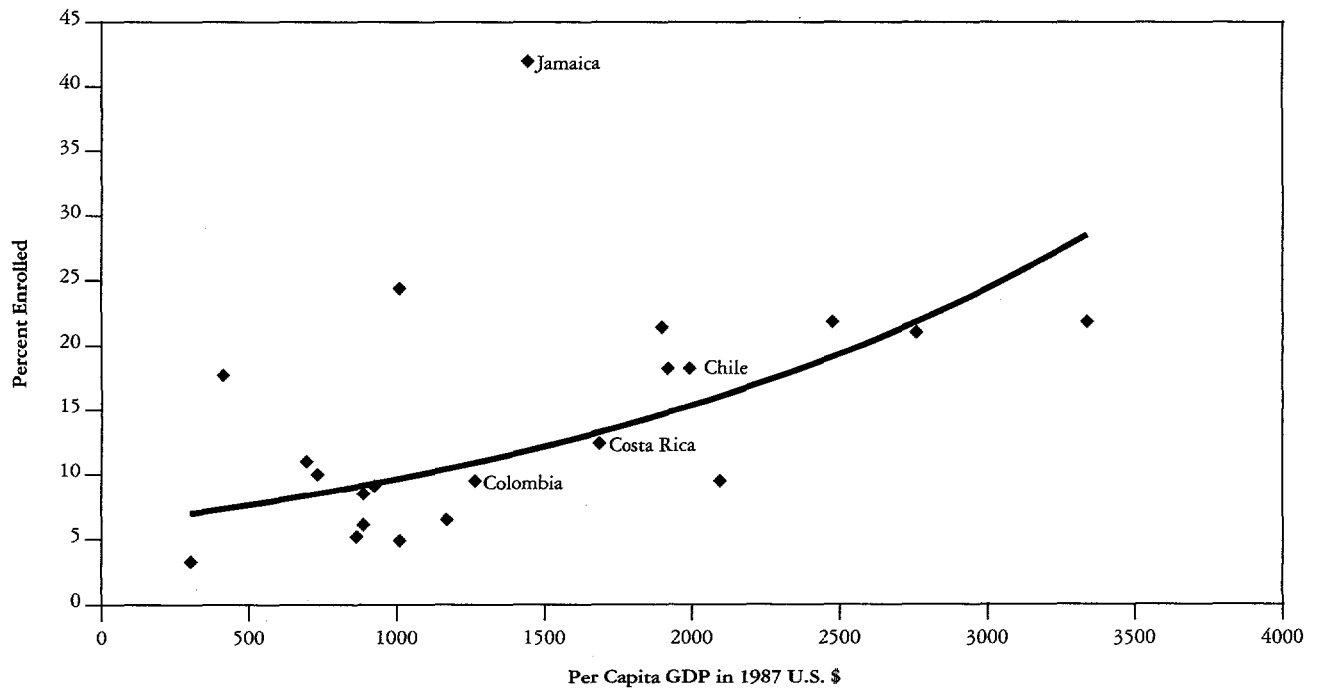
Source: Based on Data from LSMS Surveys and World Bank/UNESCO-OREALC Data.

FIGURE 5.1
Immunization Rate (DPT) for Children Under 5 Years and Per Capita GDP in Latin America and the Caribbean, 1992



Source: World Bank Data Base.

FIGURE 5.2
Preschool Enrollment Rate and Per Capita GDP in Latin America and the Caribbean, 1991



Source: World Bank Data Base and UNESCO-OREALC.

Whether it is because they spend more as a percent of GDP or because they target their social expenditures on the poor, some countries appear to do consistently better in providing services and improving the welfare of children than would be expected given their income levels. Figure 5.4, for example, shows that Colombia, Jamaica, Costa Rica, and Chile, among others, have lower malnutrition rates than would be expected given their levels of per capita GDP. Graphs presented earlier show that Jamaica, Chile, and Costa Rica also consistently do better than expected in terms of immunization, school enrollment rates, and infant mortality.

Consistent and comprehensive policies work

What explains the performance of Chile, Costa Rica, and Jamaica in providing basic services to children? One explanation may be a political commitment to spend on social services. Figure 5.3 shows that Costa Rica lies further away from the regression line than any other country, meaning it spends far more on social programs than would be predicted given its income. However, according to that same figure, Chile spends just about what would be expected, so high levels of spending can't be the only explanation for its

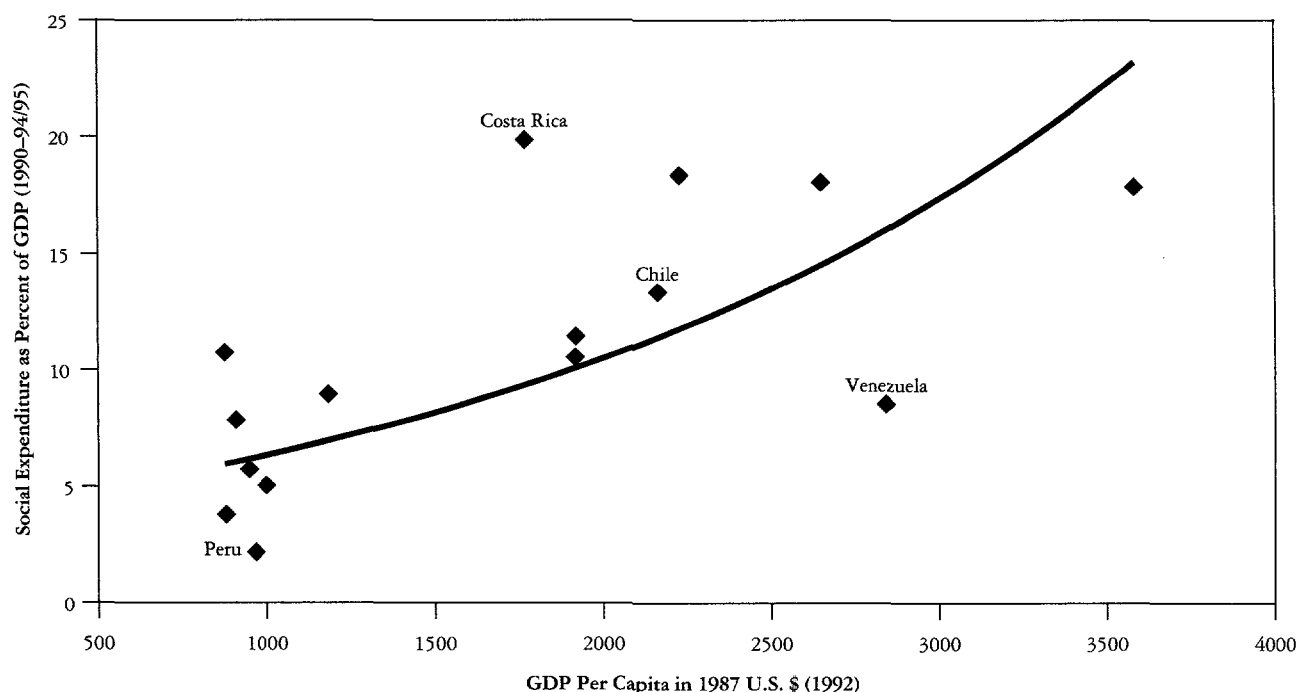
good performance. Its performance may instead be partly explained by its success in targeting social expenditures to the poor. In addition to high social expenditures and, more recently, targeting of expenditures to the poor, all three countries have long histories of providing comprehensive health and education services.

The experience of these and other countries suggests poverty reduction requires sustained political commitment, which in turn requires a consensus by civil society about the importance of providing basic social services to all. While the capacity to design and manage policies and programs is clearly important, the essential ingredient in the recipe for poverty reduction would appear to be sustained commitment to deliver a comprehensive set of social services to which the poor have access.

Innovations in programs

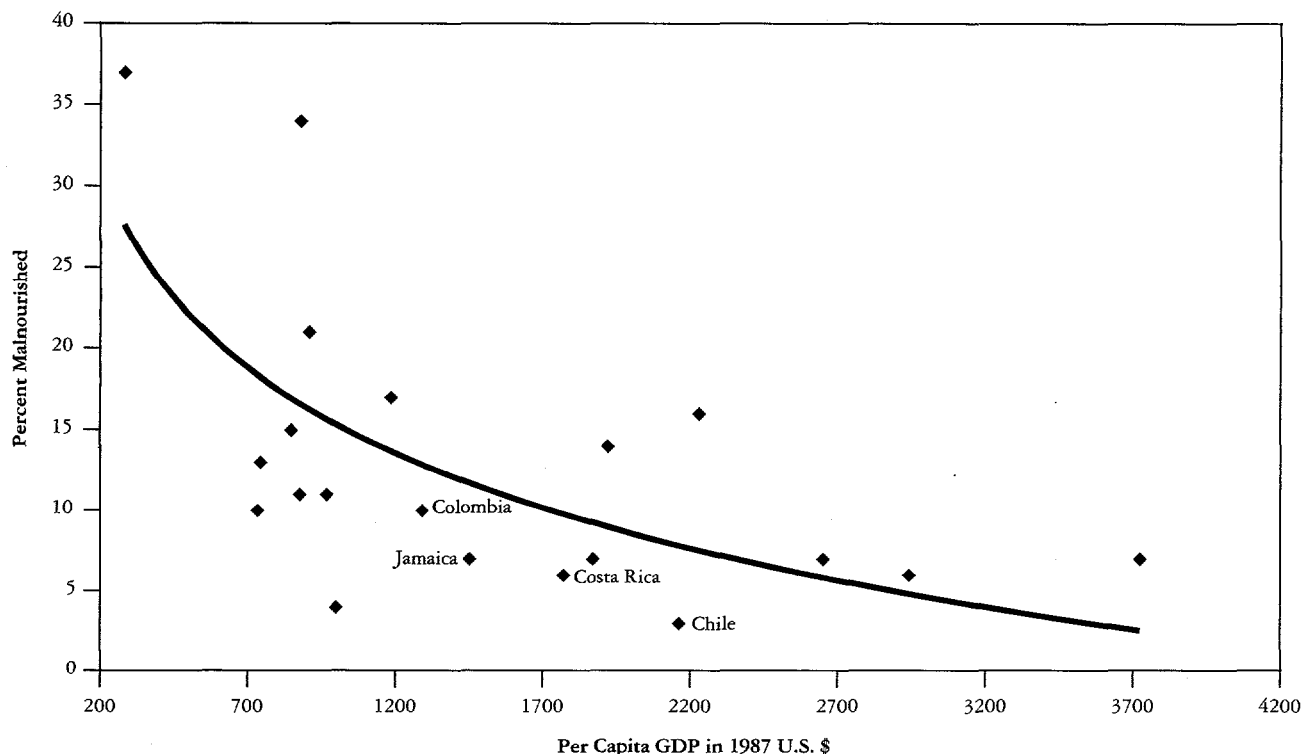
The commitment to provide services does not dictate any single approach to financing and delivering those services. Indeed, the increased emphasis on popular participation, the decentralization of many government activities, the gradual elimination of general subsidies and price controls in favor of more targeted interventions, and the reduced

FIGURE 5.3
GDP Per Capita and Social Expenditure as Percent of GDP in Latin America



Source: World Bank Data Base and CEPAL (1996).

FIGURE 5.4

Malnutrition Rate for Children Under 5 and Per Capita GDP in Latin America and the Caribbean, 1992

Source: World Bank Data Base.

size and scope of the public sector have all contributed to a large and increasing variety of innovative programs to deliver services to poor households and poor children.

Social service innovations in Latin America and the Caribbean include partnerships between public and private sectors, NGOs, and community groups; efficient targeting; contracting service delivery to the private sector; and development of low-cost service options. The province of Mendoza, Argentina, supplies basic sanitation and other services to low-income households through partnerships between public agencies, private contractors, NGOs, and neighborhood organizations through a program called MENPROSIF. Under this program the beneficiaries participate in designing, financing, and managing public works, thereby lowering costs and permitting the provincial government to leverage its own limited financial resources.

Chile gives us two examples of efficient targeting. Through a program called PAE, Chile has since 1964 provided food rations to needy 6-to-14-year-old children enrolled in publicly funded schools. School lunches are targeted to those schools that forecast models predict have

high nutritional needs. The actual provision of food rations is carried out by private firms that have won public bids that minimize cost for a given level of quality. Almost 80 percent of this program's benefits are received by the poorest 40 percent of school children.

Under another Chilean program called The 900 Schools, which started in 1990, the Ministry of Education used measures of family socioeconomic status and student academic achievement (as measured by a national standardized examination) to identify the 900 neediest schools. The schools were provided with a basic set of learning materials (textbooks, workbooks, libraries) with accompanying teacher training and didactic materials. The result has been a significant increase in average test scores for those children in both language and mathematics, with performance in The 900 Schools now exceeding the national average.

In several countries in Latin America and the Caribbean, business groups are making important contributions to education. These include measures to strengthen schools in industrial communities, establish innovative private schools for the poor, reform school management, develop

innovative curricula in mathematics and technology, etcetera.¹⁴ Examples of school-business partnerships include the Clemente Mariani Foundation program in support of municipal education in Brazil, the EDUCO/FUSADES program in El Salvador, the Fundacion Corona's education technology initiative in Colombia, and the Business Partners for Education program in Jamaica.

Community participation can both reduce the costs and increase the effectiveness of social services, as shown by the provision of early childhood care in several countries. In Colombia, the community is responsible for organizing and managing home-based care (Hogares de Bienestar Infantil), including supplemental feeding of children in poor neighborhoods. Volunteer mothers receive a nominal stipend and home-improvement loans to provide the necessary facilities, and they receive training in child nutrition and health. The program started in 1987 and now reaches about 1 million children in the country. Under a center-based childhood care program called PRONEI in Peru, the government trains and pays a paraprofessional caregiver and provides food rations, but the community is required to provide the physical facility and to provide for preparing food, for selecting the caregiver, and for managing the center. Finally, in Jamaica, under a different approach called Child to Child, children age 9 to 12 are educated about the health, nutrition, dental care, and psychosocial development of young children. Since many of these children have child care responsibilities in the home, the quality of care improved. In addition, the knowledge of parents and guardians about child care improved.

This brief summary of innovations in service delivery has by no means been exhaustive. However, just the few programs reviewed here demonstrate that basic services can be effectively and efficiently delivered to poor children through a variety of policy and program options. There is no shortage of policies and programs that can be adapted to particular country circumstances.

What the World Bank is doing

In the 1990 *World Development Report on Poverty*, the World Bank reaffirmed that the reduction of poverty is its overarching objective. This goal is to be achieved through a two-pronged strategy: stimulating sustainable economic growth, and investing in people. The latter part of the strategy refers to the need to equip the population with the human capital necessary to compete successfully in the wide-open world economy.

The World Bank's contribution to this strategy is apparent in its lending pattern: Over the past decade, new lending for health and education has increased manyfold, to reach \$3.5 billion in 1995. Of this, one-third, or more than \$1 billion, directly benefited young children—through feeding programs, basic health services, early child development projects, and preschool and primary education services. Table 6.1 shows actual social sector lending for the period 1991 to 1995, and lending projections for the period 1996 to 1998, for the LAC Region.

As the table shows, it is anticipated that the Bank's lending volume for health and education projects in LAC will increase from about \$400 million annually, to almost \$1.2 billion. Moreover, during the 1991 to 1995 period, 40 percent of the funding for education is aimed at directly benefiting children under 15 years of age. When properly targeted, these financial resources should go a long way in assisting the region to increase access for basic services to the children of the poor and to provide them with a better chance to escape poverty and live a full and productive life.

Summary

Children are over-represented among the poor in Latin America and the Caribbean. Almost 60 percent of children are poor, and about one-third of all children are found in the poorest 20 percent of households. Poor children are increasingly located in urban areas, but rural areas have higher proportions of children in poverty.

Despite the debt crisis and the budgetary restrictions that accompanied economic reforms, most social indicators have improved significantly over the past two decades. However, these indicators still lag far behind OECD countries, and several countries fall far short of the regional averages. In short, Latin America and the Caribbean have made a lot of progress, but most countries still have a long way to go. Much of the variation in social indicators across countries is related to differences in per capita GDP, but

TABLE 6.1
Actual and Projected Lending for Health and Education for LAC,
in \$ Millions

	1991-95 (ACTUAL)	1996-98 (PROJECTED)
Health	1,573.60	1,864.40
Education	1,574.66	1,712.20
Total	2,148.26	3,576.60

several countries fail to fit the pattern. These countries demonstrate that policy matters.

In all the countries selected for this study, the poor are different from the non-poor. Poor families with children have larger family size, higher dependency ratios, and significantly less education than non-poor families. However, there appear to be no systematic differences in age or sex of the household head.

In general, poor children receive fewer services than the non-poor. Immunization rates, access to health care by sick children, and access to primary schooling do not differ strongly and systematically between the poor and non-poor. Strong, systematic differences between the poor and non-poor are found in rural areas regarding access to water and sanitation facilities, but access is relatively equal in urban areas. The largest differences between poor and non-poor children are in access to preschool and secondary school, and, as shown by other research, in the quality of primary school.

The cost of equalizing coverage between poor and non-poor children could be very high for some countries, if the infrastructure costs of water and sanitation are included. The cost of equalizing access to education and health services only is under 1 percent of GDP, except for Nicaragua, which has unusually bad social indicators for the region.

Some countries in the region appear to consistently perform better than expected across all social indicators. The reason appears to be a long-term historical, broad-based commitment to providing basic services to the poor, and the provision of comprehensive services that meet most of the needs of poor children.

Countries that lag behind the region in their delivery of services to poor children can select from a wide array of policy and program options for improving their performance. Continued inaction is due to problems of commitment and political will and not ignorance as to how to do it.

Questions

This paper has identified some large gaps in access to basic services by poor children. While it is easy to criticize poor social indicators, most of the region's leaders today are committed to reducing poverty and to providing all children with basic health, education, water and sanitation, and nutrition services. However, they find budgets are constrained, and voter commitment to reducing poverty is not sufficiently strong to permit shifting budget allocations. This context leads to several questions:

1. If the budget does not permit easy solutions, should the priority lie with increasing services to the rural poor, who are usually the worst off, or should it lie with increasing services to the urban poor, who are rapidly growing in number and who may be easier to reach?
2. The improved targeting of social services, of course, could lead to improved services to the poor and to better social indicators without increasing budgets. However, the political support for social programs could decrease if targeting results in many voters who no longer receive benefits. How can the political leadership of a country determine what is the optimal mix of targeted and non-targeted programs?
3. The international agencies themselves face constraints on their capacity to lend or provide technical assistance. Given this situation, what should be their strategies for ensuring poor children receive the basic services? Should they concentrate their activities on the poorest countries, where the need is greatest, or should they concentrate on those countries (often the richer ones) where the commitment and ability to implement policies and achieve results is greatest?

Notes

1. Londoño, J. Luis. 1996. *Poverty, Inequality, and Human Capital Development in Latin America 1950–2025*, World Bank.
2. Psacharopoulos, G., S. Morley, A. Fiszbein, H. Lee, and B. Wood. 1993. *Poverty and Income Distribution in Latin America*, World Bank.
3. Sternberg and Grigorenko. 1996. *Effects of Children's Ill Health on Cognitive Development*.
4. Reynaldo Martorell. 1996. *Undernutrition During Pregnancy and Early Childhood and its Consequences for Cognitive and Behavioral Development*.
5. *Children of the Americas*. 1992. UNICEF.
6. These countries were selected because these household surveys could be easily analyzed; future research will expand the number of countries to be more representative of the entire region and to cover most of the children of the region.
7. See Appendix for detailed data on characteristics of poor and non-poor households.
8. Research consistently shows that higher levels of parental education, especially mother's education, contributes to school attendance and achievement, and to better nutrition, better health, and lower birth rates.
9. Access by the non-poor appears to be lower in Ecuador and Jamaica. This is probably due to the self-assessment of health status: Parents in richer households are more likely to

report minor health conditions for which no professional care is necessary.

10. We have no direct data on the quality of care received, but other studies have shown that the poor generally receive lower-quality care. See, for instance, Judy Baker and Jacques van der Gaag in E. van Doorslaer et al., *Equity in the Finance and Delivery of Health Care*, Oxford, 1993.

11. We did not include estimates for water and sanitation, since it is impossible to sort out which part of the necessary investment is for children.

12. Unit costs for health were obtained from *WDR, 1993*. Those for education are mainly from UNESCO-OREALC.

13. See, for example, CEPAL, *El Gasto Social en America Latina: Un Examen Cuantitativo y Cualitativo*, 1994.

14. Jeffrey M. Puryear (ed.), *Socios para el Progreso. La Educacion y el Sector Privado en America Latina y el Caribe*. 1996. Dialogo Interamericano, Washington, D.C.

Comment

MERCEDES PULIDO DE BRICEÑO

THE EFFORT OF THE WORLD BANK TO PROMOTE THE LIVING STANDARD MEASUREMENT Surveys (LSMS) in different countries of the region must be commended. Without doubt, it is a way to characterize some of the structural conditions of poverty, and allows us to compare conditions among countries and regions, with the purpose of influencing the investment efficiency of resources to promote development.

Although this methodology is a way to approximate measurement of such complex matters as social stratification and the behavior of the variables it encompasses, it is important to note the following:

1. During the decade of the 1980s people at the medium and lower economic rungs of society became increasingly impoverished. The reduction of social budgets affected systems of social assistance. Specifically, we should note the following:

- (a) The rise of new poor people due to the reduction of income and services in the medium groups.
- (b) Social polarization due to the growth of chronic poverty characterized by the lack of fulfillment of basic needs and by precarious employment.
- (c) The consolidation of chronic poverty because of systems that foster its isolation from the rest of society.
- (d) In crisis contexts, an increase in urban poverty because the inequity in income distribution tends to rise.

2. Rural and urban populations have different patterns of behavior in the ways they try to survive, in the levels of acceptance of the reality they confront, and in the lack of access to basic services.

3. The previous statement implies the need to conduct qualitative studies about the different characteristics of the rural and urban populations. It implies the need to refine the design of surveys and analyses that, additionally, will

permit targeted interventions adjusted to the specific conditions of each group, and will attack the root of the problems and not its symptoms.

4. It points out the need to construct indicators that express the interdependence of poverty and environment, given that the rational use of certain environmental factors could benefit poor groups. If this were not the case, environmental deterioration would affect the resolution capacity of social programs, especially those directed toward health.

Urban vs. rural

With respect to budgetary restrictions and the possibility of focusing on rural sectors over urban sectors, it is important to emphasize the difficulty of focusing attention on one sector to the exclusion of the other.

Rural poverty encompasses a wider set of needs that deserve multidimensional, low-complexity interventions and greater continuity in their interventions, with realistic solutions.

Building institutional capacity and management capability in rural areas is a challenge. Therefore, intervention must be simple, explicit, and operational as a learning

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process between communities and institutions to create real, flexible solutions.

Urban poverty should not be left unattended, not only because of the commitments among governments, but also because of the impact it has on social anarchy. Urban violence and crime, among other factors, are directly related to the problem of poverty in cities, with expectations about services and the contrast between the poor and non-poor groups.

The previous considerations pose a proportional distribution of resources as a function of the levels of vulnerability. There is no doubt that the strongest efforts should be oriented toward the development of mechanisms that allow better income distribution, where the emphasis on the income of the poor sectors should be greater than the emphasis on the income of other groups.

Political commitment

Frequently, political commitment to improve the living standard of the poor population is considered decisive. Nevertheless, the management difficulty of the depressed sectors, the maturing time of the responses, and the limitations on availability of highly qualified human resources in the poor sectors, are also decisive. These factors are minimized in the political decisions by the emergency situations.

Political commitment to solving the problem of poverty is indicated by whether there is an attempt to focus on poverty alleviation. In countries where more than 50 per-

cent of the population live in poverty, we ask ourselves how we can design credible and focused programs to reach the majority of the population.

The ability to focus on the problem requires information systems and up-to-date monitoring that entail high administrative costs. On the other hand, the indirect focusing as in the criteria of location and residence in the marginal zones, allows programs to reach homes that are not necessarily eligible, but it becomes attractive because of its fast implementation and lower administrative cost. In this concept of focusing, the process of decentralization and of local institutional strengthening are key for medium- and long-term results.

On the other hand, if we know that not all poor are equal, how can we obtain support for political decisions that do not exclude vulnerable groups? If they have a preponderant role in the design of targeted interventions, objective data will minimize the political risk of losing support for providing services to the poor.

International cooperation

International cooperation cannot be discriminatory. The development of successful and diversified models and interventions in countries of less dramatic conditions constitutes a learning possibility.

Conceiving international cooperation as a support of the social expense, it is important to think about its sustainability in the medium term. The assistance approach does not resolve the diversity of the needs of the population.

Comment

GILBERTO DIMENSTEIN

BRAZIL IS A VERY WEALTHY COUNTRY. WE'RE THE TENTH LARGEST ECONOMY IN THE WORLD, and at the same time we have the worst social indicators in Latin America. Maybe not the worst, but probably not very far from Haiti or from countries at that level. And that is quite interesting. Brazil has very developed areas. Brazil exports airplanes and cars, and I recently discovered that the software for the security system of the White House in the United States was created in Brazil. Brazil is an industrial power for the Third World. Our balance-of-payments is quite developed as well.

At the same time, our schools are very primitive. Our public hospitals look like battlefields. Our prisons are human warehouses. And what is the reason for all this? This is not a problem only in Brazil, but also in many other Latin American countries. I think that is because Brazil now has a very developed political system, and this is different from Colombia. We have an impeachment process. This is quite interesting because when we started to undertake that process, people would say, "Listen you live in Latin America. If you continue you will have a coup d'état." But there was no coup d'état. The government was not overthrown, and not a single street was blocked during the impeachment process. The soldiers did not move and the journalists wrote whatever they wanted. At the same time, three times after the impeachment, in August 1992, the police invaded the main prison in São Paulo, which is the main state prison, and killed hundreds of people in cold blood. The Brazilians were saying, "Listen, we're very proud, we have our own Watergate, and we have given the world a lesson in civilization, we have a massacre." And up to this moment, no one has been punished for that massacre.

So what this shows is that Brazil has a history of economic success, to a certain extent, and of terrible social fail-

ure. And this difference, as Don mentioned, is not an economic difference, but a moral difference. It is a difference in terms of commitment of the elite to the country. Not only the barons, but also journalists, physicians, professors, and even the middle class.

But, in this history of failure, I'd like to tell you a small story of success. It has to do with the Brazilian press and its efforts to make children an obligatory subject of attention. That effort has received the support of UNICEF in Brazil. We had the following challenge. As journalists, we were going to talk about the rights of children in the same way as we were talking about our own rights as we were fleeing from the military regimes. How to do this? Brazil has problems that you all know: recession, inflation, corruption, incompetence—unfortunately all at the same time. And journalists were all dealing with those problems. We had 17 percent inflation per month, and people were concerned about their money. So the press had plenty of bad news to deal with. There was no space for us journalists who wanted the press to talk about children. But we felt that even as a small group of journalists, we should try to influence the discussion. So with no money we created a small organization called the Agency of the Rights of the

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Children, in Brasilia. We did have a little bit of help from UNICEF, though.

The Agency for the Rights of the Children was created with the simple idea that we had to reeducate journalists so they would think about human rights. We wanted them to take some responsibility. If we did not involve the press, promoting private or public policies for childhood would not be successful. So we started doing the following.

We started using the contacts we had at the *Folio de São Paulo*, which is the main newspaper in Brazil. We had contacts on the editorial board, and we started doing two things. First, we gave them information about the social situation. Second, we acted as a bridge between the governmental groups that had no access to the press—they didn't even know how to go to the newspapers—and at the same time, we used to call journalists for meetings in UNICEF to educate them about legal questions pertaining to children. For example, I proposed to UNICEF that we should meet with the main journalists in Brazil to discuss the subject of children for a whole day. Everyone laughed at us except UNICEF. They accepted the proposal immediately, and they used to tell me, "Listen, you're absolutely crazy. These people only deal with macroeconomic questions. The Minister of Finances might come for lunch to give an interview."

Nonetheless, we invited the main people at the main newspapers, and for one whole day we talked about the rights of children, disseminating information. In one week, in the main newspapers we started to see discussion of children and the rights of children. We said to journalists, the rights of children are not the same as our rights as adults. We have to talk a different language because I think that social questions are not only questions of sensitivity, it's a technical thing. And we tried to educate journalists, and at the same time to go beyond the language of charity, and beyond the language of female sensitivity, of mothers, of people who work only based on goodwill.

For the entrepreneurs we used a different language. We told them, listen, children mean money. If you don't have

good or skilled workers, your equipment will fail and you will have problems, so we tried to relate that to productivity questions. And at the same time, we started bombarding the press with good solutions. In Brazil, we specifically worked on a project, which is called ASHEA, which deals with the street children. Everyone was talking about that project. The initial idea was to tell about what people were doing in Brazil—what they were doing right to stop the disgrace and tragedies. We said, "Listen, there's a social technology that has to be implemented."

To summarize, Brazil, from a social viewpoint, is still in a very poor position, and will continue to be for a long while, despite the fact that we have made progress during the present administration. But this is a long-term project. I'm beginning to hear entrepreneurs and businessmen talk about education as a basic necessity to promote growth. Businessmen are now talking about fighting against child labor. If you go to Brazil, you will see the subject of children in newspapers every day. There will be someone talking about the children every single day. Children have not become as important as inflation in newspapers, but they are as important as corruption, because in Latin America this is of the most importance. At the same time, journalists in Brazil are now trying to get information from others to write their stories because they know that the information they receive is reliable. We are not talking about ideology. We are giving out information, so thanks to the work of UNICEF that supported this initiative, and thanks to the work of many agencies and journalists, now businesses and industrialists in Brazil are more aware of the subject of children.

On our independence day, the President, for example, invited the children of the street to preside over the military parade. As a journalist and as a militant on human rights, I would like to say that anyone who has the clear purpose of eradicating poverty, inequality, and cruelty, if you don't have access to the press, you won't win the war.

Comment

JANET BROWN

I AM VERY PLEASED TO PARTICIPATE IN THIS PANEL. CHILDREN—AND I INCLUDE THOSE UNDER AGE 20—are about 50 percent of our populations. This is the first time they have been seriously mentioned in this meeting.

I am going to try to briefly give an overview of our investment in children. I will then move to Jamaica and briefly look behind the indicators that Don has mentioned. Finally, I hope to have a few minutes left to look at the areas of access and quality.

I presume I am here because I was Jamaica's participant at a remarkable World Bank-sponsored gathering in April. That event seemed to signal the World Bank's conversion, if you will, to the critical importance of investment in early childhood development. Over several days, we heard from policy and program development experts from many countries that have tackled a range of child survival and child development issues. The bottom line was a clear statement that there are strong arguments for economic investments in children, and particularly in young children. Such arguments are no longer based solely on social equity or on the rights of children to basic services. They are arguments that suggest that investments that build human capital from its literal beginning, from birth or even prenatally, are investments that are much more cost effective in the long run than are investments in programs of remediation, alleviation, or incarceration.

This shift in approach was buttressed by solid research from across the majority and minority worlds. One of the most well-known studies, the "High School Perry Preschool Longitudinal Study," followed for over twenty years a control group of children and a group of urban disadvantaged children who were exposed to a quality early child-

hood education program. The test groups at age 27 were interviewed, and with corroborating independent data, produced some amazing findings: The experimental group, when compared to the control group, had fewer arrests, higher earnings, received less welfare, had higher school achievement and performance, were more often married and were longer married, had fewer out-of-wedlock children, and especially for the economists, there was a benefit-cost ratio of over seven dollars returned to the public for every dollar invested.

That was a U.S. study, but there is evidence emerging from the majority of countries as to the benefits of early childhood development programs. And apart from their critical support given to working mothers—and in the Caribbean 35 to 40 percent of households are headed by women—those are important supports for children. But early childhood programs also prepare children better for formal schooling, and contribute statistically to lower drop-out rates and higher performance. Similarly, research has substantiated that preschool interventions have greater impact on children of the poor, who suffer greater deficit risks than children of the nonpoor.

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There is further documentation of positive results similar to the first study, from another longitudinal study from Turkey, which provided parent training to mothers in low-income urban communities, at home and in groups. And the impact of these improved parenting skills was still measurably strong when the subjects were found ten years later. These measures included higher participation of the father in family life, higher grade achievement, and better school performance by the students.

Now, let's turn to the picture of young children in our own situation as was highlighted in the background paper. We Jamaicans must take pride in the indicators which denoted Jamaica's progress in some areas of child well-being despite sluggish economic growth. We found that the comparisons were particularly useful in reminding us that policies and politics do improve the GNP, and we think Jamaica is a good case in point. But, we are also very aware that this isn't the whole picture. Jamaica's apparent progress in gross indicators masks several alarming realities. This is because averages can have very little meaning for a country where the gap between rich and poor widens daily at great cost to the poor. Poverty is increasing, and we are now seeing perhaps only the beginning of the effects on a generation which was five to ten years old when structural adjustment policies took hold.

We will look briefly at education indicators for an example. School enrollment figures averaged 86 percent in 1993, and female enrollment equals that of males. That's good news. But attendance figures tell a different story. Attendance averages only about 70 percent, but in rural areas, Monday to Friday attendance, particularly for boys, drops to 50 percent and below in many schools. A 1989 Ministry of Education survey of grade six students showed rates of functional literacy among girls of 89 percent down to 63 percent, depending on the type and location of the schools. The levels for boys ranged from a high of 69 percent to a low of 37 percent for functional literacy for rural all-age schools. The rural all-age schools have the highest concentration of the country's poorest children. Thus, an intolerably high percentage of Jamaica's children, most of them poor, leave primary school without even basic literacy, much less preparation for further education or training to later be able to support self and family. And while economic growth indicators, such as the reduction of foreign debt, improve for Jamaica, the actual education expenditure as a percentage of the national budget has dropped

from 17 percent in 1995 to 12 percent in 1994. It is significant to note that of the 1994 budget, only 2.5 percent of that total was spent on early childhood programs. These programs reach about 80 percent of children aged 4 to 6, while day care for children 0 to 3, the critical age, really only serves about 10 percent. This is an access issue.

The health picture is not dissimilar. Health spending in 1975 was 7.4 percent of the national budget. It is now only 7 percent. There were forty years of concentrated attention on primary health care, and that is evidenced in Jamaica's good health indicators. But these remarkable gains are seeing signs of erosion. And hospitalizations for child malnutrition, for example, have been shown to be directly responsive to macroeconomic policy issues, such as the lifting of price controls and the devaluation of the Jamaican dollar. Twenty percent of Jamaica's population falls below the poverty line, with disproportionate representation among rural populations, women, and children. In fact, children under age 14 are 40 percent below that line.

It has been noted that the growing climate of violence in many communities, and the general aggressiveness and coarsening of society in general, are signs of growing social disintegration, linked to the recalcitrant growth of poverty. Within this picture, children are the most vulnerable and the most malleable. Increasingly they are the victims of violence from strangers and within their own families. And in growing numbers they themselves are the perpetrators of violence. Statistics on sexual and physical abuse of children are rising, and children constitute an alarmingly high percent of avoidable trauma cases in our country's hospitals and clinics. These include poisonings, burns by chemicals, fire, and boiling water, and more recently stabbings and gunshots. Many of the youth who are toting guns and firing fusilades of gunshots nightly in politically motivated skirmishes are in their teens.

I hope it is clear from this data and examples that in Jamaica we cannot afford to put another generation on hold while the hoped-for benefits of economic productivity trickle down to improve the lot of the poor. I am suggesting that major investments in children, especially young children, are an essential prerequisite for tackling and reducing poverty in the long run, and for building more cost effectively the human capital required for long-term economic growth. Child-centered socioeconomic policies are required to go beyond just assuring the delivery of access to health and education services. We must therefore

examine all government social and economic policies for their impact on children, and adjust these policies to achieve greater and longer term positive benefits for children. And we must assess their impact. Industrial policy, tourism development, land settlement programs, fiscal policies, transportation policies, to name only a few, all affect the choices that poor families make regarding the well-being of their children and themselves.

So what are we doing in Jamaica to try to push children up the agenda of planners, policymakers, and program developers? First, we are endeavoring to become much better at backing up our community-level experience and gut-level understanding with hard data and cost-benefit analysis. The government has developed some indicators for health, education, and social services that are beginning to feed the national plan of action for children. We have a profiles project which has developed a cycle of data gathering involving several government departments for a national sample of children at their point of entry into grade one, looking at home environments, child performance, and the qualities of their preschool and school environments. That data will certainly help us answer questions about targeting and program interventions.

Second, Jamaican agencies are working much more collaboratively. Perhaps structural adjustment and shrinking internal funders' pots have forced us to do that. One example, a task force on early childhood education which has drawn on all the key players in early childhood education, is addressing access and quality issues. It has developed advocacy documents and activities supported by research, supporting formation of children's policies, proposing integration of previously fragmented service delivery, and influencing donor priorities and collaboration.

Third, we are targeting the participation of parents. A number of coalitions have been formed that have developed training materials and user-friendly courses to develop expertise at the community level for training facilitators to

work with parents. That program has been disseminated regionally through the university distance teaching system, which is very cost-effective. As a result, organizations of parenting groups have been formed in a number of countries. An added benefit of our work on parenting issues and research in the area of fathering has been the implied strengthening of social capital by the greater participation of men in family life and childcare roles, and the formation of men's support networks.

Fourth, we are committed to demonstrating the importance of integrated policy and program approaches. And by integrated we mean three things: the integration of delivery and monitoring infrastructure, curriculum and training for the full preschool age group 0 to 6, and integration of intersectoring provisions for child well-being. That includes matters related to early childhood, health, nutrition, parenting, education, creating community employment, and conflict resolution. Finally, integration also must imply partnerships between the government, the private sector, and the community in the delivery of these programs. We have learned lessons from programs of integration in Jamaica, and we will be learning more

I will close by saying that we have to involve all the critical players, not only those parents, teachers, and social workers who have traditionally been carers of the young, but all those who impact on children. This includes industrialists, community development specialists, town planners, company executives, economists, even researchers and statisticians, all of whom can help us develop integrative policy and program strategies.

The structural adjustment policies of the 1980s wrote a very huge IOU to the poor of the Caribbean, especially children. They have a right to call in that IOU, and if not given prompt and responsive avenues to collect what is owed, it is certain that they will devise other resourceful means to do so, and perhaps at our expense.

Panel Discussion

Marta Maurás, Moderator: I would like to invite participants to ask questions of members of the panel.

Jorge Eduardo Cock Londoño: With respect to solving the problem of poverty and implementing the right policies for the distribution and redistribution of income, I would like to say this: We will solve neither without providing education to our young. Without education we could place in the hands of an entire society all of the infrastructure required and nothing would change as far as inequality in the distribution of incomes.

With respect to Mercedes' comment that she doesn't want "to hear any more about the elimination of poverty but of creation of wealth," I concur with that sentiment. And the best way to create wealth is to educate our society.

Mr. Laserna: What is missing from the presentation is attention to the biological element in the poverty problem. Problems related to families have many dimensions. They include all those mentioned here, but also a biological dimension. In Colombia we have been studying the problem created by the fact that women with many children start their reproductive cycle when they are 15 or 16 years old, and they keep having children. They become reproduction machines. If you look at the problem in Colombia you will see that 80 percent of that excessive population is coming from women who started having children when they were 15 or 16 years old. The goal must be to get these women to postpone their reproductive cycle until they are 20 or 21 years old. They, themselves, know that by the third child something must be done to stop the problem.

As we learned from the Rio de Janeiro Conference, if we don't stop having so many children, we shall all disappear: children, adults, women, men.

Mr. Tejeira: It seems to me that in all the presentations there is the view that the State is in some way omniscient and omnipresent. But I think too much responsibility and blame is laid on the State. It is important to remember that responsibility for children is shared by the state, the family, and society. That is essential. The State should guarantee the basic rights of childhood, but children are the responsibility of us all.

Arturo Navarro: There is the need to increase the importance of the social and the childhood concerns in societies and in governments. When a President appoints his Cabinet, he always chooses first his Minister of Finance (Secretary of the Treasury), Minister of Government (Secretary of State), Minister of Defense (Secretary of Defense), and only last, the Ministers of the social sector. I say this with the authority of one who has been Minister of Public Health in this country. I was one of the last ones appointed and they were playing heads or tails to see if I was going to be the Minister of Public Health or of Education, which was the same to the President of that moment. In addition, every time there is a budget cut—because our macroeconomics requires cuts—it always takes place in the social sector. It's the softest, and there are fewer people defending social issues. The rest is much more difficult to touch.

A couple of thoughts on education because we have a personal interest in this topic. I am the mayor of the city

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in which I was born and I find that in the discussion about access and quality, Colombia has very positive indexes as far as its access to education with respect to its level of poverty. But I believe this has been accomplished at the expense of quality. That's my personal opinion. I studied at a public school which was good—one of the best in the country. But now it is one of the worst. I believe the quality of public education has fallen significantly because now there are two shifts in the same institution. The number of hours of classes was reduced and a series of variables changed, such as the identity of the school. Many times we find there are two principals, even three, when there is night school. And there is not one administration and one identity. There are other factors, as well. Just yesterday I heard that the social problem in Colombia could be solved with 1.2 percent of the GNP. I don't agree with that. I don't agree with using cheap methods that give us cheap solutions that are bad solutions for what we want to achieve, and what we want to achieve is not only access to an education, but access to good education.

Finally, I believe that the process of decentralization must be controlled by the community, and not be merely an administrative decentralization of the State. Who can control the quality of education better, with more care, than the parents of the children? Who can control the teachers better than the parents? I am a mayor and can do nothing against the teachers because they have a national union against which nothing can be done from the local trench.

M. Maurás: We will now hear from the panel members.

New speaker: In Latin America we don't give the same attention to social matters as we do to economic ones. You can open any newspaper in any country in Latin America and you'll find very exact information on the price of soya, or the price of coffee on the Commodities Exchange in Chicago. You have a daily supplement on the inflation rate, on the growth rates. You have all of the economic indicators in detail. The Ministers of Finance know how boring the press can be when every single day the unemployment rate appears, the inflation rate appears. But the social ministers don't have this type of pressure because we know nothing of figures. Social figures in Brazil are not trustworthy; few figures are. We don't know exactly what the infant death rate is, we don't know what the rate of violence is, nor the rate of anything. And the press...there is a

very serious problem with the numbers, of which Marta spoke. Because somebody mentions a figure, a serious entity "adopts" the figure, and the next day you read, "According to UNICEF" or "According to the World Bank." If all were true about the numbers of people who die or the number of people who are murdered, there would be nobody on Earth.

The press needs to do with social indicators what it does with economic indicators. The press needs to publish the numbers of how many children die each month, how many children quit school each month, in the same way it keeps account of products.

New speaker: First, I want to speak to the subject of the high rate of teenage pregnancy, and certainly that applies to the Caribbean countries, where there is a very high rate of teenage pregnancies. I want to mention one study that followed teenage mothers who had attended a women's center program. The program is for teenage mothers who are provided with child care and thus are able to return to school. The study found that most of these teenagers had delayed their last pregnancy by many years. They continued their education; their earnings are higher; their situation and living conditions are better. These programs show that not-very-costly interventions can make a difference and can delay pregnancies or additional pregnancies. In addition, when young girls have a goal, and when they sense that goal is achievable, pregnancy will be delayed.

Second, to comment on the omnipresence of the State, I'll just say that in our efforts to focus on what Donald said are costly interventions, we have no sense that it is a State-only obligation. We are clearly looking at how communities, parents, the State, other donors, and the private sector can provide these opportunities most cost-effectively.

My last comment is on the power of the press and working with parents to value children more, so that parents will in fact take on greater responsibility. Recently, the press covered two concurrent events around Father's Day in Jamaica. There is a group of men who call themselves Fathers Incorporated. They are blue-collar workers who have come together to try to make the statement that men should be involved in child care. After all, in the Caribbean culture there is no credit given to men who assist in sharing child care responsibilities at home. These men organized themselves and organized a number of events for a whole week that received quite a bit of press coverage. There were

two visiting African anthropologists who shared information about fathering in Africa, and there was a lot of discussion and public attention. That happened to coincide with the visit of Louis Farrikhhan, leader of the Million-Man March in Washington. There were all kinds of reactions, pro and con, and the press recorded it all. This created a tremendous climate for the discussion of fatherhood. Men everywhere—in grocery stores, on street corners, in cabs—were talking about fathering in different ways.

New speaker: First, I agree with the problem created by the double shift in schools. The double shift has impoverished the educational process. In the case of Venezuela, all civic subjects were eliminated. Even history and geography were reduced to simple guides. Second, 17 percent of urban schools have a double shift. So now all schools in small communities are closed after mid-day, and there is not even a community organization that can use the sports facilities.

Decentralization is becoming a very powerful tool because, I see it in our case, it is not cheap, it does not reduce costs. On the contrary, we try to reproduce at the state level the institutions being eliminated at the national level, and this means an increase in bureaucracy. But it has one advantage. It is creating incentives to provide very specific solutions to very specific local needs. For example, creating bilingual schools in the indigenous zones would not have been possible from the central level.

In the case of focusing on specific needs—I would say that at this moment 60 or 70 percent of the poor population do not have access to any services. But let me tell you about our experience when vaccinations were given out in certain states. The obligatory nature of the vaccinations established at the central level and through central organisms cannot take into account the response capacity of the central organisms. In some cases, there is not enough space to receive children. So I have to establish objectives and goals in a very focused way. If I want to have greater coverage, I have to be very flexible, and international cooperation has to be flexible, as well. The same with social interventions. If I want to help the poor with microenterprises, I probably won't be able to choose the poorest because microentrepreneurship is successful among the level of population that has some qualifications, that has a minimum experience of risk.

If I want to focus on areas that are very critical, I have to know that the administrative costs are going to be high,

and then I have to keep in mind the continuity. Probably in times of emergency I can have my expenses or my costs covered because I have extra resources, but continuing them is not possible. What happens then? That I soon have ill-fed children at high risk who have recovered, who return to their families where they fall ill once again because family habits have not changed. Those are the qualitative problems of focusing on problems that need to be understood, as Marta says, from the point of view of very different economic policies. They are not resources that can only be obtained from taxes, they are resources that have to come from the community, in part, and where the State is the partner that makes sure it is continuous.

M. Maurás: Let's take more questions from the public.

Jorge Sabla: I would like to express my concern because I have not heard any mention of religion, nor of the religious groups that, because of their vocation, run primary, secondary, and vocational schools, and universities especially focused on the poorest children and those in greatest need, as are common in El Salvador, where I am from. I have always thought that a direct subsidy to these religious groups would be more beneficial and would cost less than to try to expand schools indiscriminately.

Maria Inés Cuadros: I am with the National Planning Department in Colombia. I would like to reinforce the idea about children as an investment in the future. This idea is worth restating. But we should also think about the rights of children—rights that include the right to develop themselves integrally. This goes beyond just survival and the right to an education. It implies the universalization of the rights of all children. In fact, 187 nations of the world have ratified the agreement protecting the rights of children.

In addition, some children need special protection from the State. For example, much to our dismay, in all of the countries of Latin America child abuse is beginning to appear as a critical problem. Children are being ill-treated, they are victims of organized crime, and of violence, both inside and outside the home. The group of disabled children and children with limitations is growing. And, of course, child labor is a critical problem.

With respect to child labor, little analysis has been done regarding this group. But in Colombia a study was conducted by the Ministry of Labor and the University of los

Andes, and shocking results have begun to emerge. One is that not only a few children work, but that 2.5 million boys and girls work in this country. If one compares this figure with education, one-third of children are working, and I believe the relationship between education and child labor merits much deeper analysis. It is especially important that the educational system understand that one-third of its children work, and that this has good, bad, or average consequences, but these consequences should be analyzed and taken into account.

Patricia Teulled: I would like the topic of child nutrition and malnutrition addressed. A lot is said about the vicious cycle of malnutrition-poverty. Why? Because when a child arrives at school ill-fed, especially when lacking certain nutrients, he or she is unable to answer the teacher. The child fails his subjects again and again, then abandons school by the second grade. And then the cycle of illiteracy repeats itself. These girls and boys have little possibility of finding a well-paid job, and their children will probably suffer the same cycle. Has any analysis been done on nutrition programs, especially as far as cost effectiveness and compared to other interventions?

Dr. Ciro Angarita: Hearing all of the interesting presentations and suggestions and placing them within the specific case of Colombia, I find that we have a reality that is the object of study and concern within the national and international contexts, and such concern is not unfounded. We are faced with the problems of childhood within a context of poverty that cries out for concrete solutions.

But civil society must take the initiative and not expect paternalistic solutions from the State. Therefore, I would like to ask the panel members if they can give me examples of actions taken in their respective countries where a civil society courageously and responsibly protects the rights of children, stimulates the State to help, questions the leadership whenever necessary, and takes upon itself its commitment to those children so in need of help.

Asbu Handa: I think there is one important link missing, which is the link between the mother and the child. The welfare of children depends crucially on the welfare of the women in society. The academic research shows that when the bargaining power of women increases they make decisions that benefit children, that when the economic status

of women increases the economic status of children also increases. It seems to me that the most cost-effective measure in the short run would be simply to enforce laws, increase the economic status of women, and enforce child support laws that will benefit women and, therefore, children. That would be more cost effective than building more schools and more health centers, in the short run, at least.

M. Maurás: We will now hear from the panel. Donald Winkler.

Donald Winkler: The organizers of this conference asked the NGOs to mount an exhibition to demonstrate that many of the programs and innovations today in Latin America originate with the NGOs, and that the State does not have a monopoly in that respect. But the State does have an important role to play in guaranteeing the rules that make it easier for the growth of NGOs and of companies that want to deliver services to the poor. One can also find among the exhibit a stand from Fe y Alegria, an organization that plays an important role in the countries of Latin America in focusing good quality education on very poor children. This is done, really, with support from the State. This is a good example of a relationship between the State and NGOs, and this type of financing must be expanded.

When we are speaking of the distribution of income, we are speaking about the externalities of health and education in which the State has an important and essential role, especially in the financing of those services. Finally, one has to keep in mind that one of the sources of inequality in many cases is the State itself. It is the State that distributes its funds not always in a fair manner when it offers its services.

New speaker: There is a noteworthy experience in Brazil in the field of infant mortality that I would like to share with you. I think it is one of the most noteworthy experiences in the whole world, and one which has been directed by the Catholic Church. It is called "Pastoral de la Crianza." It is a very impressive program against infant mortality that costs just half a dollar per child. I will say that again: half a dollar per child. The Church program is working especially to educate mothers. In those belts of poverty where these mothers work, the infant mortality index is only one-third that of the entire region. One third. It is very interesting because in this government, the Ministry

of Public Health decided to implement this process by helping the “Pastoral de la Crianza,” and the results are more and more impressive. I agree that if the State is helped by religious groups that in Latin America and Brazil are very strong, coupled with the tradition of the Catholic Church linked to the poor and a Church that knows how to use education and health, the results can be quite quick and consistent.

New speaker: Just two comments. First, this is speculative but I wonder if one of the reasons why Jamaica’s indicators have remained high, despite our loan debt and other problems, is because of the high level of literacy and school achievement among women. Second, I also think our coverage for preschools for children age 4 to 6 is high—about 80 percent. This is due to the initiative and commitment of Church and community institutions that have established programs. These programs have had some State support in terms of training and subsidizing, but they are largely the initiatives of community-based organizations.

New Speaker: First, about the role of religious organizations I’m going to say the following. The organization Fe y Alegria was mentioned. This organization is run under religious sponsorship, but the training of the teachers and the project managers in each school are independent. Fe y Alegria is a community organization, and it is the community that perpetuates it.

But what happens when the interests of the leader of a community organization changes, or there is a change in the community? Many times the project does not continue to render its service. In a religious organization, continuity is assured because, as one of them told me, if one of us decides to have a different vocation in life, there is a 2,000-year-old structure that can provide for that.

Second, yesterday somebody was talking about the professionalization of the rural worker. I think it is an inter-

esting idea. Next week the Episcopal Conference is going to give me a prize because I taught religious organizations, after fighting two years with them, that the cost per child had to be assessed, the cost of each vaccine, the cost of each mobilization, the cost of pocket expenses, and that this has helped them even be able to cooperate with the European Economic Community and other foundations.

We haven’t said much about child abuse and child labor, and we haven’t even mentioned child prostitution. The opening of our nations to tourism has resulted in increased prostitution, not only female, but also male. We have seven organizations working with children in the streets of Caracas because this has become a problem of the press. Newspaper reporters arrive everyday. They make sport of finding a child prostitute, to show that the government does not take care of him or her, that the organizations do not take care of him or her, that society doesn’t care.

But I can tell you the truth. I have an organization that feeds the children each morning. It gives them breakfast. Another one gives them lunch, another one gives them supper, another one takes them out to visits, another one dresses them. But none of these organizations is able to tell me how many of these children have returned to their homes or how many have returned to work. But all of them are terribly busy. We have to eliminate myths and find interventions that produce results. And we have to keep women in mind.

Why do Venezuelan women have a birth rate much lower than they did twenty years ago? For three reasons: more education, urbanization, and access to employment. Those factors delay the first pregnancy. In the 1960s, women had children when they were fourteen-and-a-half years old. Now, they have them when they are 22 years old. Not even Europe has had such a dramatic change in three decades. So I think we have to see solutions to the problems of childhood as investments in the future of not only our children, but of our country.

VI. Indigenous Peoples, Social Exclusion

Including the Excluded: Ethnodevelopment in Latin America

WILLIAM L. PARTRIDGE, JORGE E. UQUILLAS
WITH KATHRYN JOHNS

*Lift up your faces, you have a piercing need
For this bright morning dawning for you.
History, despite its wrenching pain,
Cannot be unlived, but if faced
With courage, need not be lived again.
—Maya Angelou*

AT THE START OF THE UNITED NATIONS INTERNATIONAL DECADE FOR INDIGENOUS PEOPLES (1995–2004), indigenous peoples in Latin America, the original inhabitants, live in some of the poorest and most marginal conditions. After enduring centuries of domination, forced assimilation, and most recently the devastating effects of disease, conflict, and poverty, indigenous peoples in Latin America have survived and become engaged in fierce struggles for rights to their land and resources and their freedom of cultural expression. This paper explores the conditions that have enabled indigenous peoples to respond to changing circumstances in their communities, the development strategies that are emerging at the grassroots level, and some of the lessons learned and opportunities that should be taken by the World Bank to assist indigenous peoples to improve their lives while maintaining and strengthening their cultures.

This discussion of indigenous development provides:

- A summary of indigenous development strategies emerging in Latin America;
- An analysis of the conditions for successful indigenous development based on commonalities in numerous examples;
- A description of the World Bank experience in indigenous development to date; and
- Some suggestions for a future agenda for the Bank.

Background: An overview of the situation of indigenous peoples in Latin America

By the early 1990s, the number of indigenous peoples in Latin America was approximately 40 million, or slightly less than 10 percent of the total population.¹ The bulk of the indigenous population is concentrated in Mesoamerica (close to 18 million, where the Maya of Mexico and Guatemala predominate) and in the Andes (about 20 million, mostly made up of Quechua and Aymara peoples).²

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The cultural diversity of indigenous peoples in Latin America is striking. As an illustration, there are estimated to be *more than 400* different indigenous languages spoken by correspondingly distinct peoples.

Each indigenous community has a very different history of relations with the dominant society and can be characterized by varying levels of contact ranging from "isolated" to "acculturated." Generally, the indigenous peoples of Latin America can be divided into three geographical groups: (1) Mexico and Central America, (2) the Andean region, and (3) Lowland South America. Indigenous peoples in the first and second regions (in the mountainous highland areas) are mostly peasant farmers or wage laborers who have had a history of contact with the dominant national society. Indigenous peoples in the third region (tropical rain forests) have been more isolated (until recently) and generally combine agriculture with fishing, hunting, and gathering. It should be noted, however, that within these distinctions there is great heterogeneity.

Indigenous peoples continue to be the most impoverished sector among the poor, in wealthy countries as well as developing ones.³ A recent World Bank study called *Indigenous Peoples and Poverty in Latin America* provides the following statistics: In Bolivia, half of the total population lives in poverty, and 64 percent of the indigenous population is below the poverty line.⁴ In Guatemala, 66 percent of the population is poor, and 87 percent of the indigenous population lives below the poverty line. In Peru, poverty affects more than half of the total population and 79 percent of the indigenous sector.⁵ The extreme impoverishment of the indigenous population, characterized by poor health, disease, hunger, malnourishment, illiteracy, degraded natural resource base, poor housing, unemployment, and the lack of access to basic services such as water, sewerage, and electricity, is largely due to long-standing processes of domination, exploitation and discrimination.⁶ Indigenous peoples' response to domination—when not submitting—has been to seek refuge in isolated areas and to create defenses against the outside world.⁷ Albo (1996) describes additional strategies adopted by indigenous peoples in the process of urbanization: the twin strategies of "*transfugio y encapsulamiento*" (roughly translated as acculturation and forming enclaves).

However, there are signs of new trends. In the last few decades, the situation of indigenous peoples of Latin America has started to change through a process of ethnic reaffir-

mation. The main arenas where this transformation is occurring are in education, social organization and mobilization, religious differentiation, and urbanization, all of which have converged to produce a growing awareness in national societies of their own ethnic diversity. These changes have also produced grassroots social movements expressing ethnic identity and solidarity. Such social movements have been supported by social and environmental advocates, including the church and secular nongovernmental organizations (NGOs) within countries of the region as well as similar internationally based organizations.

Even though there is a strong relationship between indigenous identity and lack of access to schooling, increased levels of education among indigenous peoples have been documented recently in some countries of Latin America.⁸ In Bolivia indigenous people receive about three years of schooling less than non-indigenous people. The difference is far greater for indigenous women, confirming the disadvantageous position of women in Bolivian society generally and indigenous women in particular. Yet small increments of education have been found to be positively related to increasing income and social mobility. The income disadvantage that exists in Latin America is attributed in great part to the differences in formal education. Therefore, an improvement in the levels of schooling would create better salary opportunities for the indigenous population. In Peru it has been shown that higher levels of education bring about the highest salaries, and that obtaining a superior education is the most significant factor in improving the income levels of the male indigenous population.

Increasing levels of access to formal education has been influential in the formation of new organizations and leadership patterns among indigenous peoples. Traditional tribal or community leaders, usually elders, warriors, and shamans, have in some cases been supplanted or have had to share influence and power with young, formally educated leaders. It is this new generation of leaders which has formed organizations at the community and supracommunity levels. The emergence of articulate, sophisticated spokespersons backed by organizational structures that give them a strong voice is a near-ubiquitous feature of the contemporary social, economic, and political discourse in Latin American countries. In countries as diverse as Colombia, Argentina, Chile, and Panama, with comparatively small indigenous populations, grassroots indigenous movements and organizations led by this new generation

are having significant impacts on the nation-state by inducing major changes in the legal and policy frameworks of their countries. Many of these organizations were originally promoted by and associated with the church or labor movements and thus have a religious or class orientation. Eventually, some of them were transformed into ethnic movements and in some cases have maintained a class or peasant affiliation. One of the main characteristics of these social movements is the articulation and demand of indigenous rights.⁹

The upswelling of the younger generation is in part traced to novel educational opportunities, but equally important are the limitations of indigenous communities to absorb them in traditional society. This is a social dynamic that may not be apparent to many outside observers. Today's older generation generally embodies traditional, largely conservative adaptations that were successful for protecting indigenous communities in areas to which they fled for refuge and protection. The natural resource base of these regions, which was often fragile to begin with, has over the decades become either significantly reduced through encroachment by outsider development contractors or fully utilized by the indigenous peoples themselves. In both cases, in the present day, the land fails to support the retention and incorporation of younger generations into traditional systems of productivity. Young people often find that they cannot assume "traditional" adult roles in indigenous society to the extent that they do not inherit use of land, water, and forests controlled by their elders. Thus, more than 50 percent of an indigenous agricultural community (almost all of the younger generation) in Guatemala, Mexico, or Peru survive only as wage laborers on land of their elders.¹⁰ The incentives to leave are enormous for those who do not inherit the means to make a living.

The most able and brightest of these young migrants, the indigenous entrepreneurs of recent generations, strike out on their own either to the cities or to become pioneer farmers in the forests. Since the 1960s, urban migration has reshaped the demographics of indigenous communities throughout the Americas.¹¹ Improved access to services, opportunities for employment, and exposure to metropolitan life generally act as strong acculturation mechanisms for the migrants, leading to a denial of heritage and attempts to form urban enclaves or ghettos just as many other immigrants do.¹² It is these indigenous urban migrants who have

become the brave spokespersons for their people, representing indigenous peoples to the urban media and political establishments. Migration to the frontier induces a different set of changes, more oriented to the colonization process.¹³ In both cases many of these young migrants are successful in establishing careers in the city or on the frontier and have maintained extensive networks of support with their families in communities of origin—including remittances, marriage, credit, and mutual assistance.

The successful migrants confront the conflicting demands of indigenous identity and the demands upon the individual that are made by traditional society. Religious conversion is one expression of this divergence of interests among generations, as it holds the potential to free the young from traditional demands on their time and income.¹⁴ Up to the 1960s the majority of indigenous people of Latin America were Catholics, at least nominally, but at the present time there are significant proportions of people who identify with one of the many Protestant or Evangelical churches or sects. In most cases religious conversion operates through schools, clubs, and social organizations that are operated by foreign-based church groups, but the motivation to respond to these influences is found in the alienation of the young from the culture of their elders. As a consequence, it is not unexpected to find activist indigenous nongovernmental organizations based not only on their ethnic identification but also their religious affiliation—for instance, the Federation of Evangelical Indigenous People of Ecuador.

Coinciding with an increasing awareness of the environment and the rise of the conservation movement, there is a growing concern about the fate of indigenous people who usually occupy areas of high biodiversity, such as the temperate forests of Mexico, the rain forests of the Darien/Choco of Panama and Colombia, and the tropical forests of the Amazon region. Partly due to indigenous peoples' natural resource management patterns and the relative inaccessibility of some of their domains, biodiversity has been largely preserved. Indigenous people have been considered "Guardians of the Earth,"¹⁵ and the majority of indigenous people consider the Earth as their "Mother" or *Pachamama* for the Quechua and Aymara of the Andes.

Ethnodevelopment

The key issue in this discussion is, What does "development" mean for indigenous peoples? The consensus among

indigenous leaders, advocates, scholars, and practitioners is that genuine development is an autonomous process representing a community's vision of its history, its values, and its goals as it seeks for a better quality of life.¹⁶ This process is referred to by many different names—such as self-development, autonomous development, ethnodevelopment, and self-determination. Some leaders take issue with the use of the word “development” because it represents progress from a primitive or backward way of life to a more advanced existence. Others avoid the use of “determination” because it represents a political statement calling for sovereignty of the indigenous nation. Those indigenous organizations that call for separation from the nation-state are actually in a minority. For most indigenous peoples, self-determination means a dramatic increase in indigenous representation in the political system and participation in the decisionmaking processes that affect their own development.¹⁷ In the language of the Bank, we would say that for economic development to be sustainable it must provide new opportunities for people to achieve their potential and realize their goals as defined in their own cultural context.¹⁸

For the purposes of this paper, ethnodevelopment or indigenous development means those processes that are defined by and controlled by the indigenous peoples themselves as they seek better lives for their communities in the face of increasing poverty and social disintegration. Carlos Alfonso Palma, former President of ONIC, the National Indigenous Organization of Colombia (*Organización Nacional Indígena de Colombia*), when asked what development means for indigenous peoples in Colombia, responded:

For us development is not just economics, it is integral; that is, to have autonomy, to have organizational and administrative capacity.... Most of the time when talking about economic development, it means to have economic possibilities for the betterment of our *compañeros*. For us, however, it would not just mean individually, but at the collective level; it means to propose solutions for the community. We have to generate many alternatives, such as appropriation of technology, credit possibilities, adaptation of an economy proper to us, an economy that allows us to control our means, that allows the communities to develop their autonomy.¹⁹

The knowledge indigenous peoples possess about their environment and the curing abilities of the plants and animals are invaluable for the Western world. It has been shown that traditional knowledge is inextricably linked to the language, culture, and belief systems of communities.²⁰ If the ways of life and belief systems of indigenous peoples begin to change drastically and their language disappears, then their extensive knowledge about the natural world in these areas will also be lost. In Central America and South America there are many instances of tropical forests that have been preserved in the areas occupied by indigenous peoples.²¹ For this reason, indigenous strategies can provide information for western scientists and development practitioners interested in sustainable development, poverty reduction, land use, biological diversity, and the use of resources. At the same time, as Pichon and Uquillas (1995) have pointed out, indigenous people often have been relegated to fragile or risk-prone areas in the Andes and Mesoamerica, and due to poverty and inefficient land-use practices, the land has been degraded. It is important to note that indigenous development strategies and daily practices are not always the best or most sustainable activity. Indigenous knowledge is wise, but not always perfect, just as Western knowledge may be faulty.

Conditions for ethnodevelopment

The characteristics of indigenous development have to be considered in the context of the unique nature of indigenous communities that has enabled them to survive and maintain their cultures and social organizations for centuries, usually combining traditional and modern knowledge. As John Durston (1993) suggests, “the fundamental resources for indigenous success are their own culture and the appropriation of universal knowledge; favorable changes and the necessary alliances can arise from the expansion of modernity in the world.” Durston defines modernity as a notion that implies tolerance and the value of diversity.

To be in a position to think about the future, a community must have food, clean water, a safe, healthy place to live, and the support of family and communal social structures. Many indigenous communities have moved toward cultural and economic survival in a globalized world that is not their own, but one in which they have learned, adapted, and appropriated what they needed. Based on an analysis of case studies and other examples, the main char-

acteristics of ethnodevelopment are based on the following eight conditions:

1. Possession of secure tenure over a territory, land, and resources that are duly demarcated and titled.
2. Maintenance of a strong social organization and the ability to mobilize for rights.
3. Preservation of cultural identity characterized by cultural revaluation, expression, communication, and empowerment.
4. Support from and contact with the national society and world, including government and nongovernmental organizations, international development organizations, the church, and training programs.
5. Maintenance of nutritional self-sufficiency represented by activities appropriate to the territory, including hunting and gathering, farming, fishing, and animal husbandry.
6. The acknowledgment by the government of political and human rights as citizens, the right to vote, equal participation and representation, and the promotion of indigenous legislation.
7. Promotion of income-producing activities that lead to investment in the community and improvements in the quality of life and well-being of the entire community.
8. Promotion of education, including bilingual and multicultural education, and practical skills.

The ordering of these characteristics does not give priority or greater importance to a particular characteristic; it is simply a means of organizing this discussion. A crucial issue in this process is that many of these conditions are interconnected and interrelated. One aspect may or may not guarantee another, and different groups have placed more or less emphasis on a single issue or multiple issues. Any type of change undoubtedly will affect the other characteristics, and all the characteristics interact to produce a unique case of ethnodevelopment. One lesson to be learned is that it is impossible to apply a formula for the development of a group without considering each community's unique historical, social, legal, and economic relationship with the state and its individual social and cultural organization.

On the basis of the above, the following general proposition can be made: Ethnodevelopment is more likely to occur when indigenous people have access to basic resources for their social reproduction; have achieved a high degree of social organization and political mobiliza-

tion; have been able to preserve their cultural identity (particularly their own language); have built strong linkages with outside institutions; and have production patterns that allow for subsistence and earning cash income. A favorable policy environment is undoubtedly a contributing factor.

The cases listed below exemplify ethnodevelopment, but as is often the case in a process as complex as development, these actions in practice can prove to be double-edged, contradictory, and alienating for some communities. The unfortunate reality of this era is that increasingly isolation is impossible. Each decision made by an indigenous community may have positive and negative consequences unforeseen at the present moment, but it is also impossible to do nothing. For some communities it may mean participating in the global economy, for others it may mean starting a bilingual education program. The following discussion will address these issues by describing the conditions, listing different examples, and noting potential weaknesses.

Possession of secure tenure over a territory, land, and resources that are duly demarcated and titled

The land is our most fundamental element of our existence and the basis of our historical and future identity.

—Rafael Pandam, leader of CONAIE, the National Indian Confederation of Ecuador (Confederación de Nacionalidades Indígenas del Ecuador)²²

To have an adequate treatment of the socioeconomic aspects of land and resource management, one must understand the contrasting concepts that both indigenous people and society at large have of territory, land, and its resources. Indigenous people's concept of territory, land tenure, and use are based on their own cultural values, while that of the dominant society is based on cultural values of Western origin. Indigenous people have traditionally conceived of land not as property to be exchanged in the market, but as Mother Earth, subject to different types of use, such as areas separated for religious purposes and areas for temporal, periodic, or permanent use.

The state's concept, in contrast, has established the principle of limited property rights that can be exchanged like other factors of production. Therefore, land is subject to being possessed by individuals or groups, but there are

limitations about the subdivision and use of resources that are intimately related to the market, and thus several paradoxes are found:²³

- The **soil/subsoil** opposition, by which the state assigns right over the land but keeps for itself the right to subsoil resources;
- The **land (soil)/fauna and flora** opposition, when rights are given to land but with restrictions on the use of natural resources on that land;
- The **land/water** opposition, by which land tenure does not imply water tenure; and
- The **“vacant” state lands/traditional possession**, by which lands under some forms of natural-resource management are not recognized as being utilized.

Many Latin American states recognize only the surface soil, while allocating state or private rights to the resources above or below the soil, such as oil, minerals, or forests. Thus, even when Indians are able to demarcate and win clear title to traditional territories, they are unable to halt incursions by developers contracting directly with the state.²⁴ In recent times the concept of territory, or demarcating the physical domain of a native people and working with maps, has been adopted as part of the new ideology of indigenous organizations to capture the idea of “Mother Earth” and secure legal title to their traditional lands. Examples of these actions include the Bolivia Yuqui Self-Demarcation Project; the Venezuela Ye’Kuana Demarcation Project; Belize’s Maya Land Use Mapping; Honduras’s La Mosquitia Land Use and Occupancy Mapping; Nicaragua’s Miskito Coast Protected Area; and Panama’s Indigenous Mapping of the Darien.²⁵ There is emerging evidence that when secure tenure to communal territories exists, ethnodevelopment quickly follows. (See Box 1)

The attachment indigenous people have to their ancestral lands (including the forest, soil, and water) and their dependence on the renewable resources from the land have determined, fostered, and supported their culture and belief systems. Land allows for survival, social relations, curing plants, and materials for housing. Land and natural resources have strong cultural meanings. It is important for their religious and spiritual beliefs, and it defines their social and cultural identities.²⁶ For indigenous peoples land is not “property” that can be bought and sold as a commodity, but something sacred, and at the base of this belief is the notion of communal territory.²⁷ Miguel Puwainchir, former president of the Federación de Centros

Shuar-Achuar, a regional organization of 330 indigenous communities located in the Amazon rain forest of eastern Ecuador, said:

So for us, the land is not a commodity to be bought and sold for a price. It is what sustains us. The moment our land is lost, we are no longer Shuar and Achuar...For us land is part of our family, and because we are all one family here, we hold the land in common. This is why we have organized a federation.²⁸

Securing legal protection for their ancestral lands is fundamental for the survival of indigenous peoples, yet this issue has been very problematic. The agricultural systems of indigenous peoples, especially those of the lowland areas, are characterized by shifting agriculture or the use of a cleared area for several years and then it is abandoned to give the soil time to recuperate. Therefore, tracts of land appear to be unoccupied when in fact they are used by indigenous communities. Research has documented the fact that 30 to 40 percent of dietary intake comes from fallow lands, unoccupied, but vital to the economy.²⁹

Maintenance of strong social organization and the ability to mobilize for rights

Social organization and the community are very important in the lives of indigenous peoples. Successful indigenous development strategies arise where there is a strong social organization that serves as a base of organizing and making decisions for the indigenous community. From this starting point many community organizations have joined forces and formed associations, federations or unions, and confederations, thus reaching high levels of complexity.

The process of social mobilization has taken the form of local-level grassroots activities and country- or regionwide mobilizations to protest a particular action. The key in this approach is to maintain strong organization and to be able to mobilize and act. In some cases indigenous communities who have been traditional enemies have joined together for a common cause, as described below by a Kuna chief from Colombia in a meeting of the Kuna General Congress (a twice-yearly democratic council that oversees Kuna Yala, a territorial reserve in Panama held by coastal San Blas Kuna). “Now we sit here today, and I’m speaking to you. People like Kuna came to us. All of us are working

together. No one is sleeping anymore, and there is strength in this. The Chocó (of Panama and Colombia, traditional enemies of the Kuna) people who are poor and suffering have joined with us."³⁰

A lowland indigenous leader from the Ecuadorian Amazon, noting the importance of social organization, states, "Our organizations offer us life. Without them, we will

disappear."³¹ Charles Kleymeyer in his book *Cultural Expression and Grassroots Development* also notes:

A strong sense of shared identity can energize people and inspire them to take collective action to improve their lives. When individuals see themselves as proud members of a culture, they are more likely to

BOX 1

Secure Land Tenure

Kuna

The Kuna were granted the San Blas Comarca, what they call the Kuna Yala, in 1938. It is a narrow strip of land 200 kilometers long that extends along the Atlantic Coast in Southern Panama and is inhabited by approximately 40,000 to 50,000 people. The Kuna Yala is an autonomous reserve and is administered by the Kuna General Congress with local congresses, three chiefs, and representatives from the villages. With a secure territory the Kuna have been able to initiate activities to control the use of the resources, such as regulating hunting and the lobster-catching season. In 1983 they set aside 60,000 hectares in a protected area as a nature reserve called PEMASKY (the Project for the Study of the Management of the Wildlife Areas in Kuna Yala) for study of both Kuna and Western knowledge and as a buffer zone against settlement on the southern border of their reserve.¹ Leonidas Valdez, one of the three chiefs of the Kuna, has stated that "we say that this land is our mother...the land is also the culture....Here are born all things necessary to our culture: the fronds we use for puberty ceremonies, all the foods are gathered for our communal feasts, the materials our artisans use, and what goes into the construction of our houses. All of it comes from the forest. If we were to lose this land, there would be no culture, no soul."² Since they have been able to establish a base in their land, they have been able to diversify into different areas of income generation such as tourism, artisan work (making *molas*), and establishing linkages with institutions such as the Smithsonian Institution, which uses the facilities of the park. Recently there have been more incursions into their territory with the destruction of the forests. Through a recent project to map the land use of the territory, there has been a greater

understanding of how natural resources are used and the recognition that the best way to preserve the biodiversity is to strengthen indigenous control over the territory.³

Taquelinos

The Quechua-speaking Indians on the island of Taquile in Lake Titicaca in Peru have maintained control over the island and have reaped the economic benefits of tourism. In the 1930s the island residents mobilized their savings and began to purchase the island over the next two decades from its landowners. In the 1940s they began to construct wooden sailboats, because the closest town was Puno, eight to twelve hours away by sailboat. The fine weaving of the island came to be known in Cuzco, and when tourists heard about the island, they began to arrive there. In 1977 the Taquilenos upgraded the water transport system (with engines). The tourists are placed with families on the island—each family then receives income from the lodging. They had developed a market for their weaving, which grew even more once people began to come to the island. There is a community-run artisan store on the island, and the tourism has reinforced traditional dress and lifestyles. The downside of this economic success is that the population of the island has grown, and they are having more difficulty supporting their agricultural self-sufficiency. Imports to the island are increasing, and there is more rural-to-urban migration. With a strong cultural base, the Taquilenos have survived, but it remains to be seen whether they can adjust to the recent changes brought by tourism.⁴

Notes: 1. Chapin, 1993.

2. Breslin, 1986.

3. *Cultural Survival Quarterly*, 1995.

4. Healy and Zorn, 1993.

BOX 2

The Kuna

The Kuna of Panama have a strong tradition of political organization, which has resulted in solid territorial claims and recognition. In the early 1970s the Kuna began serving as advisers to the Emberá, the Wounaan, and the Guaymí, who lacked political organization and also lived in the same region in Panama. As a result, these groups have created a *congreso general*, a representative governing body modeled after the Kuna model in an attempt to become more organized to respond to new issues. The Emberá and Wounaan were granted a joint territory of 4,000 square acres in 1983 after the help of the Kuna.¹

Note: 1. Chapin, 1992.

organize and work for change. Organizations built on the bedrock of cultural identity seem better able to single out common problems and collectively seek appropriate solutions.³²

The social structures of indigenous organizations offer support to the indigenous communities, and they link the community with the national society. In this sense the indigenous communities must be able to articulate demands that are understandable to the dominant institutions and at the same time preserve the uniqueness of their social structures. The survival of indigenous peoples depends on the dialogue they develop with the national state, yet it is important to acknowledge that when an organization is able to initiate this dialogue, it too may start to resemble the dominant order.

Preservation of cultural identity characterized by cultural revaluation, expression, communication, and empowerment

Culture is like a tree... If the green branches—a people's language, legends, and customs—are carelessly lopped off, then the roots that bind people to their place on the earth and to each other also begin to wither. The wind and rain and the elements carry the topsoil away—the land becomes desert.

—Mariano López, a Tzotzil Indian leader from the municipality of Chamula in Chiapas, Mexico³³

BOX 3

Cases, Social Organization, and Mobilization for Rights***The March for Territory and Dignity***

A dramatic show of organizational capability was the 750-kilometer march from the Beni rain forest in Bolivia to the capital, La Paz, by hundreds of indigenous peoples. The "March for Territory and Dignity" on August 15, 1990, was carried out to protest territorial encroachment by lumber companies and cattle ranchers. After negotiations with the government, President Jaime Paz Zamora signed four executive orders. Three of the orders complied with native territorial demands in the Isiboro-Sécure National Park, the Ibiato area, and the Chimán Forest, and the fourth established a commission to draft an Indian law that would grant legal standing to indigenous leaders and political organizations.¹

The Arhuaco

The Arhuaco of Colombia have maintained a strong social organization, which has allowed them to maintain some autonomy. In 1972 their territory was demarcated with 186,000 hectares. The Arhuaco live in a semi-nomadic lifestyle in the mountainous area of northern Colombia in the Sierra Nevada de Santa Marta. The Arhuaco social system is hierarchical with the religious leaders, the *Mamu*, occupying the most prominent position. This small group of elders controls the complex system of cultivation and they have made valuable alliances with the civil authorities in this area. The *Mamu* also elect *Cabildos and Comisarios* in the twenty-five territories who are responsible for mediating between the *Mamu* and the secular world. It is notable that the Arhuaco have been successful in keeping their autonomy by negotiating with the Colombian institutional authorities on their level. The Arhuaco have been able to create a social structure which can articulate their demands for land and autonomy and negotiate with the civil authorities.²

Notes: 1. Helms, 1994.

2. Lizarralde, Beckerman, and Elsass, 1987.

A common denominator in many indigenous development strategies is the importance placed on maintaining, and revitalizing cultural expression. Thus, "sometimes the development process is not so much about change as about the preservation and strengthening of those."³⁴ Kley Meyer (1993) also emphasizes the importance of culture in grass-roots development strategies:

A people's expressive culture, which is at the heart of its folklore, has a profound significance. It is a powerful statement of what is most deeply felt and of what gives meaning to peoples lives. If it flourishes, so too does their way of life... Cultural expression is the representation in language, symbols, and actions of a particular group's collective heritage—its history, aesthetic values, beliefs, observations, desires, knowledge, wisdom, and opinions. This is a key element in generating cultural energy... [the] source of motivation that inspires people to confront problems, identify solutions, and participate in carrying them out.

Alfonso Palma, former president of ONIC, defines culture as "an authentic expression of peoples or a specific group; that is, their very own traditions, practices, form of government, values, organization, and adaptation to changes maintaining their values."³⁵ The culture of a people is both less and more than the popular notion of culture as "heritage." It is less because in no sense does the totality of past experience persist into the present, and it is more because the past is reconstructed continually to serve the needs of the present. Cultures evolve through constant negotiation between past and present.³⁶ Cultures are able to incorporate new ideas precisely where they fit or can be made to fit, rather than conflict with, the internal logic of the culture.³⁷ Indigenous development strategies that incorporate new ideas and maintain or even strengthen the internal logic of the culture have the capacity to truly improve the lives of the community members. David Maybury-Lewis in the introduction to Kley Meyer's (1993) book states that:

Culture in its broad anthropological sense (meaning the way of life of a people and particularly the shared understandings that underlie it) is constantly changing. Development, too, is a process of change, often of induced change. The question, then, is what sort of change is contemplated, how rapid it will be, and

whether the advantages it brings will make it worth putting up with the dislocations it causes.

Indigenous development strategies incorporating culture have taken many forms ranging from bilingual education, music, indigenous crafts, and traditional medicine. For Albo (1996), the key to a development process that starts from the indigenous people's own identity is "bilingual radicalism"—a process by which people are able to maintain their own identity, having as a reference their maternal tongue, and open to learning the values of other cultures. Indigenous development strategies that are based on the maintenance and reinforcement of the culture of an indigenous group have the ability to transform a culture and foster social change that is positively reinforcing and beneficial. There are numerous examples of these types of activities.

In Para, Brazil, the nonprofit Center for the Preservation of Indigenous Art, Culture, and Sciences is run by indige-

BOX 4

Radio San Gabriel, Bolivia

Radio San Gabriel in La Paz, Bolivia, has been transformed into a Aymara radio station with listeners in Peru, Chile, and Bolivia. Radio is the medium of mass communication in rural Bolivia, and all but four of the staff of forty-eight are Aymara. Three times a week members of the Center de Promotion Cultural Compassion Anyi tape Aymara recordings and broadcast to the *altiplano* where there are 2 million Aymara speakers. They tell fables in an attempt to revitalize the Aymara tradition of storytelling, and people are beginning to send in collected stories. The members of Anyi are also involved in other activities, such as helping the Ministry of Education in a project to teach weaving, tailoring, electrical repair, food preparation, and subsistence skills. Felix Tarqui, Anyi's director, says, "as we went along, we saw that for education to be effective, it must build people's capabilities, not reinforce feelings of inferiority. It must be based on the culture of the people being educated." Another project is the construction of community cultural centers that double as meeting halls and classrooms.¹

Note: 1. Breslin, 1993.

nous people for both the preservation of indigenous culture and earning income from the entrance fee. The center houses an Amazon native art exhibit, a multilingual library, and an archive system with collections of tribal music, oral histories, and cosmologies. The center also provides employment for indigenous artists, and 15 percent of the proceeds from the center's gift shop is returned to the indigenous artists. According to the director, Maria Antonia Kaxinawa, a member of the Kaxinawa tribe, "our objective is a sociopolitical one, and we are using the ecotourism dollar to support our movement. Our goal is to build a completely self-sufficient indigenous project that will open up new and culturally suitable and dignified employment opportunities for acculturated Indians of Brazil."³⁸

The Carib of Dominica (about 3,000 of the total number of 5,000 Indo-Dominicans) live in an indigenous reserve of 3,700 acres, which was recognized in 1978 and is under the control of the Carib Council and the Carib chief, which are elected every five years. During the 1970s, there was a consciousness movement toward ethnic revitalization, and a cultural troupe called Karifuna was founded to help preserve Carib arts, crafts, and culture. The troupe recruits young Carib to join as dancers and musicians, and the group has performed in North America and Europe.³⁹

Support from and contact with the national society and world, including government and nongovernmental organizations, international organizations, the church, and training programs

In nearly every example of indigenous development, the impetus toward organization has arisen out of contact, both positive and negative, with external forces in the form of education, pressures on the land and resources, missionaries, increased migration to urban areas, or development projects. Development as a reaction to negative outside forces is not desirable; however, it has ironically led to several successful movements for indigenous rights.

In addition, there has been a trend in the last twenty years of financial or institutional support for an indigenous community, organization, or federation flowing from an external organization such as a bilateral or multilateral development agency, foundation, or nongovernmental organization. This support has taken the form of grants, training workshops, research, and extension, and establishing linkages and networking with other organizations nationally and internationally.⁴⁰ Miguel Puwainchir, for-

BOX 5

The Lenca, Honduras

The Lenca in Honduras received leadership training from a grassroots support organization, Proyecto Aldea Global (PAG), funded by the Inter-American Foundation. PAG trained local indigenous farmers as agricultural extension agents, introduced contour planting, inter-cropping, no-till sowing, and green manures, and it boosted yields 270 percent. After these activities, the Lenca formed the Asociación de Productores Lencas (APL) to manage a credit fund for buying seeds, building silos, and digging irrigation ditches. The Asociación fostered the food security of the Lenca and they were able to cultivate a cash crop and stop soil erosion.¹

Note: 1. *Grassroots Development*, 1994.

mer president of the Federación de Centros Shuar Achuar, comments: "We need training for our people and the support to strengthen Federación programs in aviation, education, topography, civil registry, health, and other areas so that we can be productive and save the land for future generations."⁴¹

In Peru one of the strongest organizations representing lowland indigenous peoples is the Aguaruna and Huambisa Council, which unites nearly a hundred communities that were until recently involved in internal warfare. Church groups had traditionally worked in this area, but indigenous development did not take root until an intermediary organization of professionals, the Development of the Upper Marañon (DAM), established a project to promote small practical projects (such as agriculture, health, and marketing) as a means to foster organizational ability. After nine years an indigenous organization had arisen that was strong enough to survive without the services of DAM. During the nine years, DAM had sponsored training activities in accountancy, business administration, and organization to support the aspirations of the council to establish an enterprise based on trading in the region. By tradition, the Aguaruna were traders, and in 1985 the council was administering a large system providing for the commercial needs of a hundred indigenous communities through nine warehouses selling wholesale goods such as cocoa beans, gold, rice, and beans to sixty-seven village markets. With

appropriate practical training and support from DAM, the Aguaruna and Huambisa Council has grown into a strong organization working to establish priorities and generate income for the communities it represents.⁴² One recent victory this council achieved was the rejection of teachers from the Ministry of Education who did not speak native languages. They then substituted with their own community-based instructors.⁴³

Maintenance of nutritional self-sufficiency represented by activities appropriate to the territory, including hunting and gathering, farming, fishing, and animal husbandry

Closely linked to territorial rights is the ability to provide for nutritional self-sufficiency appropriate to the area and to the cultural practices of the indigenous communities. A central strategy of many indigenous communities, even before other ambitious projects are undertaken, is to establish the basic conditions for subsistence based on micro-regional sustainable rural development strategies.⁴⁴ For some communities this may be reflected in attempts to clearly demarcate a territory to be used for communal hunting or gathering (see examples mentioned previously on demarcation). For others this may mean the need to improve their farming systems, with training and extension activities to improve the abilities of community members to provide for their food and income needs.

The acknowledgment by the government of political and human rights as citizens, the right to vote, equal participation and representation, and the promotion of indigenous legislation

We indigenous peoples are fighting for the recognition of our rights, rooted in our historical and political conditions as a people, with all powers in the areas of rights, ideology, politics, and culture which this implies, such as the restitution of fundamental rights and freedoms such as free-determination and the restitution of ancestral lands.

—Aucan Huilcaman, a Werken, or spokesperson, for the Mapuche organization, Aukin Wallmapu Ngulam-Council of All the Lands in Southern Chile⁴⁵

Local-level changes are important, yet these activities will be ineffective without changes on a larger scale at the level of policies and laws. Traditionally, the legislation in most Latin American countries did not recognize the protection

of law for indigenous citizens. Indigenous policy of the past stressed paternalistic actions to integrate the indigenous communities into the nation. This view is changing somewhat based on recent actions of indigenous communities. For the first time indigenous rights are referred to in new constitutions and legislation. (See Box 6.) Victor Hugo Cardenas, an Aymara Indian and vice president of Bolivia, summarizes the importance of political activity for indigenous peoples: “The Indian people want to solve our problems, but within a democratic system, instead of through violent methods...We want to solve our tragic poverty within the limits of democracy. We have the right to be governed, but also the right to govern. We want to elect, but we also want to be elected.”⁴⁶

In an attempt to determine what these political responses really mean for indigenous peoples, the Inter-American Dialogue carried out a study on the responses of Latin American governments to indigenous peoples. It concluded that Brazil all but ignores its new progressive legislation regarding the Amazonian Indian population. Bolivia, in the wake of the election of Vice President Cardenas, launched a new era of multiethnic governance. Colombia and Paraguay have radically changed their constitutions in favor of indigenous peoples’ rights and included indigenous representatives in the constitutional reform process. Guatemala and Ecuador, with much larger indigenous populations, appear to be ignoring indigenous demands unless forced to respond during moments of intense protest or national crisis. (See Box 7.) The prestige and impact of Guatemala’s Mayan organizations surged during the constitutional crisis surrounding the failed coup attempt in 1993.⁴⁷

Political recognition will increase the ability of indigenous communities to carry out development activities, but this does not guarantee widespread changes. In the examples listed below, countries like Colombia, Paraguay, and Chile, with small indigenous minorities, are willing to deal with the multi-ethnic nature of the state. In contrast, countries like Guatemala, Peru, and Ecuador, with larger minorities, have been slow to implement changes. Perhaps the positive results are derived from two forces uniting at the same time: a strong indigenous movement and a receptive government. Another interesting phenomenon is the strong, indigenous organizations that have arisen in Ecuador and Bolivia, whereas in countries like Peru there is less large-scale mobilization.

BOX 6

Indigenous Rights

1. In Brazil, Chapter VIII of the 1988 Constitution is dedicated to indigenous peoples.

2. In Mexico, Article 4 of the 1991 Constitution was modified to include a paragraph on indigenous rights.¹

3. In Paraguay, constitutional reform increased the participation of indigenous peoples in policy questions concerning them through the incorporation of indigenous representatives in the Constitutional Assembly's deliberations. The new Constitution officially recognizes the legitimacy of indigenous customary law, which is and has been commonly used by Indians to resolve intra-community conflicts, while ceding other important sovereign rights of the nation-state.²

4. In Colombia in 1990, the government recognized extensive land rights for indigenous peoples by tripling the legally recognized Indian area in the Amazon to cover about 180,000 square kilometers. These lands belong to the Indian communities in perpetuity and cannot be sold. The constitutional reform process in 1991 in Colombia greatly enhanced the political participation of indigenous representatives. The special cultural, economic, and social identity of the indigenous peoples in Colombia was finally recognized. Officially, government institutions do not aim for the privatization of indige-

nous land nor the integration of the indigenous population into national society. With the new constitution, the existing indigenous legislation is changed structurally, and in the creation of indigenous territories and indigenous councils, indigenous authority is affirmed.³

5. In Nicaragua, in the wake of the conflict between the Miskito Indians and the Sandinista government, the Autonomy Statute was adopted for the Miskito indigenous peoples of the Atlantic coast. This group has a population of approximately 100,000, and additionally there are about 8,000 Sumu living along the Caribbean coast and the rivers of northeastern Nicaragua and southeastern Honduras. Together, they took up arms against the Sandinistas from 1981 to 1988 or 1989. The Miskito have intermixed with black communities for centuries, and for the Sumu a process of amalgamation of three separate groups (each with their own dialects) may strengthen common identity. In May 1990 the very first Indian government took oaths in Bilwi, capital of Yapti Tasba, in eastern Nicaragua.⁴

Notes: 1. Assies and Hoekema, 1994.

2. Van Cott, 1994.

3. Assies and Hoekema, 1994.

4. Ibid.

It is clear that the stronger position an indigenous community has with the state, the more autonomy and rights it will receive. This position of strength generally arises out of the ability to organize, which is directly related to the relative freedom the groups experience and their ability to meet, discuss, and address the issues they are concerned about. In most cases it has taken the unification of several indigenous groups, who traditionally did not interact, to effect any real change. This is seen in the examples of the Aguaruna and Huambisa Council in Peru and the interaction among the indigenous groups living in the Darien area.

Promotion of income-producing activities that lead to investment in the community and improvements in the quality of life and well-being of the entire community

A key step in most indigenous development strategies is to guarantee nutritional self-sufficiency. For some groups this

is a most important survival issue. For others, income-producing activities are a stage leading to investment in the community. This is an arena that is hotly disputed, because the nature of income-producing activities introduces new variables into the communities that can have both beneficial and negative effects. Income-producing activities can bring cash, material goods, education, better health care, etcetera, into these communities, but they also can bring greater dependence on external conditions and foreign influences. The key component of ethnodevelopment with income-producing activities is the investment of income in the betterment of the lives of the people and the importance of communal decisionmaking. Valerio Grefa, a representative of COICA, the Coordination of the Indigenous Organizations in the Amazon (*Coordinador de las Organizaciones-Indigenas de la Cuenca Amazonica*), commenting in a meeting to prepare proposals in advance of the Summit of

BOX 7

Indigenous Organizing in Ecuador

The indigenous organizations in Ecuador also have a history of mobilizing in protest. The Ecuadorian society did not pay attention to indigenous demands until the 1990 “uprising” in Ecuador, when thousands of Indian protesters brought transportation to a halt throughout the countryside. This action paralyzed agricultural production in the highlands, and there have been subsequent protests, such as the occupation of the Congressional buildings in May 1991. In April 1992 there was a march from the Amazon to Quito to call on the government to legally recognize their territories and reform the National Constitution to protect the different nationalities and cultures of Ecuador. After a week of camping in a public park in Quito, the Indians returned to the Amazon with an official commitment to grant them titles to a large portion of

the lands they use, and Congress called a special session to review the Indians’ demands.¹ In June 1994 indigenous organizations organized a protest with roadblocks to demand the repeal of the Agrarian Development Law. After a week of protests, the government agreed to the first talks with the indigenous leaders. The mobilization of indigenous peoples was better organized than the protest in 1991 and led to a revision of the Agrarian Law after the government agreed to discuss contentious issues with different stakeholders. In this case, both indigenous and non-indigenous rural organizations, and labor and ethnic federations joined forces and formed a coordinating body (the *Coordinadora Agraria*).

Note: 1. IWGIA, 1992.

the Americas Meeting in 1994, clearly illustrates this dilemma. He remarks that “ensuring their land rights did not mean Indians were totally opposed to the drilling of oil and the mining of precious metals. Such exploitation would be allowed, so long as it was controlled and part of the money it generated was invested in health, education, and other basic services for the Indian community living on the land. We want to develop as well.”⁴⁸

BOX 8

The Lenca, Honduras

The Lenca in Honduras mentioned above who received assistance from a nongovernmental organization have established a cash crop based on regional marketing. Eight thousand Lenca living in twenty-four villages in the Celaque mountains of southwestern Honduras are producing organically grown apples. They have also received some assistance in this endeavor with capacity-building training from an NGO so the community can handle the income generated and manage the business. The Lenca have set up nurseries, cleared feeder roads, established cold storage, and are expanding into peach trees and other fruit trees.¹

Note: 1. *Grassroots Development*, 1994.

One type of income-producing activity for indigenous communities has been the promotion of artisan products. This activity serves two purposes—providing income as a supplement to subsistence agriculture and reinforcing ethnic identity and culture. Examples of this activity and crafts that are known around the world include the weavers of the Zapotec communities in Oaxaca, Mexico; the weavers of Otavalo, Ecuador; the Nahua Amate Bark Painters of Guerrero, Mexico; and the Kuna *mola* makers of San Blas, Panama.⁴⁹

In Nuevo San Juan de Parangaricutiro in Michoacan, Mexico, the Purepecha are managing their forests by combining a strong level of community organization and managerial skills with modern techniques of forest management. In 1981 the community initiated a forestry industry with its own resources and since then has improved its management of the forest and generated employment for nearly 70 percent of the community. The forestry operation consists of a vertically integrated forest-products industry producing wood, chips, processed pine resin for tar and turpentine, furniture, and charcoal. It employs approximately 950 permanent workers directly and 200 indirectly who are members of the community. In 1988 the community received permission from the government for complete control of forestry management, and in 1990 the enterprise reached sales of 15 billion pesos (about \$5 mil-

lion).⁵⁰ In 1991 the Purepecha community was given status as an indigenous community under law, and it was granted dominion over 45,000 acres of land. The Purepecha operate on a system of cutting the forest area every ten years and maintaining nurseries and reforested areas. The community has reinvested the profits in upgrading the enterprise, they have worked for communal responsibility in taking care of the forests, and they have very democratic decisionmaking at all levels of the community. They are also in the process of diversifying their economic base to other activities, such as ecotourism, organic fertilizer, marketing organically grown avocados and peaches, environmental education, and other uses of forest products for medicinal or ornamental purposes.⁵¹

Promotion of education, including bilingual and multicultural education, and practical skills

Teach people to read and write in their own language and they soon start asking where our books are. That's a very political question.

—Andres Cuz of the Academy of Mayan Languages⁵²

The recent study *Indigenous Peoples and Poverty* by the World Bank clearly notes the correlations between schooling attainment and indigenous identity, and between schooling attainment and poverty. The study found the schooling levels of indigenous peoples in Bolivia to be three years less, on average, than non-indigenous, and it found that in Guatemala the majority have no formal education. "On average, indigenous people have only 1.3 years of schooling and only 40 percent are literate."⁵³ The study also shows that those indigenous peoples who have received education have higher rates of employment and greater socioeconomic advantages.

Education has often been a tool for the assimilation of indigenous peoples, and therefore programs to bring education into indigenous communities are sometimes viewed with suspicion. An appropriate bilingual program must put equal emphasis on both the maternal/native language and the dominant language. Some methods simply utilize the maternal language to facilitate the transition to the dominant language and then the maternal tongue is abandoned.

The implementation of bilingual education programs has taken place in several indigenous communities with some successes. The most important difference in these cases is that the indigenous community controls the edu-

BOX 9

The Kuna, Panama

There is the danger that the increase in education will create a distance between the young educated group and the elders. The promotion of education is clearly a path toward a better quality of life, yet it can also cause alienation and generational conflicts. An example is the young Kuna of Panama, who have been educated at the University in Panama and are involved in the natural reserve park, PEMASKY. The elders viewed these technical staff as having lost sight of the old world cosmos, and the elders conversely do not take much of an interest in Western biology.

Western education was in place in every community by the 1960s, and currently the schools are staffed almost entirely by Kuna teachers. Since the kids go to school, they are not learning how to work the land or learning from their elders. In the community, there is a gathering led by the elders who lecture on the Kuna worldview to all members. Mac Chapin (1991), an anthropologist who has worked among the Kuna for decades, notes that "the old traditions are so intimately bound up with the old way of life that as that way of life changes, so must the belief system that explains it and gives it symbolic importance."

cational process, which, in addition to mainstream education, also strengthens indigenous identity by introducing indigenous language and culture—that is, intercultural bilingual education or education starting from one's own culture.⁵⁴

Godoy notes that the Sumu Indians of Nicaragua, recipients of formal education and skilled in Spanish, have become the best brokers of their forest communities. "Education reduces rural indigenous people's dependence on the forest through three direct channels: It increases the ability of foragers to leave the countryside; it improves the use of agricultural land through the adoption of new and better application of old technologies; and it reduces family size." One Sumu reverend remarked, "Education is for the future, not for the present."⁵⁵

One of the oldest and most successful indigenous organizations is the Shuar Federation in the tropical forests of eastern Ecuador. It was formed in the 1960s under the

BOX 10

Enrique Camargo, a Guarani from Bolivia, on Education

"We want to advance a little more while keeping our culture and way of life intact. This is our goal. We have inter-cultural bilingual education programs for elementary school-aged children....In the middle school there will be more linguistic and cultural courses for the recapturing of our own identity and the strengthening of our unity. Another aspect of the program is the literacy campaign...we plan on making 20,000 Guarani literate in two different ways. Those who don't know how to read and write will learn to read and write in Guarani. Those who are literate in Spanish will learn how to read and write in Guarani.... We think that it is very important because ignorance is not only measured in the ability to read and write, but also in the extent to which one has been assimilated and alienated. So, we want an educational system that awakens self-reflection, that is a liberating education. That is our goal."¹

Note: 1. Quoted in *The Ethnic Newswatch*, 1992.

impetus of Catholic missionaries to provide the Shuar, who live in scattered hamlets, with some type of collective legal protection from the colonists who were invading their traditional territory. By forming into nuclear residential groups called *centros* and then into larger subregional associations, the federation successfully petitioned the government for collective land titles. In the early 1970s the federation also established a bilingual radio school program, which transformed the nature of schooling and education in the rain forest. Before the program was established, fewer than half of school-age Shuar children completed primary school. Not only was it difficult for children to attend schools because of the long distances from their homes and the difficulties of travel, especially in the rainy season, but dropout rates were extremely high because the curriculum did not take into account the children's native language and culture. Over the course of a decade, the federation-managed radio school program proved to be a great success, and the number of schools connected into the radio network and staffed by federation-trained teachers increased from 30 to 177. In the 1980s the government

officially recognized the program and used it as a model for other bilingual and bicultural school programs in the eastern part of the country.⁵⁶

The World Bank experience

In September 1991 the World Bank issued an operational directive (OD 4.20, *Indigenous Peoples*) to address projects that affect indigenous peoples.⁵⁷ This OD was a revision of the first Bank policy on indigenous peoples (OMS 2.34, *Tribal People in Bank-Financed Projects*), developed in 1982. OD 4.20 provides policy guidance to ensure that indigenous peoples benefit from development projects and to avoid or mitigate potentially adverse effects on indigenous peoples caused by Bank-assisted activities. The OD adopts broad criteria to reflect the diversity of indigenous peoples and to help ensure that the social and economic benefits they receive are in harmony with their cultural preferences. In all Bank-financed projects that affect indigenous peoples, there should either be a component to address the needs of indigenous peoples or an indigenous-peoples development plan included in the project with informed participation of indigenous peoples in the preparation of development plans and the design and implementation of the project.

The strategy suggested by the OD, especially in projects that may affect rights to natural and economic resources, is one of informed participation of indigenous peoples themselves through direct consultation, incorporation of indigenous knowledge into project design, and the use of experienced specialists. When an investment project affects indigenous peoples, the borrower should prepare an indigenous-peoples development plan that is consistent with the Bank's policy, except where the bulk of the direct project beneficiaries are indigenous peoples. Then the entire project would be subject to the provisions of the OD. A component developed to address the needs of indigenous peoples should consider the legal framework, baseline data, land tenure, development or mitigation activities, institutional capacity, and a clear implementation schedule including monitoring and evaluation, cost estimates and financing.

Policy implementation

The World Bank has carried out two reviews of the implementation of its policy on indigenous peoples which includes projects in Latin America. The first, entitled *Tribal Peoples and Economic Development: A Five-Year Imple-*

mentation Review of OMS 2.34 (1982–1986), reviewed fifteen Bank-financed projects globally known to have affected the lands and resources of indigenous peoples (1987). The review included eleven projects from the Latin American Region. The report concluded that the Bank had made significant progress in identifying indigenous populations, but the design of components was unsystematic and lacking in coherence. Another review undertaken in 1992, entitled *Protecting Amerindian Lands*, specifically studied thirteen indigenous land regularization programs in Lowland South America.⁵⁸ The report noted the important role that these projects played in physically demarcating and regularizing large areas of indigenous lands, and it identified legal frameworks as the primary obstacles to successful land regularization. The report concluded that more was needed than just land regularization—projects must be accompanied by research, technical assistance, and training programs to incorporate indigenous knowledge into natural resource management practices.

Recently, the Environment Unit of the LAC Region has carried out a review (which is still ongoing) of sixty-two projects in the region that have been approved since 1992 or are currently under preparation. This review examines the implementation of OD 4.20 in terms of how these projects have addressed the issue of indigenous peoples and translated it into plans or components as part of project design. It focuses on projects from identification through implementation, with an emphasis on the information contained in the Staff Appraisal Reports, or SARs, (if available) or Initiating Executive Project Summary documents to determine how the operations complied with the provisions of the OD.

Based on an initial review of 153 projects that had potential impacts on indigenous peoples, the scope was narrowed to sixty-two projects⁵⁹ directly and indirectly affecting indigenous peoples in rural development, natural resource management, land administration, agriculture, biodiversity, social funds, health, education, and rural infrastructure sectors. In this group, seven GEF biodiversity projects were included and one, the Brazil Indigenous Lands Project, is supported by the Rain Forest Trust Fund. The projects were assessed for whether there was early identification of indigenous peoples; whether there was a social assessment; whether there was a plan or component developed for indigenous peoples and what the characteristics of the plan were (land tenure, using traditional insti-

tutions, institutional capacity, and conditions for handing over the projects to indigenous peoples); the degree of participation; and whether there was a social scientist involved in appraisal.

Preliminary findings

Rural Development/Natural Resource Management/Land Administration/Agriculture. In this category there are fourteen projects under implementation and fifteen projects in preparation (five of these have a draft of the Staff Appraisal Report). Thirteen of the fourteen projects currently under implementation specifically identify indigenous peoples as living in the project area or as beneficiaries of the project. The one that does not is the El Salvador Land Administration project, which only identifies the rural poor as benefiting from the regularization of land registration.

Projects that target the development of poor farmers in rural areas in the majority of Latin American countries most often include indigenous peoples in the category of rural poor. In this category, new projects have been developed in which the whole project addresses indigenous peoples and therefore the OD is fulfilled in the components of the entire project. This is the case of the Bolivia Land Administration, Brazil Indigenous Lands, and Colombia Natural Resource Management Projects. The Bolivia Land Administration Project will ensure that settlements and public land sales will not be allowed in areas occupied by indigenous peoples. The Brazil Indigenous Lands project is based on the legal demarcation of traditional lands, and it has been planned with participation by indigenous organizations. The Colombia Natural Resource Management Project involves the titling and demarcation of indigenous reserves and titling of communal land for the Afro-Colombian communities that are considered an “ethnic group” with some of the same rights as the indigenous communities. In addition, approximately forty new indigenous reserves will be demarcated, 123 *resguardo* boundaries will be marked, and the Afro-Colombians will be entitled to about 4 million hectares.

Another approach that has been used is the formulation of a component that fulfills the requirements of the OD. Six of the fourteen projects have such a component. The Bolivia Rural Communities Projects has a component that supports the creation and financing of Indigenous District Planning and Investment activities with participation of indigenous apex organizations. The Rondonia Natural

Resources and the Mato Grosso Natural Resources Projects support the demarcation of lands for indigenous peoples and have a health care component. The Ecuador Environmental Management TA Project has a component to address the needs of some indigenous peoples in the Amazon. The project supports capacity-building of the government agency charged with development of the Amazonia region by supporting studies of environmental and socioeconomic characteristics and includes a program to support sustainable development activities by NGOs and communities with grants to encourage community participation in reforestation, fish farming, and coffee production. In Mexico the Decentralization and Regional Development II project, which operates in eight southern states (Chiapas, Guerrero, Hidalgo, Oaxaca, Puebla, Veracruz, and Zacatecas), contains a pilot component for financing income-generating activities specifically for indigenous peoples and women. Finally, the Paraguay Natural Resource Management I Project has a component for the demarcation and titling of 6,500 hectares for 1,285 Tupi Guarani families in the project area.

The Nicaragua Agricultural Technology and Land Management Project is carrying out a socioeconomic study of indigenous people in this area and a full diagnostic is planned. The project finances legal technical assistance to support the government's action on regularization of land with titling and demarcation. The Venezuela Inparques Project acknowledges that indigenous peoples are living in the six parks targeted by the project, but they acknowledge that there are no adverse effects expected as a result of the project. There will be community participation in the park planning and management, and intervention is limited to research on environment management plans and sustainable activities.

Two of the fifteen projects in preparation target indigenous peoples and, therefore, there is no need to have an indigenous development plan. The Honduras Land Administration and Natural Resource Management Project and the Mexico Community Forestry Project also have in common that an IDF (Institutional Development Fund) grant has complemented the project through support to indigenous organizations for training in management and institutional development. Both projects support participatory planning to strengthen the communities' abilities to manage their natural resources. The Nicaragua Natural Resource Management Project has a specific component

that supported a social assessment of the Sutiaba on the Pacific coast, and there will be an indigenous development plan for the Atlantic coast. The project will support legal procedures for indigenous communal land titles and provide capacity-building for indigenous organizations so they are better able to negotiate land disputes. There is also support in the form of an IDF grant for indigenous training.

Eight of the fifteen projects that are in early stages of preparation identify indigenous peoples, with one project only mentioning the poor (Colombia Municipal Development) and another that will address indigenous peoples if the project area includes an area where indigenous peoples live (Panama Rural Poverty and Natural Resources). Since these projects are in early stages of preparation, even if indigenous peoples are acknowledged to be in the project areas, there has not been much work on development of a strategy to address their needs.

Two of these projects also fall into the new category of the whole project's benefiting indigenous peoples. The Ecuador Indigenous Peoples Project will support land tenure and water rights regularization by working with indigenous organizations and supporting capacity-building to empower indigenous peoples to plan and implement community-based development. This project is also complemented with IDF support for training of indigenous organizations. The Peru Sierra Natural Resources and Community Development project will support activities in the Peruvian Sierra by financing resource conservation in micro-catchment areas 2,500 meters above sea level, supporting community strengthening participatory planning, Quechua language training for extension agencies, and manuals printed in Quechua.

Biodiversity. Restriction of access to or utilization of areas that are rich in biodiversity may make it impossible or difficult for indigenous peoples living in those areas to survive. Equally important, indigenous peoples can be a positive force for protecting biodiversity-rich areas, if they are included in the identification and planning of protected areas. The Bank has learned that it is impossible to protect biodiversity by police action or restrictive regulation (one cannot afford to put a policeman in every tree). Indigenous communities are ideally placed to protect biodiversity, to report incursions and violations, and to fill other jobs in protected-area management. While all GEF projects (Bolivia, Ecuador, Mexico, Peru) include consultations with indigenous people to avoid negative impacts, few seek

to involve indigenous communities directly in low-cost and more effective protected areas management. Just recently, during renegotiation of the Mexico project, an indigenous development plan was incorporated. The two GEF projects under preparation also identify indigenous peoples, and they both contain provisions to address the land claims of indigenous peoples (Guyana and Nicaragua Atlantic Biodiversity).

Social Funds. The first generation of social investment funds (SIFs) relied on geographic targeting and utilizing "poverty maps" to identify municipalities where poverty was particularly concentrated. The idea was to stimulate local authorities in the very poor municipalities to prepare requests for investment in school buildings, rural farm roads, health clinics, and other infrastructure. Nongovernmental contractors competed for the award of work to construct these. It was assumed that such works would benefit all the poor, indigenous and non-indigenous alike. The naïveté behind this assumption was demonstrated dramatically in Chiapas, as the local non-indigenous authorities ignored indigenous requests for farm roads to enable them to get their crops to market and instead financed paving of existing roads linking the capital towns (*cabeceras municipales*) used mainly by automobiles. In Chiapas the oligarchy families subverted the SIF through a design weakness. Designers of the SIF who utilize geographical targeting tend to forget that the discriminatory, authoritarian social institutions of the region are most strongly rooted in the poorest zones. If SIF funds are to reach indigenous beneficiaries, they have to be administered by indigenous community leaders who are more responsive to the genuine needs of their people than the historic oligarchies and the institutions of oppression that persist alongside them.

The early social funds relied on institutions of the dominant society to reach the indigenous peoples, but there is no evidence this has worked. The six social funds studied in implementation acknowledge indigenous peoples, and some of them have developed specific projects to better address their needs (Argentina, Bolivia, Ecuador, Guatemala, Nicaragua, and Peru). The four projects under preparation (Peru FONCODES II, Belize Social Investment Fund, Guatemala FISE II, and Panama Social Investment Fund) also identify indigenous peoples. FONCODES will develop a strategy to increase their participation in the fund, and the Belize fund will target the Toledo district

populated by Maya. As these projects are developed, and with recommendations from the first social funds in those countries where applicable, there will be strategies to ensure greater participation of indigenous people with methods such as using the indigenous language, training indigenous people as extension workers, and bilingual promotion materials. Since the main characteristic of these projects is that they are demand-driven, lessons learned from the initial phase indicate that special efforts should be made to achieve greater indigenous peoples' participation, particularly in helping them to make their demands known by project implementing agencies.

Education. Of the three basic education projects currently under implementation (Honduras, Mexico, and Panama), all identify indigenous peoples as living in the areas targeted by the program. The program in Honduras will include bilingual education for the Garifuna and Miskito populations; the Mexico Primary Education Program will be working in the southern states of Chiapas, Oaxaca, Guerrero, and Hidalgo, all with high percentages of indigenous peoples; and the Panama Basic Education project includes the percentage of indigenous peoples in the townships as a factor in targeting the program to these areas.

Two of the four education projects reviewed that are currently being prepared include bilingual education (Bolivia and Guatemala). In Bolivia the project will extend teaching materials in three indigenous languages (Aymara, Guarani, and Quechua), and in the Basic Education Program in Guatemala there will be expansion of the bilingual education program in the four main Maya languages with bilingual textbooks, teachers' guides, and targeting for indigenous girls in schools. The other two projects, the Secondary Education Project in Ecuador and the Basic Education Project in Mexico, identify indigenous peoples as living in the areas targeted by the projects and are planning to develop strategies to improve access to education for indigenous peoples.

Training initiative

The World Bank's Technical Assistance and Capacity-Building Programs in Latin America started in 1993 in the context of the First Inter-Agency Workshop on Indigenous Development and in recognition of the need of a proactive role to advance existing Bank policies toward indigenous peoples of the region. Since then interagency workshops

have included the participation of leaders of indigenous organizations and have highlighted the need for training and capacity strengthening as prerequisites for indigenous development. From the beginning, this initiative has been carried out in close coordination with the Latin American Indigenous Peoples Fund (*Fondo Indigena*), whose secretariat is in La Paz, Bolivia, and has received financial support from the Bank's Institutional Development Fund (IDF) and a Trust Fund of the Swedish International Development Agency (SIDA).⁶⁰

The objective of the World Bank's Indigenous Peoples Technical Assistance and Capacity-Building effort is to strengthen indigenous peoples' organizations and increase their options for ethnodevelopment, defined as socio-economic change that is determined by them and is compatible with their specific cultural values. The World Bank's strategy is to work with indigenous organizations and willing national governments, supporting groups of indigenous people who want to build their own capacities for the identification of needs, the selection of development priorities, and the formulation of strategies and proposals that could be implemented with a combination of their own resources and outside help. Building on training and institutional strengthening, follow-up activities will include a joint search for possibilities of lending, operations that may allow the Bank and its borrower governments to invest directly in indigenous development. Three training programs have been completed in Chile, Bolivia, and Mexico and, at the present time, six additional training proposals have been accepted and either started or were to start in 1996. These proposals correspond to Guatemala, Ecuador, Costa Rica, Colombia, Nicaragua, and Bolivia (*Fondo Indigena*).

Conclusions

A major challenge for the World Bank and the countries of Latin America and the Caribbean is to find ways to offer indigenous people new opportunities to join the process of development. Exclusion of these people from the market economy represents a massive waste of human and non-human resources, whereas their inclusion will boost productivity, strengthen purchasing power, and promote growth. The impact of including indigenous communities in the development process will be dramatic in countries where indigenous peoples represent large minorities and in the poorest regions where they are the majority of producers.

This paper started with the fact that the indigenous peoples of Latin America are disproportionately represented among the poor and extremely poor sectors of the population. The paper has demonstrated that, far from demanding protection, indigenous people want to be included as full participants in the development process of their countries. It has also underscored the fact that indigenous groups have many contributions to make to their countries' development process. We have argued that ethnodevelopment, as this process is being defined by indigenous people themselves, can do much to hasten inclusion of these "first Americans" in national and regional economies.

The paper has reviewed activities of the World Bank to ensure that the projects it finances do not pose a threat to the land or culture of indigenous peoples, and, moreover, contribute to the process of ethnodevelopment. The influence of the Bank's policies on the subject has been felt for more than a decade in the tropical lowlands of South America, where land demarcation and legalization programs have been financed. A new generation of natural resources management projects is incorporating both conservation and development goals, both biological and cultural diversity. Recent Global Environmental Facility (GEF) projects are being designed to provide culturally appropriate benefits to indigenous peoples in protected areas or their buffer zones. Education lending by the Bank increasingly incorporates knowledge of ethnodevelopment into bilingual, intercultural educational programs, utilizing both indigenous and national languages to achieve a pluralistic content that will serve to guarantee indigenous development.

In summary, the Bank is making a shift from a by and large "protectionist" orientation to an "ethnodevelopment" orientation toward indigenous peoples. While concern about the danger of cultural extinction of small groups still exists, at the present time our predominant strategy is to assist the great mass of indigenous peoples to overcome poverty by strengthening their participation in the development process. As Sri-Ram Aiyer, Director of the Technical Department for Latin America in the Bank, has said,

Based on an objective knowledge of reality, as a result of the practical experience of our personnel and the result of studies...the Bank will continue to support national and international efforts to guarantee the physical base and indigenous development, regulat-

ing land tenure and increasing training opportunities for the management of natural resources. In a similar fashion, it will continue to support projects that attempt to reduce poverty or improve the living conditions of the indigenous population of this continent, in the areas of physical and social infrastructure, technical research and assistance, environmental health, education, and social welfare in general. And it will give strong support to indigenous peoples in their efforts to promote ethnodevelopment (1993).

Looking toward the future

Since 1995, the Bank has worked to refine its policy on indigenous peoples. Today we are firmly focused on developing a consultative process, with member governments and indigenous peoples themselves, and with nongovernmental organizations, to strengthen the targeting and delivery of development goods, services, and works to indigenous communities. We can summarize the main elements of the Bank's approach under four headings: indigenous policy, priorities, partnerships, and participation.

Indigenous Policy

Targeting and delivery of development investments to indigenous peoples has been tried before. For decades the Bank, like many other development finance institutions, has attempted to work through the large bureaucracies of central governments to reach the marginal and the excluded people living in poverty. Experience has shown that this approach has only limited utility. While the overall regulatory, public expenditure, and policy framework must be established to permit development investment to be adequately channeled toward the poor, the design and implementation of specific programs is doomed to failure if it depends on massive central agencies to work efficiently and effectively at the grassroots levels.

A new approach is needed—one based on formulation of decentralized processes of development, what is being called the “new project cycle.”⁶¹ In place of the traditional “bricks and mortar” project cycle, characterized by a dialogue between government and the Bank, and headquarters-based missions of experts carrying out project identification, appraisal, and supervision, this new project cycle begins with a phase of learning. It begins with field observations to determine what development initiatives are effective at the grassroots level; supporting through “pilot”

investments several of these on a small scale; careful monitoring of such pilots to establish their performance effectiveness; developing indicators on which larger investments can be built; and then, finally, “scaling up” those pilot activities that truly produce results and extending them to a much broader cohort of participants. This is a long-term commitment to an ongoing analysis of the portfolio of Bank investments, small pilots, and other larger traditional kinds of loans to learn what works and what does not work, and which operations better achieve compliance with the Bank indigenous peoples policy objectives.

Priorities

Several of the operational departments of LAC have started a process of analysis designed to result in integrated strategies for addressing indigenous development issues in various subregions. The Andean countries, Bolivia, Colombia, Ecuador, and Peru constitute one such subregion. The Bank director for these countries, Paul Isenman, has established a task force to review the entire portfolio and the nexus of development challenges that are particular to these countries, with the active collaboration of indigenous leaders, nongovernmental organizations, and governments. Out of this analytical exercise will emerge priorities relevant to the broad range of Andean indigenous communities, which are distinct from those facing other indigenous communities. In Central America a similar initiative is being undertaken by the director, Donna Dowsett-Coirolo, to establish priorities for indigenous development in a contrasting set of cultural, political, and social shared conditions.

We know at the outset that the security of person and the security of land tenure are together the *sin qua non* of economic and social development. No indigenous people can be expected to participate in the market unless and until they can be certain that their sacrifices and investments stand a reasonable chance of benefiting them and their children. For many indigenous people, equal protection under the rule of law is an elusive dream. Development in these cases must begin with governance systems, land administration systems, and judicial protection of citizens' rights.

Beyond these priorities, the requirements of each indigenous group vary widely. The Bank's approach must be grounded in the recognition of cultural and social diversity. Prior strategies based on imposing uniformity—elim-

inating linguistic differences, abolishing distinctive land tenure systems, outlawing indigenous customs—have demonstrably failed. The challenge now is to encapsulate whatever development assistance as is required within a framework that recognizes and organizes diversity. In this manner, the Bank and its partners in government and the indigenous communities can build on the strength of involving beneficiaries, and reverse the centuries-old pattern of authoritarian imposition of uniformity.

Partnerships

We know that social capital—the shared values, rules for correct social conduct, and a common sense of civic responsibility and identity—are the strongest cultural characteristics of indigenous communities. The Bank seeks to build on that strength. It is clear that the large, centralized bureaucracies of the state have consistently failed to deliver development goods, services and works to the poor generally, and to the indigenous peoples specifically. Barriers of racism, language, and ignorance still permeate the major agencies of most governments, and the personnel of such agencies are often ill-equipped to locate themselves or their functions in politically weak, geographically remote, and culturally foreign communities. We conclude that the only way to ensure effective targeting and efficient delivery of development services is to enlist the indigenous governance systems and leadership directly. For each proposed investment in indigenous poverty reduction, we must ask the following about the professional, administrative and field staff: Do they speak indigenous languages? Are they resident in indigenous communities? How will they be accountable for their actions to indigenous beneficiaries? We must create new partnerships characterized by tripartite relationships of mutual trust and collaboration among governments, indigenous leadership structures, and Bank lending and non-lending activities. In short, the next step the Bank will support is to build on indigenous social institutions to ensure new opportunities for people to achieve their human potential and development goals as these are defined by their own cultures and societies.

Performance

Results on the ground will be the yardstick by which the Bank will measure its progress in supporting indigenous development. Yet it is clear that the Bank can never become a presence and a direct participant in the tens of thousands

of indigenous communities of the LAC Region. How will we assure ourselves that the new policies, priorities, and partners are correct, and that they are working to change the lives of beneficiaries? The answer is through the participation of indigenous institutions themselves in the monitoring and evaluation of development outcomes in their own communities. Establishing systems of accountability for the delivery of development services, goods, and works is a standard concern of Bank investment operations, and there is little difference in the case of indigenous peoples. Beneficiary organizations should be incorporated into the evaluation of the efficiency and effectiveness of development operations to ensure performance, and, perhaps equally important, to foster opportunities to learn from the necessary pilots, experiments, and innovations that will be required.

Notes

1. The estimated number of indigenous peoples does vary due to disagreement on the official definition of indigenous peoples. See Pairinos and Psacharopoulos, 1994, for further information.
2. PAHO, 1993.
3. Uquillas and Rivera, 1993.
4. An individual is considered to be below the poverty line if his/her income is less than \$2 per day.
5. Psacharopoulos and Patrinos, 1994.
6. Psacharopoulos and Patrinos, 1994; Durston, 1993; Albo, 1996.
7. Aguirre Beltran, 1973.
8. Psacharopoulos and Patrinos, 1994.
9. Albo, 1996.
10. Cancian, 1972; Brintnall, 1979; Guillet, 1979; Partridge, 1983.
11. Manain, 1970.
12. Albo, 1996.
13. Painter and Partridge, 1989; Collins, 1989; Uquillas, 1989.
14. Brintnall, 1979.
15. Bunyard, 1989.
16. See works by Bonfil Batalla; Bengoa, 1993; Durston, 1993; Albo, 1996.
17. Van Cott, 1994.
18. See *Task Group Report: Social Development and Results on the Ground*, forthcoming, The World Bank.
19. *The Ethnic Newswatch*, 1992.
20. Brokensha et al., 1980; Davis and Ebbe, 1993; Johnson, 1992; Warren et al., 1995.
21. See the 1992 map titled *The Coexistence Of Indigenous Peoples and the Natural Environment in Central America*, produced by Cultural Survival and the National Geographic Society.
22. IWGIA, 1994.
23. Hurtado and Sánchez, 1992.
24. Van Cott, 1994.

25. Denniston, 1994; *Cultural Survival Quarterly*, 1995.
26. World Bank, 1982; Uquillas and Rivera, 1993; Davis, 1993.
27. Chapin, 1992.
28. *Grassroots Development*, 1992.
29. Neischmann, 1973.
30. *Cultural Survival Quarterly*, 1987.
31. In Kley Meyer, 1993.
32. Ibid.
33. Kley Meyer, 1992.
34. Breslin, 1986.
35. *The Ethnic Newswatch*, 1992.
36. Partridge, 1987.
37. Durston, 1993.
38. Daugherty, 1994.
39. *Cultural Survival Quarterly*, 1993.
40. See works by Bebbington on indigenous federations; for experiences of the Inter-American Foundation see issues of *Grassroots Development*; for the experience of IFAD see Helms (1994) and Haudry de Soucy (1995); for projects supported by the European Union, see Trio (1995); for examples of working relationships between indigenous groups and conservation NGOs, see Redford and Mansour (1996).
41. *Grassroots Development*, 1992.
42. Beauclerk, 1988.
43. Van Cott, 1994.
44. Nahmad Sitton, 1996.
45. *The Ethnic Newswatch*, 1994.
46. Nash, 1993.
47. Van Cott, 1994.
48. Castonguay, 1994.
49. Stephen, 1991.
50. Alvarez Icaza, 1993.
51. Comunidad Indígena de Nuevo San Juan de Parangaricutiro, 1996.
52. *Toronto Star*, 1994.
53. Psacharopoulos and Patrinos, 1994.
54. Albo, 1996.
55. Godoy in Psacharopoulos and Patrinos, 1994.
56. Davis and Partridge, 1994.
57. Defined in OD 4.20 as social groups with a social and cultural identity distinct from the dominant society that makes them vulnerable to being disadvantaged in the development process.
58. Wali and Davis, 1992.
59. The countries included are Argentina (3 projects), Belize (1 project), Bolivia (6 projects), Brazil (3 projects), Chile (1 project), Colombia (4 projects), Costa Rica (1 project), Ecuador (9 projects), El Salvador (1 project), Guatemala (3 projects), Guyana (2 projects), Honduras (2 projects), Mexico (7 projects), Nicaragua (4 projects), Panama (5 projects), Paraguay (3 projects), Peru (6 projects), and Venezuela (1 project).
60. Within the Bank it has been promoted by the Environmental Unit of the Latin American and Caribbean Technical Department (LATEN), with support from the Social Policy Division of the Environment Department (ENVSP) and the operational divisions of the Latin American and Caribbean Region.
61. See Report of the *Task Group Report: Social Development and Results on the Ground*, forthcoming, The World Bank.

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Comment

M A Y R A B U V I N I C

TWO ANECDOTES BEFORE STARTING MY COMMENTARY. RECENTLY I VISITED A SMALL BUSINESS program orientated to households headed by women in Barranquilla. A poor woman with a small business had obtained a loan for making biscuits, which her teenage daughter sold to stores in the neighborhood. What did not surprise me about this story was that the girl's education was going to be paid for with this income. But what actually amazed me was that the career the girl aspired to study was medicine.

The following month I visited a program on community development in the province of Inquisivi in Bolivia. There the Indian peasant women who carry agricultural produce to the marketplace at Oruro and La Paz take three days on foot to arrive, since they do not have access to any means of transport.

The first anecdote shows the outstanding progress of the region, in the way that educational opportunities for women have increased. By contrast, the second reveals women's poverty, with the obstacles to improvement of productivity and income. Both anecdotes illustrate the dichotomous history of women's progress in the region. I quote Mahbub ul Haq, who coordinated the UNDP report on human development: This is a history "of noteworthy expansion of capacities with limited opportunities."

As you have already realized from my introductory statements, I want to deal with two subjects related to the need to include the topic of women as an important theme in the deliberations of this conference. First, I want to show how unreasonable it is to think that poverty and inequality in the region can be reduced without taking into account the variable "woman" in the design of policies and

programs. Second, I want to explore options that would be available if the states, their governments, and the World Bank would like to invest in women to reduce poverty and inequality. I have to confess to being bewildered by the absence of this topic from this conference's agenda.

Justification

There exists in Latin America a generalized perception that the problems of poverty and inequality do not affect women to a great extent. The evidence concerning the progress of women in the last twenty years shows something different. It shows outstanding improvements with regard to the capacity to improve the quality of life, combined with persistent inequalities, limited opportunities, and increasing poverty.

First, on average, the quality of life of women has improved notably in the last two decades: They live six years longer, they have 3.3 children instead of four, and school enrollments have increased from 56 to 61 percent among females between ages 5 and 19.

However, this positive situation becomes less clear when country and local indexes are separated. The differ-

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ences between the quality of women's life in the poor countries compared with that of the rich countries continue, and for certain indexes they are very wide. The information available indicates an increase in the average mortality rate in the region from 128 per 100,000 live births in 1980 to 155 in 1990.

It is probable that an essential part of this increase is due to illegal abortions. The region has the highest incidence of non-technical abortions in the world, which explains why one-fifth of the mothers die. The estimates include rates as high as six abortions for every ten live births in Chile and two for every ten in Mexico.

This situation is even worse when one measures progress in relation to the opportunities that are available to women. The labor market has opened up noticeably to women, and this, in theory, is good. In only three decades the number of working women has increased by more than 200 percent, while the number of working men increased only 84 percent. The SCLA has estimated that during the 1980s women contributed 30 percent of household income. Without women poverty would have increased 10 to 20 percent.

Nevertheless, this increase in women's participation has been within a small margin of work opportunities available, and pay differentials still persist. A recent analysis by ECLAC shows that in the last decade salary differences decreased in four countries (Brazil, Colombia, Panama, and Uruguay), were maintained in another four countries, and increased in two countries (Mexico and Venezuela).

The opportunities to participate in political leadership are few and have even diminished a little during 1995: While in 1985 women had 10.4 percent of seats in Congress, today they have only 9.4 percent.

The evidence also suggests that poverty is affecting women more than men; this means that the proportion of poor women is increasing. The feminization of poverty is related to the great number of poor households headed by women, and to the way in which these households almost naturally perpetuate poverty in the next generation. Between 1980 and 1992 the percentage of households headed by women increased in ten of the twelve countries, and poverty was frequently encountered in seven out of eleven countries.

It is important to stress that both the determinants and the consequences of women's poverty are different from those of men's poverty. This shows how important it is to focus on policies which aim at diminishing women's poverty.

Women incorporate themselves into economic activity by their growing responsibility at home. In Santiago, Chile, the father is absent in 27 percent of the families with small children, and this figure is almost double where the mothers are poor and teenage. In Mexico City the father is absent in 31 percent of the families headed by teenage mothers.

If it were not for the economic responsibility involved, perhaps it would be convenient for women to continue subsidizing economic development as they now do, by taking on poorly paid employment. But the scanty income women earn perpetuates the vicious cycle of poverty. The women who work hard for little pay simply transmit their poverty to their children.

However, to end on an optimistic note, we also have information that shows that the poor households headed by women who earn an important proportion of the family's income, and in a more general sense have the authority to decide what to do with this income, are able to transform this vicious cycle of poverty by protecting their children's welfare and, therefore, breaking the generation-to-generation chain of underprivilege.

These results have been observed in countries as different as Brazil, Chile, and Guatemala, and they suggest the efficiency of focusing on programs that reduce poverty among women.

Options

Next, I will mention some options for political reform that the governments of the region can take into account to reduce the inequalities in the existing opportunities open to men and women, and to combat the feminization of poverty.

These options emerge from an analysis that shows what has worked well in the past and the gaps that still exist today. As the figures reveal, successful governmental action in the last decades includes increased school enrollment among women, family-planning services, the examination of the health of the mother and of the children, and nutrition addressed to pregnant women and mothers. But little has been done at the national level to increase the productivity and income of women. A clear example are the social funds that offer jobs to men and food to women.

Innovative action has been outside the sphere of state intervention and has been centered on two areas: financial assistance to small businesses, and reproductive health. The multiplication of NGOs dedicated to these topics is an

important advance in the region. CEPIA in Brazil and ISIS in Chile are good examples of organizations that have been very effective, while also influencing policy on reproductive health in the region and other parts of the world.

In the fight against the inequality of opportunities based on gender, governments can work in different areas to extend the narrow margin of economic opportunities for women. A key strategy is to formulate an agenda of educational reform centered on increasing the quality of primary and secondary education including the elimination of sexual stereotypes in teaching, and the lack of encouragement that girls receive toward learning mathematics and the sciences. A similar recommendation can be extended to the private and public training institutes of the region.

A growing access of women to credit would also help combat the inequalities of economic opportunity. Governments can introduce reforms in the financial sector to expand the access of women to financial services.

A third area in which the state can intervene is to provide child-care services and preschool and primary education. The state can become actively involved in the promotion of a national quality system of school-age child care for working women.

The last important area in which the state can intervene is in social security and reform of the pension system. Social security represents one of the few social services in which spending increased systematically during the 1980s, despite serious problems related to the efficiency and equity of these services.

Analysts agree with the fact that the social security system is an important step in the reform of the social sector. But there is no awareness that gender bias has to be countered with proposals that improve social security. The gender bias comes from the fact that these systems do not recognize couples not formally married or families headed by

women, and that there are limitations of coverage based on employment, which excludes those who work in the informal sector.

Fighting the feminization of poverty

If we are to improve the productivity and income of poor women and reduce their poverty and the poverty of their children, we must fight against the feminization of poverty. Three areas of action are relevant. First, to improve the productivity and the income of rural women, their access to agricultural extension services must be increased, modifying existing services to come closer to rural women, or creating separate services for them. Complementary to this initiative is the expansion of effective access for women to the production infrastructure, especially in rural areas. This means that the priorities of governmental spending will have to be changed to support the construction of rural roads, and to provide water and electricity in rural areas, designing infrastructure projects with the clear purpose of accessing women and men in rural areas. The peasant women at Inquisivi show that the potential user of production infrastructure is not necessarily the man.

Second, it is important to offer jobs to women through the social funds. To achieve this, the governments can examine their own past experiences with programs of emergent employment, which have been more successful than the social funds in the reproduction of employment for women, regardless of how poor or stigmatized the job is. Some governments can report successful models which focus on investing in households headed by women in poor sectors. One example of success is the Chilean program for households headed by women, through SERNANG. Another is a similar program that the Foundation for Advanced Studies, located in Cali, is implementing in cooperation with the Colombian government.

Comment

SALOMÓN NAHMAD

THE PAPER PRESENTED BY THE AUTHORS OFFERS A GENERAL FRAMEWORK OF THE SITUATION of the indigenous peoples in Latin America from a perspective of extremely poor peoples who are exceptionally vulnerable to the economic and political changes of the last two decades.

The goal of mitigating these conditions and developing specific projects represents an extraordinary challenge for the World Bank and for the countries that have the responsibility of promoting the social, economic, and cultural changes in their societies. The main idea of the paper is to build a new relationship between the Latin American countries and their indigenous peoples. This means a greater presence and participation of these peoples in social policy and in the benefits of development. The new relationship should concentrate on respecting a set of legitimate rights of the indigenous peoples coded into international law and the constitutions of each country. These rights include their *political rights*, which allow them to express themselves freely; their *legal rights*, which enrich statute law and individual guarantees with the well-tried and ancestral practice of normative systems of justice; their *social rights*, which enhance freedom of election of authorities and allow them to lead a decent life; their *economic rights*, which permit the autonomous development of their own schemes of employment, production, and commercialization; and their *cultural rights*, which encourage their ethnic diversity.

The paper clearly states which changes have taken place in the fields of education, health, communication, production systems, and especially in the political and social organization of the indigenous peoples. These are supported from abroad by foreign government agencies responsible for the indigenous peoples' development, churches, civil society foundations (NGOs), and organizations or international agencies such as the United Nations (U.N., UNESCO, UNDP, ILO), the World Bank (Latin American Indigenous Fund), and others.

The main concept of the paper is *ethnodevelopment*. This concept is extremely important to structure a new multi-

linear development model that was adopted by UNESCO in Costa Rica in 1982 as a strategy to eliminate racial discrimination, ethnocide, and colonial remains that still exist in Latin America. The examples of the indigenous peoples mentioned in the article are relevant, since they show that development should cover all fields, not only economic ones. As UNESCO stated: "The enlargement and consolidation of the cultural aspects by strengthening the decisionmaking ability of a culturally different society to guide its own development and self-determination implies its own, fair organization of power." This means the possibility of making decisions in the fields that constitute the

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projection of self-development within the context of the nations.

I think the conditions suggested in the paper for ethno-development are reasonable, and they should be included in every financing project given by the World Bank to indigenous peoples in the Latin American countries that fulfill the international requirements of the Bank (OD 4.20, Indigenous Peoples) and the agreements with the ILO (Agreement 169) ratified by the countries. These conditions are fundamental to encourage fair and plural human development.

The strategies that must be followed in the next few years to make real progress in ethnodevelopment are included in the implementation policy of the Bank for the projects of self-sustained rural development mentioned in the article. It is emphasized that the social funds must be redefined and oriented microregionally on the geographical basis of the ethnic groups in Latin America. The initiatives to train and strengthen the organizations and the authorities of the indigenous peoples are an example of the many

programs that should be developed with the economic support of the multilateral agencies for indigenous peoples. Incorporating a view on inclusion, which is not only economic but also social and cultural, constitutes the basis for building ethnodevelopment in the civilizations of the Americas. This demands the continuation of their inclusion in future decisions. As Aiyer in 1993 and other authors stated, with regard to the basis of an objective knowledge of reality, as a result of practical experience and cultural and social studies to eliminate poverty and to guarantee physical and cultural development for the indigenous peoples, what is needed is the regularization of land distribution, and appropriate training for the exploitation of natural resources. This policy of the Bank must be applied by the Latin American countries with a rigorous control that allows the elimination of seeds of interethnic problems (as in Chiapas, Mexico, or in Guatemala) that interfere with peace and human coexistence. In general, the article and its recommendations focus on the preservation of peace.

Comment

J A I M E T E N J O

THE MAIN COMMENT I HAVE REGARDING THE PAPER PRESENTED CONCERNS THE NOTION OF ethical development. The part that is difficult for me to understand is this: Behind all the issues of poverty, hunger, disease, malnutrition, housing deficit, etcetera, what you find is a long process of domination, exploitation, and discrimination. And it is not clear to me how this ethical development policy will handle that problem. If that is the problem, I get the impression that the first thing we would have to do is to look specifically at that aspect.

In spite of the fact that Salomón Nahmad says that ethical development is multidirectional, I don't see how that multidirectionality happens. The way I understand it, the problem of oppression of Indian populations, as with the oppression of other groups, normally happens at different levels. It's not a strictly vertical question where there are those who oppress and those who are oppressed. This is a situation of degrees, where various groups play at the same time the role of oppressed and oppressors. It's a question of degrees more than verticality. To me, this includes legal, sociological, and cultural aspects. For example, in terms of legal aspects, it's not only a question of whether there is or isn't adequate legislation. Many times there is adequate legislation but it is not enforced. Sometimes it doesn't exist. It's really a legal void that we have there.

In this sense, I think that perhaps the experiences of other countries that we have not examined, such as the case of Canada, would be interesting to examine. Canada has been experimenting with the existence of parallel legal systems to handle some of the problems of the indigenous groups. I am also concerned about the relationships that may exist among indigenous groups and others who may

not be oppressing groups, but who are involved with them because they live in the same environment, use the same resources, and/or compete among each other.

I want to quickly talk about the subject of women. In general, I would agree that there are three factors that are almost verities as applied to the situation of women, or to the evolution of women's situation in Latin America. First, in the last thirty years there has been an increase in the rate of women's participation in society. Second, the educational levels for women at urban levels has grown very quickly. In the Colombian case, for example, employed women, on average, have a higher educational level than men. And, in some countries, as mentioned by Mayra, there has been a radical decrease, or at least a significant decrease, in the salary differences between men and women.

Colombia is one of the countries where we see decreases in the difference in the salaries between men and women, and this reduction is not uniform. Why is it not uniform? Mostly because of the salary reductions among the population with high education levels, secondary and university. At the low educational levels, or with an incomplete pri-

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mary education, for example, it is the opposite: the salary differences grew.

As for the income spreads in unemployment and employment between men and women, there was a reduction of the salary differential, but also an increase in the trend to unemployment. That is, while women were better treated salary-wise, they had less access to jobs and the job market. This is

just a very preliminary result, and it requires more and deeper analysis. But to complete Mayra's case, we have to look beyond figures and investigate and research in more detail what is actually happening behind certain phenomena that may seem to indicate a great improvement in women's situation, but which may actually indicate otherwise. And we can look at unemployment for an example.

Social Exclusion and the Institutionalization of Social Policy

EDUARDO AMADEO
IRENE NOVACOVSKY

THE CRISIS OF THE WELFARE STATE AND TECHNOLOGICAL AND ECONOMIC CHANGE HAVE produced disruption in the “Working World,” the fundamental institution of social integration. The sign of these times is the instability of the general conditions of life and the weakening of the social, familial, and community systems.

In advanced industrial societies, paid employment held the center of the stage in more than a merely economic sense. It was also an important arena in the battle for individual rights, socialization, and access to resources and benefits. The new scene makes it necessary to restate the concepts on which our ideas of social structure and the modes of state intervention are based. It is no longer possible to appeal to unilateral action by the state without including the family, the market, and civil society; nor can we rely on the labor market to make individual rights effective, since that market is also exposed to changes that have made it ever more precarious and unstable.

The empowerment of the authority of society, through new forms of public institution, is the *sine qua non* for overcoming vulnerability and exclusion.

Social exclusion and vulnerability

The concept of “social exclusion” can be studied through its opposite: “inclusion.” “Inclusion” means “to gather the group of population in a system of social institutions that guarantee its development and welfare,” on a personal and collective basis. “Exclusion” refers to all the conditions from which certain members of the society are isolated, rejected, or simply denied access to the institutional, social, and cultural benefits obtained by a society. In such case, the notion of the conditions of the exclusion is related to the deprivation or disregard for the worth of skills, capabilities, aptitudes, etcetera, of the members of a society.

Plainly, the possibility of access to certain social goods is a key element in the definition of those conditions.

However, neither the notion of poverty—which refers to needs of a material nature, usually economic—nor the notion of exclusion—which denotes a structural deprivation of resources, goods, and rights—is enough to define the new needs of society. This is where the notion of *social vulnerability* begins to gain relevance.

Just as poverty is a concept that intends to measure a specific deficit in society, vulnerability offers an essentially dynamic vision of the conditions that generate it. Vulnerability causes downward social mobility and motivates exclusion regarding the benefits generated by economic, social, political, and cultural development. Vulnerability, then, refers to individuals, homes, regions, or groups affected by situations or processes that make it impossible

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to access socially available goods, resources, and capabilities; those which they have are lost or dismissed as valueless, or are simply not usable.

There are three dimensions to keep in mind for the analysis of vulnerability:

1. The precarious nature of work and employment, the changes arising in employment and the market, and their impact on income, working conditions, and social security.
2. The fragility of the social networks for contention, reciprocity, and protection, specifically referring to (a) the processes of disintegration of the community and union systems, (b) the change of shape of the family, and (c) the crisis in state institutions responsible for providing social services.
3. The fact that situations in which individuals and groups are segregated and disqualified from access have now become more widespread and run deeper in society.

This perspective identifies the axis of insertion and exclusion as opposite poles, between which vulnerability constitutes a transition or range of risk leading to exclusion. This allows us to predict the risks and to ask which factors encourage the decline into poverty and make it impossible to overcome the situation. If we are to answer this question, we need to renew concepts and instruments of analysis.

The system of social policies that pretends to guarantee total inclusion should first and foremost pay attention to the conditions that generate social vulnerability. If we are to take up this challenge, we must review and restate the institutional framework of social policy.

A new mode of social policy: The empowerment of contention and social security

The new institutional framework must rely on new principles, new concepts, and new tools, and on new modes of social action. Within the great processes of change and reform of the state in Latin America, there is an important consensus as to the relevance of focus as a means of increasing the effectiveness of social programs.

Focalization as a working methodology is a tool designed to attend effectively to situations of exclusion, and to the population most affected. In this sense, focalization can be classified as a policy framework that may be seen as either universal or more selective. As a policy for

social spending, focalization is designed to rationalize expenditure and to make it more efficient. It certainly implies a selective approach in actions, in strategies, and in the identification of beneficiaries. Focalization is also oriented to accomplish a better allocation of resources to deliver them to the public in a direct and timely manner. In this other sense, focalization has been used to solve the problems related to extreme poverty in a context of restricted budgets.

Both cases require that priorities be set, specific goals be defined for programs, and specific selection be made of areas of social deficit and of the groups to benefit from intervention. However, experience has shown that the risk of focalization is that society will be fragmented. Experience also seems to show the need to use focalization as part of an integrated and universal proposal. In this way it will be possible not only to attend to emergencies caused by situations of greatest need, but also to take on the many and complex challenges that are implicit in the creation and maintenance of universal contention and social security networks.

The emphasis on the selectivity and specificity on which focalization relies seems to run counter to the need to make the construction of such system a priority from a universal point of view of social policy. However, both criteria can be considered as complementary aspects and instruments, since focalization must support and strengthen the universal policies but not replace them.

The growing heterogeneity of social vulnerability and new forms of exclusion demand a change of intervention models. Our concern must be oriented toward those *universal* principles that integrate the sick and healthy, the integrated and isolated, the rich and poor, the employed and unemployed, the qualified and unqualified. In this context, it is necessary to restate the patterns that determine the ways and channels of access to the social goods and institutions that guarantee that citizenship will be fully and effectively exercised.

But to accomplish this it is essential to build a new social policy system that defines a clear institutional framework to strengthen social authority, whose fundamental mission is the achievement of equality and inclusion. How can we accomplish total inclusion in a context in which—although the political legitimacy of the citizens' rights prevails—the traditional mechanisms used for this purpose, such as the working world and the welfare state, are in crisis?

From this perspective, it is appropriate to generate a new model of social action: the "*plural institutionalidad*," which implies the participation of the state, the market, civil society, and the family.

The development and empowerment of the *social security systems*, whose main function would be to attend to the conditions of vulnerability, enabling personal, family, and local resources and capabilities to prevent and overcome any risk and ideal of exclusion, should be a priority strategy of social policy intended to guarantee social inclusion as a universal right.

A social security system should be capable of providing a guaranteed social right in a way that would not discriminate by gender or civil status. In other words, it should be the same for men and women, the married and the single, and for every child in any family situation.

Can this security network effectively be the basis on which people freely develop their creative capability? Facing the challenge of a new social institutionalidad, can we think of a "security network" that provides a minimum income, guaranteeing that no one falls below it, that offers easy access, and that will not stigmatize the individual? That is the question.

Development of Indigenous Peoples

SALOMÓN NAHMAD

THE NEW RELATIONS BETWEEN THE LATIN AMERICAN COUNTRIES AND INDIGENOUS PEOPLES entail their political and social presence and the participation of the society.

The new relationship must concentrate on respecting a set of legitimate rights of the indigenous peoples coded into international law and the Mexican Constitution. These rights include *political rights*, which allow them to express themselves freely; *legal rights*, which enrich statute law and individual guarantees with the well tried and ancestral practice of normative systems; *social rights*, which enhance freedom in the election and organization of authorities and allow them to lead a decent life; *economic rights*, which permit the autonomous development of their own schemes of work, production, and marketing of products; and *cultural rights*, which encourage their ethnic diversity.

The complexity of this matter and the multiplicity of the people involved create the need for organization and management. For this reason the new agreement between the government and the indigenous peoples is a process that starts with the joint preparation of an agenda, allowing an exercise in democracy that would mean real justice for the indigenous people.

The policy of governments toward the indigenous peoples has one main purpose: their empowerment in political, social, cultural, and economic fields. This policy must be permanent and cannot be ruled by circumstantial decisions of the government. It must promote

- (a) The participation of indigenous peoples in different instances and in the decisionmaking process in political practices that include them;
- (b) A pluralistic culture and tolerance among the different sectors and parts of society to accept different ways of life, views of the world, and concepts of development; and

- (c) The encouragement of actions related to the increase of production and employment, justice, health, education, culture, and social welfare.

Development for indigenous peoples

A development policy must be evaluated for its capacity to provide the most vulnerable groups, which include the indigenous peoples, with basic needs and for its capacity to develop their potential, and the appropriate development of their communities, in harmonious and fair balance with the rest of society.

The development of the indigenous peoples will be possible when the communities acquire their own socio-economic space and, in their own way, live in their region as a community. With this perspective, the indigenous peoples can integrate themselves into national development. This policy, derived from the globalization of markets, cannot replace the functions of regional and local markets with specific kinds of demand related to the cultures, customs,

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and forms of production of the indigenous communities. The production strategy of these communities has been developed from an ancestral knowledge, based on its empirical application.

The economy of the indigenous communities cannot be seen as contradictory or exclusive in terms of the general trends in the economy. In the present situation, the local space is restricted but is also reevaluated as a sustainable development alternative and source of income for important sectors of the population. In this regard, it is possible to take advantage of market niches secured by the communities in which global penetration is limited.

The productive strategy of the indigenous economy can help fight poverty, with the participation of the communities and their knowledge and forms of organization. Microregional development must be compatible with the participation of public institutions and the decision-making ability of the basic units: the family and the community.

The development of the indigenous communities must be participatory, integrated, and with a federalist tendency, with a strategy that should be

- (a) Microregional and based on the communities;
- (b) Based on sustained and integrated rural strategies;
- (c) Capable of generating employment;
- (d) Based on interdependence with the general trends in the economy;
- (e) Goal oriented, such as the elimination of poverty and inequalities.

Principles

The principles that must rule the government's action toward the indigenous peoples are:

Self-determination. Indigenous peoples' ability to freely determine their development and their identity, culture, and social organization must be respected. The government must not interfere with the organization and forms of representation, the exploitation of land and natural resources, or with decisions and matters related to the indigenous communities.

Plurality. It must be recognized that in Mexico the indigenous cultures are rich and diverse. Institutional action must not discriminate or establish preferences based on religious, political, or social reasons. The purpose of this impartiality is to strengthen a culture of tolerance and diversity within a united nation.

Participation. The participation of the indigenous peoples must be supported. Their social and community organization must be respected with the purpose of strengthening their own development with the collaboration of the organizations that promote the development of their ability in decisionmaking and negotiation.

Integration. Integrated and concurrent action of the institutions and sectors of the government that influence the indigenous peoples must be promoted. A fragmented approach, which would divide up these actions, must be avoided.

Transparency. The honest and transparent use of the indigenous peoples' resources for their development must be encouraged. This will be possible through a greater participation of the indigenous peoples in decisionmaking and in the social control of public spending.

Self-sustainability. Criteria that ensure an appropriate exploitation of natural resources and environment preservation must be incorporated. These criteria must also respect the cultural diversity of the indigenous peoples. Exploitation of their resources is part of a strategy for cultural survival and standards of living.

Action lines

The relations between the government and the indigenous peoples must be based on respect for their cultural diversity, their free development, and the creation of equal conditions in participation and decisionmaking.

Providing fundamental living conditions

A social base for the indigenous peoples must be guaranteed. The indigenous communities must have access to basic welfare, such as a good diet, education, health, and housing.

Social policy for the indigenous peoples requires an answer to rural conditions, dispersion and migrations to the cities, and agricultural areas and zones where there is an extreme lack of resources. This perspective has three main aspects: (a) Community localization: Since more than 80 percent of indigenous people are in dispersed communities, the strategy must focus on the place, and on the environment of the community. (b) Social policy network: The participation of the communities in the social program network that takes place in the municipal environment must be secured. (c) Action planning: The coordination of actions that cover emergencies and social development and compensation must be implemented.

Production and employment

The economic base of the indigenous communities must be promoted through a rural-development strategy that generates employment and production for self-consumption and surpluses for the market.

Three action lines contribute to this purpose: (a) Micro-regional economic planning: The microregional planning of economic activities such as coffee, honey, pepper, vanilla, timber, and handicrafts must be established from a perspective that includes the different stages, from the production stage through commercialization in the agricultural, forest, livestock, and fishing sectors. (b) An indigenous economy that generates employment: The great challenge is to generate opportunities of employment and income, although not necessarily formal employment. Self-employment of the rural population and, in particular, among the indigenous groups, is an important option in reaching the basic standards of living. (c) The promotion of organic production: Forms of production whose processes do not harm people or nature must be promoted. Specifically, this action means recovering a traditional practice that knew nothing of agricultural chemicals and that exploits the organic production niches that are very profitable in the international markets (coffee, pepper, vanilla).

Training and technical support

The development strategy of the indigenous peoples first requires the development of permanent, coordinated action in support and training; that is: (a) technical and administrative support and training that allow the rural indigenous producers to face the international market must be developed; and (b) training for organization: The increase of management ability of the indigenous communities through legal and organizational actions should be seen as an important support strategy.

The promotion of culture

The multiculturalism of the nation must be promoted and strengthened. The indigenous people enrich it. For this reason it is necessary to understand the culture from a wide perspective, as the way of being, doing, and reproducing of peoples, in their interaction with their natural and social environment.

The following action lines arise from this: (a) the creation of opportunities for coordination between the different government institutions and the societies whose tasks

are related to the promotion and cultural development of the indigenous peoples, and (b) to give the indigenous cultures their true worth, the study of different and present cultural practices of the indigenous peoples will be included in the programs of educational institutions.

Justice

The constant cry of the indigenous peoples is for justice, for access to the courts on an equal basis, and for the unrestricted respect for their individual and social guarantees. This cry must be answered. The lack of documents that demonstrate their Mexican nationality limits of their rights even more, and limits recognition of their cultural individuality.

Three action lines can be established: (a) wider inculcation in government of respect for, and recognition of, traditional authorities and their normative system for the resolution of conflict; (b) improvement of justice through the defenders, training, and the promotion of a legal culture; and (c) reform of legislation to abolish factors that negatively influence multiculturalism and to include the factors that promote it.

Strategy lines

The implementation of the action lines already mentioned requires us to go beyond the old ideas of "incorporation" and "welfare." The lack of resources of the indigenous communities represents a monopoly of any particular material and social problems. The current demand is for greater recognition and participation. It seems ironic that material poverty means greater poverty, which makes it impossible to establish limits to the processes of exploitation and marginalization.

The free development of the indigenous peoples must be understood as the ability of these communities to participate in the decisions made for their economic and socio-cultural environment, but mainly in political terms. The latter is a fundamental condition for their autonomous and free development. There is no greater discrimination, inequality, and poverty than that which comes from marginalizing people from political decisions.

The strategy lines that will allow this situation to be changed and the new relationship between the government and the indigenous peoples to be strengthened consists of transferring resources and functions in a new federal practice that provides more decisionmaking ability to the communities, municipalities, and regional entities. This trans-

fer of decisionmaking ability must be strengthened with a new institutional, administrative practice which in turn requires important management and social participation from the communities to consolidate, and active collaboration of every organizational, self-validated form.

The decentralization of functions and the strengthening of community management ability cannot depend on the ups and downs of the government; for this reason, it must become a permanent feature of government practice that starts from recognizing the political rights of the indigenous communities.

The three strategic lines are:

Transfer of resources and functions. The transfer of resources and functions required today is the fundamental way to strengthen popular participation in government. This participation is strengthened through resolute, well directed, political-administrative activity of the communities in the territory of each municipality.

The necessary transfer of resources and powers is a tool for equality in favor of the less-developed entities, especially the indigenous communities. The definition of budget allocations for the poorest indigenous municipalities and communities, in relation to the needs of the population, under their own supervision, will be a central element in giving priority to needs and fighting poverty.

Changes in institutional practice. The transfer of resources and functions has as its main purpose reaching a clear division of competency and function between the federal and local governments. This will improve the management and administrative capabilities of government in the regions, municipali-

ties, and communities, and will also enable regional development to be promoted on the basis of equality.

This is a task in which the participation of the different levels of government is required so that many of the functions now performed by the federal government can be applied at a local level, allowing municipal government and entities to develop self-sufficiency within resources through the application of their management and administrative capability.

The municipal development councils will have the fundamental task of organizing themselves so that the town councils can introduce organized social participation in the implementation, preparation, and control of the social policy actions.

Increase of planning capacity and community management. The decentralization of resources and functions requires a joint social responsibility that can be strengthened only by increasing the administrative capacity of the communities. The strengthening of this capacity is an important weapon against political patronage or favoritism on the part of local politicians.

The recognition of the communities in the decision-making processes helps to prevent political and social groups from taking advantage of decentralization to appropriate authority and resources. To make decentralization effective and to promote the welfare of the local population, the process should be accompanied by the liberalization of opportunities for people to participate at the community level. The idea is to have strong community organizations validated by equally strong communities.

The Indigenous Population and Poverty in Ecuador

P E D R O D E L A C R U Z

THE GREAT AMOUNT OF LITERATURE ABOUT POVERTY THAT HAS BEEN PRODUCED IN Ecuador in the last few years agrees—various methods of measurement having been used—that the poorest people of Ecuador are the indigenous. It would seem, then, that there would be nothing novel in adding another article to this extensive production to demonstrate the obvious.

Nevertheless, there is one question: Does what indigenous people understand by poverty in their cultural patterns coincide with the definitions and parameters, which are in general external to the group, that have been used to measure poverty? This is a significant question if we want the indigenous population to accept the results of the studies in order to give priority to their demands or to act to solve them.

The use of external patterns to define the poverty of the indigenous is not recent. Its history goes back 500 years, which can easily be imagined. In 1582, Lope de Atienza, a zealous clergyman who lived many years among the indigenous of Quito, described—amazed and perplexed—the simple and modest trappings of the noble Andeans, very different from the ostentation and exaggerated pomposity of his fellow Europeans:

Their tables and food are usually on the ground just as they find it. They don't sweep because that would be too much work, which is against their natural inclination. The lords are equal to the others except when they are seated. According to importance the most noble sits on a bench while the other lords sit on a bunch of straw, with pageboys behind them to attend to their needs. As the seats differentiate, so too the decoration of the ground—their table. Instead of tablecloths, they use a bit of green grass on which they place the food in gourds instead of on

plates, and bowls that are halves of pumpkins, which they grow for this purpose. The rest of the community sit on the floor next to the nobles. They are spontaneous when they eat together, telling with much merriment of the poverty and misery each has for himself.¹

Definitely, Lope de Atienza was unable to understand how these nobles, who had various pages at their service, didn't have tables, chairs, tablecloths, plates, or the other utensils of the good Spanish table.

Some time must have passed before the Spaniards were able to understand that true wealth in the Andean world wasn't measured by household items or by clothes or by personal ornaments, but mainly by four crucial aspects: (a) access to the greatest number possible of ecologically different plots of ground for varied production; (b) the ability to use the human energy of the greatest number of people possible through extra work or institutions such as "*los yanacomas*," the contribution of fellow Indians, etcetera; (c)

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having a house with ample patios where the people can meet; and (d) having power through numerous relations, both family and by marriage. Consequently, a person having the four opposite characteristics was understood to be poor: (a) not having access to ecologically different plots of ground; (b) being a "*huaccha*," that is, without the ability to mobilize and use human energy for work; (c) not having a known house; and (d) being separated from any relation to the power of a "*llacta*" and of the nobles of the place.

For example, the very powerful Mrs. Juana Farinango, wife of Cicanñaro, mother of the lord of the earth, Mr. Otavalo Anco, principal lord of Otavalo, shows us this reality in her will in 1565. She leaves her heirs two small cotton plantations, three coconut groves, fourteen corn and vegetable farms, and fifteen Indians to work. In contrast to such a large amount of land and people, her estate contains only three beads (one silver, another gold, and another "*expejo de los quixos*"), a snail, and a blanket.²

Without doubt, the criteria for determining poverty and wealth in the indigenous world have varied notoriously in 500 years with relation to the Western and Christian world. Nevertheless, many of those elements still exist. Take as a simple example the possessions of the cacique governor of Cangahua in 1823, some 300 years after the Spaniards had arrived. The cacique's total possessions, calculated to be 437 pesos, broke down as follows: houses, 22.6 percent; tools, 22.4 percent; personal belongings, 6.4 percent; furniture, 0.45 percent; animals, 36.8 percent; land, 11.2 percent.³

The continuity of the cultural patterns of wealth and poverty is surprising. Only 6.85 percent of his possessions were personal belongings and furniture. Land and houses maintain a place of importance. But there is an increase in the types that were less important in the past: animals and tools, which together constitute 49.2 percent of the possessions.

Present investigations in diverse communities have shown that the criteria for poverty and wealth are varied. In some cases they depend on productive strategies. In cattle-raising communities, cattle rather than land are the principal possession. In farming communities, traditionally lofty, the ability to move the workers continues to be parallel in importance to the access to land. This is strongly related to family power. In other cases, wealth is associated with other activities, such as access to markets and even such qualitative factors as education and social and human capital.

Truly, we are still far from reaching an integral model for measuring poverty and wealth that will include both the internal criteria of the population and the external criteria developed through the poverty analysis.

The theme of this article is still modest. We are not trying to conceive a combined model that will unify two approaches, but rather to contrast two approximations: the farmers' own printed matter about their needs, and two external readings, one produced on the Geographically Related Analysis of Poverty by the Technical Secretary of the Social Front of the MBS, and the World Bank's report on poverty.

The printed matter produced by the farmers about themselves comes from a qualitative methodology, a questioning of twenty-four organizations. Five are national and include the greater part of Ecuador's farmers, indigenous, and blacks: CONAIE, FEINE, FENOC-I, ASONE, and UCAE. Two are regional organizations that include the farmers and indigenous peoples of the Sierra and the Amazon respectively: ECUARRUNARI and CONFENAE. Finally, there are seventeen local organizations.⁴ Different from the conventional readings that question only the needs, the questioning was about the possibilities of solving the needs, and proposals to overcome them. As a result, it is an internal opinion that is very representative of the sector and can be contrasted with an external quantitative reading.

The "Geographically-related Analysis of Poverty"⁵ is based on the 1994 questionnaire about life conditions, which has very detailed information about the consumption of provisions of each home. With data from this questionnaire, the World Bank, in its *Report about Poverty in Ecuador*, had estimated the levels of poverty and indigence on a national scale, by urban and rural areas. It also suggested a series of actions to combat poverty. The "Geographically Related Analysis" goes further than the *Report* with respect to segregation, providing data on the district level. To do this, an estimate was made of the semimonthly consumption of provisions per capita in each home according to the 1990 Census, by means of statistical models. Also, models were made through retrogression to foretell the total consumption in the 1994 ECV, based on variables common to the ECV and the Census. Then, models were applied to the Census to estimate the consumption of each home. Through these procedures the percentage of homes with consumption below the poverty and indigence line

was calculated in each district where there was an indigenous population in the rural area.⁶ My investigation, "Indian Territories in Ecuador,"⁷ made toward the end of 1994, was used to define districts with indigenous populations. With this data and based on the INEC population plan for 1994, the percentage of indigenous population of each rural district of the Sierra and the East was calculated. The percentages were divided into five categories: absence (when the indigenous population was 0 percent), presence (when it fluctuated between 1 percent and 9 percent of the total population), influence (when the indigenous population represented between 10 percent and 25 percent of the total), high influence (when it fluctuated between 26 percent and 50 percent of the total), and nucleus (when the indigenous population was the majority, that is, more than 51 percent).

A comparison between a qualitative methodology based on questioning the participants and an external quantitative methodology based on hard facts has several advantages: (a) it would yield a more objective and integral approach to the problem of poverty; (b) the quantitative data could support the questioning and make it more accurate, or the questioning could qualify the hard facts; (c) the results might be better accepted by and more appropriate for the poverty stricken; and (d) we would try to compare proposals of both to overcome poverty to arrive at a general agreement.

Poverty in the indigenous population and the World Bank's proposals for overcoming it

Analysis of poverty

For the Geographically Related Analysis, a needy home is one whose provisions are less than the cost of the family breadbasket, and a poor home is one whose provisions are less than the basic needs, including food, education, and housing.⁸

The results in Tables 1 and 2 show the concentration of indigenous populations and the percentage of poverty and indigence of the rural districts of the Sierra and the East respectively. The percentage of poor and indigent homes in the Sierra tends to be slightly higher when the percentage of indigenous population is higher. This tendency is not so clear in the East, where very high levels of poverty and indigence are seen in all of the rural districts.

This information makes some of the preceding approximations more accurate. If we take the data of the districts

TABLE 1

Poverty and Indigence in Rural Districts of the Sierra

PRIVATE INDIGENOUS POPULATION	AVERAGE PERCENT OF POOR HOMES	AVERAGE PERCENT OF INDIGENT HOMES
Absence	65	20
Presence	56	10
Influence	66	16
High influence	63	15
Nucleus	69	22

TABLE 2

Poverty and Indigence in Rural Districts of the East

PRIVATE INDIGENOUS POPULATION	AVERAGE PERCENT OF POOR HOMES	AVERAGE PERCENT OF INDIGENT HOMES
Absence	70	42
Presence	80	57
Influence	75	51
High influence	71	50
Nucleus	75	51

whose indigenous population is predominant (nucleus) in the Sierra, poverty is two points higher than the average rural national poverty. This corrects data from the questionnaire about life conditions, which indicated that "poverty is even greater in the rural area and above all among the indigenous population. Sixty-seven percent of the rural homes and 84 percent of the rural homes where an indigenous language is spoken are below the poverty line,"⁹ without our knowledge of either the source or the methodology used to define the indigenous population. We are not saying that the indigenous population is not the poorest in the country; we only want precision. With this process we know with certainty that poverty in the indigenous zones of the Sierra is greater but at the same time is very near that of the rural plateau. The exaggerated poverty and indigence in the homes of the East is surprising. Part of this may be attributed to the external patterns of consumption used for measuring it. In spite of this, this first conclusion is in itself significant for the correction of the extended poverty analysis, which doesn't convey pride in or give value to the great efforts of the Indian population to overcome poverty.

Although with respect to consumption level there is strong similarity between the rural area of the Sierra and the East among the indigenous and mestizo population, a more careful analysis of the districts with greater indigenous

presence makes observable a strong difference in the access to utilities such as potable water, sewerage, and electricity, and in the access to education—measured by illiteracy levels, average number of years of school education, and the percentage of the population with higher education.

Table 3 shows that the percentage of homes without potable water reaches 64 percent; without sewerage, 63 percent; and without electricity, 25 percent.¹⁰ Only the district Antonio Ante, in Imbadura, has access to water and sewerage comparable to national averages. While nationwide illiteracy is 12.1 percent, the percentage of people over 24 years of age with higher education is 13.5 percent.¹¹ And the average amount of school education in Ecuador is 5.1 years. In districts with higher indigenous presence, high levels of illiteracy and low levels of higher education and school education are observed (see Table 4). The districts of Morona Santiago are the exception.

The data suggest a second conclusion: In spite of the fact that the areas with greater indigenous presence have a limited infrastructure for utilities (water, electricity, sewerage) and a lower average school education, higher indices of illiteracy and a lower percentage of people with higher education—in summary, less human capital from a con-

ventional point of view—they reach a consumption level similar to that of the poor mestizo population.

These conclusions allow various observations that are worth pointing out:

- Intermixing is not a way to improve income, as measured by the level of consumption.
- Rural poverty affects Indians, blacks, and farmers equally, so one can speak of a continuum of poverty. This continuum is strongly related to the ethnic continuum in that it is difficult to establish clear limits. One can speak of populations with primal Indian or black features who have reached a strong self-identity, and of people with different levels of intermixing with strong Indian or black roots who, nevertheless, have identity problems.
- The data would correct the idea that the indigenous population is the most mobilized because it is the poorest and that their uprisings are typical of adjustment. As has been seen, poverty in the rural farmers' world is very similar. In the case of indigenous people, it would be the ethnic variable and the strong organization reached that better explain the capacity to mobilize.

TABLE 3

Utilities in Districts with an Indigenous Nucleus

PROVINCE	DISTRICT	PERCENT WITHOUT POTABLE WATER	PERCENT WITHOUT SEWERAGE	PERCENT WITHOUT ELECTRICITY
Bolívar	Guaranda	85%	89%	52%
Cañar	Cañar	82%	86%	53%
Cotopaxi	Pujilí	92%	94%	57%
Cotopaxi	Salcedo	92%	94%	17%
Cotopaxi	Saquisilí	81%	79%	41%
Chimborazo	Riobamba	81%	85%	23%
Chimborazo	Alausí	90%	84%	50%
Chimborazo	Colta	85%	93%	23%
Chimborazo	Guamote	93%	92%	63%
Imbadura	Ibarra	78%	82%	42%
Imbadura	A. Ante	62%	62%	22%
Imbadura	Cotacachi	92%	91%	76%
Imbadura	Otavalo	82%	87%	45%
Loja	Saraguro	89%	88%	71%
Morona Santiago	Morona	98%	97%	85%
Morona Santiago	Gualaquiza	72%	71%	60%
Morona Santiago	Palora	89%	90%	42%
Morona Santiago	Santiago	82%	52%	68%
Pastaza	Pastaza	96%	91%	79%
Pichincha	Cayambe	89%	91%	53%
Tungurahua	Ambato	88%	74%	26%
Tungurahua	Quero	76%	83%	10%
Tungurahua	Píllaro	86%	94%	13%

TABLE 4

Education in Districts with an Indigenous Nucleus

PROVINCE	DISTRICT	AVERAGE YEARS OF SCHOOLING	PERCENT OF ILLITERACY	AVERAGE PERCENT SUPERIOR EDUCATION
Bolivar	Guaranda	2.7	37.4%	2.3%
Cañar	Cañar	2.8	36.0%	2.4%
Cotopaxi	Pujilí	2.7	43.3%	3.7%
Cotopaxi	Salcedo	3.3	26.9%	2.1%
Cotopaxi	Saquisilí	3.6	29.3%	5.3%
Chimborazo	Riobamba	2.7	38.8%	2.5%
Chimborazo	Alausí	2.5	39.5%	1.4%
Chimborazo	Colta	1.9	48.1%	2.0%
Chimborazo	Guamote	1.8	44.8%	2.6%
Imbadura	Ibarra	3.7	25.4%	2.4%
Imbadura	A. Ante	4.3	21.5%	5.6%
Imbadura	Cotacachi	2.4	40.6%	1.1%
Imbadura	Otavalo	2.0	45.5%	2.1%
Loja	Saraguro	3.0	27.7%	3.2%
Morona Santiago	Morona	3.8	21.5%	1.2%
Morona Santiago	Gualaquiza	4.9	11.7%	3.3%
Morona Santiago	Palora	5.0	13.4%	4.8%
Morona Santiago	Santiago	6.6	7.1%	6.4%
Pastaza	Pastaza	4.0	24.4%	4.1%
Pichincha	Cayambe	2.3	42.1%	1.6%
Tungurahua	Ambato	4.5	19.1%	4.3%
Tungurahua	Quero	3.8	19.2%	2.5%
Tungurahua	Píllaro	3.4	28.5%	.2%

- Considering the Indian population the better organized one, the Indians would at last have better opportunities to face poverty if social capital is given value.
- The consumption methodology for measuring poverty shows severe limitations in the East, where there is poverty in which the entire population suffers great deprivation and has its own patterns of consumption determined by the distance from the markets and by the self-survival culture.
- Although electricity, sewerage, and water improve the quality of life, they don't seem to be fundamental on the consumption levels. This might be due to the little use of these utilities for production.
- Education, as a principal element of human capital, should be measured with finer indicators, because the conventional method is not sufficiently explicatory.

The World Bank's proposals for overcoming poverty

In its report on rural poverty, the World Bank—using the same 1994 questionnaire on life conditions—defined the principal needs of the rural area and made suggestions for addressing them. It is important to show this external

opinion based on poverty indicators to contrast it later with the opinion of the farmers, the indigenous, and blacks.

According to the World Bank's report, the main characteristics of poverty in the rural area are related to the following: lack of education, lack of access to land, little access to markets, and lack of employment in non-farming activities. Also, poverty is considered greater in the indigenous areas, where it is associated with malnutrition, child mortality, and little education.

The World Bank's proposals for overcoming poverty can be summarized as follows:

1. Conduct basic health and nutrition programs.
2. Subsidize electricity and gas.
3. Improve specific policies.
4. Finance better-quality education.
5. Give land titles and donations to farmers.
6. Improve access to markets by means of irrigation, roads, electricity, and the development of non-farming activities.
7. Eliminate labor obstacles from markets.
8. Sustain macroeconomic growth.

The results of questioning the participants

In spite of their diversity, Indians, farmers, and blacks of Ecuador form a continuum in which it is difficult to identify clear boundaries because of their ethnic identities and ancestral organizations.

In the last three decades they have formed alliances of diverse levels of complexity to the point of being the best-organized sector of the country, comparatively speaking; the Agrarian Coordination backed the Agrarian Reform, and at present they are creating the "Decade Committee," which groups all of the Indian and farmer organizations of the country.

As was previously mentioned, a representative selection of national, regional, and second-level organizations was questioned. This questioning is part of the "Report on Fundamental Development," an instrument created by the Inter-American Corporation for Fundamental Development (CIBD) to establish a permanent commission of the participants to motivate the "Fundamental Development."¹²

Although the questioning covered eleven different topics, three considered adequate have been extracted for this occasion: the principal needs, the potentials, and the proposals of these sectors.

The principal needs

The groups questioned emphasized five problems, or basic needs, of the groups with whom they work. They are given in order of importance:

1. Lack of financial support for productive projects, commercialization, credit, and the buying of land.
2. Lack of infrastructure and basic services: water, irrigation, latrines, electricity, roads, transportation, health, and education.
3. Lack of qualification for leadership, negotiation, technical management, and marketing.
4. Lack of self-identity and organized strength: indigenous rights, loss of identity, internal conflicts, lack of conscientiousness, lack of organization.
5. Lack of work.

The main potentials

The main potentials to contribute to development, in order of importance, are the following:

1. **Personal capacities:** solidarity, participation, group ethics, creativity, motivation, decision, degree of

integration, knowledge, experience, intellectual capacity, identity, cultural wealth.

2. **Social capital:** organization, capacity to congregate, capacity to pressure.
3. **Resources:** land and labor.
4. **Capacity to survive** in extreme conditions.

Proposals

1. Constitutional reform.

- A multinational, multicultural, and multilingual state.
- Acknowledgment of symbols.
- Acknowledgment of the territory of each Indian population.
- Indians' right to define patterns of economic, political, scientific, and social development on the national level.
- Authorization of grants.
- Agreement and coordination between Indian and national rights.
- Bicultural, bilingual, and free secular education (bilingualism can be included according to occurrence).
- Change of the system of political representation to include organized social sectors and Indian populations.
- Automatic representation in the National Congress and sectional governments equal to 30 percent.
- Acknowledgment of group economy.
- Creation of a public defender.

2. Decentralization with acknowledgment of ethnic autonomies.

- Their own authorities in each territory.
- Representation in districts and provinces.
- The right to define regional development plans and programs.
- The right to their autonomy, the management and application of their own laws.
- Bilingualism for the entire society according to the region.
- National representation.

3. Development of Indian populations to overcome poverty.

- A special government fund given to organizations for productive projects, commercialization, credit, and the buying of land.
- A special program to proportion the basic infrastructure by contract with organizations: water, irrigation,

electricity, roads, transportation, health, education (employment).

- A technical aid program financed by the government with organizations in charge.
- A program to create new sources of income: ecotourism, ethno-biological museums, handicraft, music.
- A scholarship program for indigenous students on the intermediate level and for higher education and specialization in diverse fields.
- Creation of an Indian university.
- Tax exoneration.
- Access to means of communication.

4. Activities to consolidate indigenous nationalities.

- Systematization of indigenous rights by nationality.
- A socio-organized qualification program: active methodologies, leadership, identity, culture, planning, conflict management, negotiation, and application of projects.
- A cultural exchange program: internal among nationalities and external.
- Definition of development programs and plans for managing, from commune to region.
- A program to safeguard history and strengthen culture.

Comparative observations of the results of the two methodologies

It is significant to compare the opinion of the Indian, black, and farmer organizations obtained by means of a qualitative method such as questioning, with the results obtained by the quantitative method of the World Bank. This comparison allows confirmation and precision of important aspects, but above all, it emphasizes the richness and potential of the method of the Report on Fundamental Development.

The diagnosis of poverty or needs

Based on the comparison of the results of the approaches, the following aspects stand out:

It is agreed that the poor of rural areas need assets, especially land and a utility infrastructure. There is general agreement on the need for education; however, on one hand it is understood to be formal education, and by the questioning it is understood to be specific qualification. There is agreement on the lack of employment or the sources of

it. The need for non-farming employment stands out in the case of the World Bank.

There are three key points that substantially differentiate World Bank and CIBD results: (a) the lack of autonomy and self-identity claimed by the organizations; (b) the lack of financial resources to be managed by the organizations to solve their main problems; (c) the analysis of potential to solve the needs. They emphasize human and social capital, resources, organization, and the ability to endure.

The differences emphasize dimensions impossible to measure with conventional indicators of poverty. Autonomy and self-identity do not appear as indicators of poverty because they are related to the way the populations perceive their relation to national society and the state, and to their own self-perception. The idea of their being the ones who manage the financial resources also emphasizes the problems of autonomy and participation: The people don't want external mediation from the state, the parties, the sectional powers, the NGOs, or anyone else; they want to make decisions themselves about those resources. This can't be measured either by poverty indicators. Finally, the idea of showing their potential for alleviating poverty is innovative inasmuch as it doesn't emphasize tearful reading, but rather what they have to do to overcome their problems and fulfill their needs. It is significant that the organizations emphasize aspects such as social and human capital, resources, and their singular capacity to endure very deficient life conditions.

Proposals for overcoming poverty

If in the diagnosis there are important differences, they are even sharper in the proposals. While the World Bank suggests specific policies that develop social programs (health, nutrition, education), the improvement or subsidy of assets (land, utilities), and greater access to markets, the questioning has a broader approach by which organizations are seen as populations with the right to self-identity, to assume their own development, and to demand important reforms to the constitution and to ordinary laws, and to make concrete proposals to overcome poverty.

Another important difference is related to participation. While the World Bank believes it should begin a series of nationally developed actions, the organizations believe they should manage them. An intermediate proposal might be desirable: that there be clear national policies, many of which the farmer organizations might be in charge of.

An agreement might in turn generate the idea of specific policies and specific subsidies that the World Bank suggests, to develop the Indian populations to combat poverty if both proposals accept that there is a specific sector of society (the Indian and black populations) that needs specific concrete action. There is also agreement on the need to improve the assets of the poor, such as giving them better services, especially education to raise them from the very low level of average schooling existing on the farms. The World Bank's idea to eliminate employment obstacles and look for non-farming activities fits perfectly with the need for work that the organizations suggest.

Most surprising, the World Bank stated problems it has generally kept quiet, to say the least—the question of land and water for irrigation, which is of great interest to the indigenous, blacks, and farmers.

We noticed something missing from the farmers' proposals: control of the macroeconomic policies. Their proposals deal mainly with the problem of national reforms, but they don't expand their participation in national economic policies. Here, the organizations should develop the agrarian model they consider convenient.

Colophon

To end this document, we wish to state that in Ecuador, the World Bank, and the Committee for the Decade of the Indigenous Populations have been working jointly for the last few months on the Management Committee, which is trying to define development strategies and concrete plans of action that will allow our populations to overcome poverty.

The Management Committee still has to overcome many difficulties resulting from the different criteria dealt with. Agreements among three positions are sought: the Ecuadorian nation, represented by SENAIME (Secretary of Indigenous Affairs), the World Bank, and the Committee for the Decade of Indigenous Populations.

The information in this document should serve as a guide to action, and not only for discussing problems at forums. We indigenous populations know our reality, and for this reason we are here to urge that concrete political decisions be made.

Notes

1. Lope de Atienza, 1931:41–42.
2. IOA, Caja Especial, EP/j, 2a 1565.
3. IOA, EP/Y, 1a. C. 17.
4. The seventeen organizations that participated in the questioning were DEPOPECH, FOIN, CODOCAL, LLINLLIN, UOCACI, AOCACH, FECAIPAC, SEV-CEPID, UCAN, FECHE, AIPAISG, AINCA, UNORCAB, FICSHA, UNORCIG, FUPOCS, and the Afro-Ecuadorian Cultural Center.
5. The Geographically Related Analysis of Poverty is directed by Carlos Larrea. The part specifically about the indigenous population was developed by Carolina Reed, from whose report the main parts for this section have been extracted.
6. Urban areas of all provincial capitals, district, and county capitals having 5,000 or more inhabitants. Similarly, rural areas surrounding the urban areas and the district and county capitals having fewer than 5,000 inhabitants were considered.
7. Ramón Galo, "Los territorios indios en el Ecuador," COMUNIDEC, 1995.
8. The levels of poverty defined by the World Bank in its *Report on Poverty in Ecuador, 1995*, are as follows: Indigence: semimonthly provisions per capita of less than 30,733 sucres. Poverty: semimonthly provisions per capita less than 45,466 sucres. Vulnerability: semimonthly provisions per capita less than 60,731 sucres. In this study the definition of poverty is the same as the World Bank's definition of vulnerability.
9. Questionnaire about Life Conditions, 1994.
10. Data about utilities were obtained from the 1990 Census. It is thought that homes have potable water, sewerage, or electricity if they obtain these utilities from the public systems.
11. This information also comes from the 1990 Census. Illiteracy of the population over 15 years of age is calculated. The percentage of the population with higher education is calculated for those over age 24.
12. COMUNIDER is the national representative of CIDB in Ecuador, through whom the present questioning is carried out.

Annex

TABLE 6

Poverty in Districts with an Indigenous Nucleus

PROVINCE	DISTRICT	PERCENT OF POOR HOMES	PERCENT OF INDIGENT HOMES
Bolivar	Guaranda	75%	25%
Cañar	Cañar	73%	24%
Cotopaxi	Pujilí	74%	30%
Cotopaxi	Salcedo	75%	18%
Cotopaxi	Saquisilí	62%	17%
Chimborazo	Riobamba	64%	13%
Chimborazo	Alausí	75%	25%
Chimborazo	Colta	70%	19%
Chimborazo	Guamote	85%	52%
Imbadura	Ibarra	72%	23%
Imbadura	A. Ante	50%	10%
Imbadura	Cotacachi	86%	37%
Imbadura	Otavalo	74%	31%
Loja	Saraguro	73%	26%
Morona Santiago	Morona	86%	62%
Morona Santiago	Gualaquiza	64%	36%
Morona Santiago	Palora	70%	39%
Morona Santiago	Santiago	52%	34%
Pastaza	Patata	85%	61%
Pichinca	Cayambe	81%	29%
Tungurahua	Ambato	46%	8%
Tungurahua	Quero	67%	13%
Tungurahua	Píllaro	68%	17%

Moderator's Concluding Comment

S R I - R A M A I Y E R

WHAT I HAVE HEARD YESTERDAY AND TODAY, PARTICULARLY DURING THIS SESSION, leads me to conclude that the role of the state, political parties, and public policies should be to create societies that are equal in terms of opportunities for all. This is not to say that everybody would reach the same level of income, well-being, or success, but that everybody ought to have equal access to any opportunity they would like to seek. That is the condition that societies need to meet to become more harmonious, help their people realize their full potential, and grow at the optimum level consistent with their resource endowments. Pockets of discrimination of one kind or another, whether based on gender, race, or any other factor, lead to suboptimal outcomes, and therefore ought to be combated at the level of public policy in the first instance—recognizing that behaviors may take more time to change.

The second point that comes out, particularly from the discussions on poverty and discrimination based on gender and indigenous people, is the essential importance of creating the conditions for human capital development. It comes back again and again and again. Everything comes back to creating the conditions that would enable maximum human capital development—health, nutrition, education, and training—so that all people can indeed exploit their potential, secure a meaningful role in society through employment, and have the capacity to raise their productivity and thereby their incomes and well-being. It is also the route to ensuring dignity for all members of society.

A third point relates to gender. What is clear, what we know from evidence and what we fully agree with, is that without integrating women into development strategies there will be no success in poverty alleviation. Women are so central to society and social capital because they are mothers or future mothers. Therefore, integrating them into any poverty-alleviation strategy is essential. What is

the role of public policy in terms of women? It is to put in place and to enforce laws to see that women receive equal treatment—that all citizens are treated equally. Women in particular—who we know from experience have been discriminated against, suffer higher unemployment rates and earn lower incomes for the same level of education or the same level of experience—should not end up with that kind of treatment in the markets. *Again, the role of public policy is to put in place the laws, and the role of the state is to enforce them.* Enforcement can only go so far, and then it would be up to other elements of society to change their behavior. There is a major role for the press and the media in influencing communities and their behavior toward less-privileged groups. We heard this in the session on children from Gilberto Dimenstein.

On the strategies to help women do better, I agree with the points made by Mayra Buvinic regarding access to education, particularly education targeted to poor women, including poor women who are heads of households. We

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ought to look at orienting the education system to address the specific needs of women, and to make adjustments in education to better cater to their special needs.

The other point was access to maternal and child services, or "materino infantil" programs. This is an area where the Bank is very, very active. We have financed many projects particularly targeted to poorer segments of the population and see enormous benefits from such interventions, as do the communities. The communities themselves welcome these projects and build on access to these services to better their conditions.

Finally, the point was made that women should have access to credit so they can become self-employed wherever and whenever they want to. This is a much more difficult area, given the problems of financial market development. Women do perform better than men in credit markets. Several studies have looked at repayment rates of women borrowers compared with men in banking systems. Women consistently outperform men; they consistently perform on their contracts. But in spite of this there is a general sense that women have greater difficulty obtaining credit. This problem is found in locations such as Ghana, in the Middle East, in small countries like Yemen, and in

parts of South Asia. This is a subject for further analysis, but all of us should take measures, without creating undue distortions, to enable women to become self-employed, and to obtain credit. Institutions like the Grameen Bank and the Women's World Bank have lessons for us all.

Indigenous groups have suffered extreme isolation and enormous discrimination over generations. There are very few of them left, but they have very strong endowments, particularly of social capital about which we spoke so much yesterday. We only have to visit some indigenous reserves, including the large ones in Brazil, to realize that for them these are wonderful places to live. These communities have a great interest in preserving their identity and are very respectful of their environment. The Bank has begun to be a catalyst to help them build their capacity to determine their social and economic development priorities, and how they want to approach their development. Issues of land tenure are central, as is access to services, but all this needs to be improved while allowing them to preserve their identity in whatever form they choose. Self-selection by communities is key. But unless this capacity building takes place, they will not be helped to realize their full potential, and this we owe to all of them after generations of discrimination.

VII. Looking to the Future

Beyond National Policies: Partnerships for Poverty Reduction

A R I E L F I S Z B E I N

S U S A N C R A W F O R D

ONLY FOUR YEARS AWAY FROM THE TWENTY-FIRST CENTURY, OVERCOMING POVERTY remains an immense challenge to most countries in Latin America. Regardless of how poverty is defined and measured, a significant part of the Latin American population still experiences extremely low living standards. Reducing or alleviating poverty plays a central role in the rhetoric of policymakers in the region. However, unlike policy areas like macroeconomic stabilization or trade reform, where a consensus has been developed over the last decade, the region still searches for a paradigm for poverty reduction policies.

The economic and political transformations experienced by almost all countries in Latin America since the early 1980s imply a rejection of an old statist model, which entrusted the responsibility of improving the living standards of the population to the exclusive hands of national governments. This rejection does not come only from those motivated by the premise that markets should displace the state as the main locus of decisionmaking. Nongovernmental organizations (NGOs) and certain political and social actors, having experienced authoritarian rule during the 1970s and 1980s in almost all Latin American countries, have also become suspicious of the state-centered model.

Democratization and decentralization—two of the critical transformations that are taking place in the region—have made possible the emergence of stronger local governments, NGOs, and community organizations that have an increasingly important part to play in the fight against poverty. With fiscal and political reforms, municipal governments have experienced an increase in resources, political power, and expenditure responsibilities. Improvements

in transparency and fairness of local and national elections have enhanced government accountability and brought the issue of poverty to the forefront. Another important newly empowered actor is the community itself. The recognition of the significant role played by “civil society”—a concept that involves both formal and informal organizations—is now accepted even among traditionally skeptical analysts.

The substantial growth in the number and strength of NGOs, and the transformation from mostly conflictual relationships with government to potentially collaborative ones, is another significant aspect of this new reality. As the nature of the state and the development model have changed, there is a window of opportunity for growth in the relationships between NGOs, community groups, and the state. These new relationships go against the grain of deeply held traditions of state-civil society interactions, but they provide a significant and recent opening to a partnership model of effective poverty reduction.

At the same time, important reforms such as privatization, deregulation, and, more generally, market liberaliza-

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tion are transforming the private sector. These reforms are making the private-public relationship less confrontational and more receptive to new opportunities for collaboration. However, a less intrusive state is also a less protective one. This implies that the private sector now has a strong motive to focus on certain issues that will contribute to their enterprises—like achieving quality education and improving welfare in their communities—that used to be the exclusive responsibility of the public sector. The old paradigm of a paternalistic state responsible for providing for all of the needs of its citizens has changed both culturally and objectively. Conditions are ripe for a new paradigm of different actors, including the private sector, working together. The development of partnerships should be seen as part of the challenge of institution-building necessary to achieve a successful implementation of ongoing market reforms.

The emergence of these new and potentially more powerful actors, operating under a new set of institutional rules, is perhaps the most critical change in strategies available to improve the living conditions of the poor in a sustainable manner. Indeed, the energy released by partnerships between the public sector (particularly at the sub-national level), the private sector, and NGOs is an essential factor that is being recognized throughout the region. The potential for new partnerships to contribute to poverty reduction is strong.

Evidence illustrating these trends is becoming available at a fast pace. While the rhetoric of poverty reduction is still largely focused on national policies, much of the action is taking place at the local level. Many, although not yet most, local officials are proactive and innovative and are willing to experiment with new ideas to improve government effectiveness. While the rhetoric is still overly concerned about “who does what”—private versus public, national versus local—the action involves partnerships and joint ventures. There are a growing number of examples of community groups, NGOs, and private companies working together with government on a range of issues, including poverty reduction.

The key to such processes taking place, multiplying, and becoming the core of a new paradigm for poverty reduction is the freedom and opportunity for innovation, association, and horizontal learning. To be sustainable, new partnerships for poverty reduction must take place in an environment in which involved citizens, including the poor, are free and encouraged to speak out, to organize, and

to take initiatives. Thus, the question of motivations to establish partnerships is critical for all potential partners in the enterprise (see Section 3).

In looking at the challenge of reducing poverty in Latin America, the role of international agencies cannot be ignored. In the past, criteria associated with the channeling of resources from international organizations may have affected partnership formation. Some international NGOs and bilateral agencies funding local NGOs may have provided incentives for local NGOs to work independently of government. Large multilateral organizations have often preferred to deal directly with national government ministries. The international donor community can positively affect or hinder the formation of partnerships among new actors.

In this paper, partnerships refer to relationships among entities engaged in activities leading to poverty reduction. These activities involve joint ventures for the delivery of services to the poor, participatory experiences in the debate of public policies, initiatives to create employment opportunities, and so on. In the case studies examined, partnerships ranged from simple cofinancing arrangements to very integrated activities. In most of the cases examined for this paper, partnerships resulted in direct cooperation and integrated activities among groups that did not work together in the past.

However, partnership does not mean forced integration. While large benefits can be derived from collective actions, the richness of this approach would be lost if all initiatives had to become part of a group endeavor. In fact, a critical element in the transformation taking place in Latin America is the enhanced competition between entities—private and public, national and local—in the business of fighting poverty.

This paper will consider some of the key challenges of this partnership approach to anti-poverty policies and will discuss recent experiences in the region that support it. It is our view that, as the evidence on successful partnerships between governments, NGOs, and the private sector continues to accumulate and be disseminated, the approach explored in this paper could become a new paradigm in the fight against poverty in Latin America.

The enabling environment

For new partnerships and initiatives to emerge, an enabling environment is required.¹ This involves, among

other things, delegation of power away from the central state and access to financial resources by potential actors such as local governments and community organizations. Democratization in its fullest sense, promoting participation, is another critical element. Without the enabling environment created by democratization and decentralization, new partnership-style approaches to poverty reduction would be difficult. Democratization and decentralization are mutually interactive and mutually reinforcing at several levels. Decentralization without democratization (that is, one where local officials are not directly accountable to their communities) is unlikely to go beyond a limited form of deconcentrating the central administration. On the other hand, it may very well be that decentralization is a powerful force for genuine democratization, as seems to be the case, for example, in Colombia. It is the nature of the interaction between these two fundamental forms of institutional change that provides the space for partnership building.

Over the last decade in Latin America, two dramatic trends—which, in the words of Campbell (1995a), constitute a “quiet revolution”—have contributed to the formation of an enabling environment. One trend is decentralization, by which spending power and decisionmaking have been transferred from central states to subnational governments. Throughout Latin America national governments have entered into power-sharing arrangements with local and regional governments. Revenue transfers have greatly increased the resources available to local and regional governments, which are now spending a significant percentage of GDP. The other major trend is the transition to democracy that has swept across Latin America. In 1980 half a dozen countries in Latin America had elected national governments, and only a very few of these elected mayors. Today, democracy is the name of the game in all countries and virtually every mayor and councilperson in the more than 12,000 units of subnational government in Latin America is elected.²

With these reforms, control of functions previously in the hands of the central state has shifted to the local level. Local governments are faced with new challenges as they strive to provide services to their communities and to make government more transparent, accountable, and participatory. Critical to the success of this process is the transformation of the currently “uneasy” power-sharing arrangements to a relationship of trust between central and local

governments. This is a learning process, and successful collaborations could cause mutual confidence to grow and thus lay the foundation for more extensive cooperation.

The initial phase of implementing decentralization reforms has produced very interesting results. In many countries, finances have raced ahead of functions: Revenues have been transferred without clarity about expenditure responsibilities. This is, naturally, a matter of concern. However, the transfer of revenue has intrigued citizens in the political process and led to increased popular participation. In municipalities, own-source revenues have been improved, thus contributing to the resources transferred from the central government. A new leadership style has produced more professional mayors with more skilled and professional staffs. Civil society is also being used as a fiscal resource by mobilizing community and entrepreneurial contributions for specific projects of local interest, and citizens are becoming involved as instruments of participatory choicemaking.

Popular participation, stemming from democratic reforms, is crucial for newly strengthened municipalities and states/provinces. Decentralization efforts across Latin America have incorporated various means for increasing democratic participation by the community. Some countries have enacted laws which create new formal institutions to represent community interests, while other countries have increased consultation with existing grassroots organizations. A number of countries have established open town meetings as another means to increase participation, and some have turned to placing referendum issues on the ballot to hear the voice of citizens. Throughout Latin America countries are reforming the electoral process, since fair and transparent elections are the most fundamental form of popular participation. Some of the instruments of accountability being used include surveys, public opinion polls, interest group consultations, telephone hot lines, and public access points.³

Thus, changing the institutional framework in its political, administrative, and fiscal dimensions to increase power and resources at the local level requires reforms at the national level. Once laws are in place, national policies can then contribute to effective partnerships by actively promoting and facilitating initiatives from other actors. Effective reforms at the national level make room for involvement by other players and imply a willingness to give up exclusive central control.

The national-level changes that have taken place in Latin America can provide the enabling environment that can make a partnership approach to poverty reduction possible. However, legislative changes cannot be effective without mechanisms for implementation. It is difficult for lasting reform to come from laws that decentralize responsibilities without accompanying fiscal and administrative changes (for example, in personnel policy, combating corruption, and tightening payrolls). Laws that call for democratization but are not implemented so as to increase citizen participation in public affairs do not create an enabling environment. Fortunately, many countries in Latin America are not only changing constitutions and national-level legislation, but are making implementation a reality as well.

Decentralization and democratization in action

In the second half of the 1980s, Colombia's fiscal and political reforms have greatly changed the environment in which local governments operate. Local governments have experienced a significant increase in resources, from 2.6 percent of GDP in 1980 to 5.5 percent in 1994. Municipalities also have assumed greater responsibility for provision of services. Local governments now administer preschool, primary, and secondary education programs, they administer infrastructure projects, they provide medical services and infrastructure, and they provide (either directly or contracted to the private sector) water, sanitation, energy, and telephones services. Other responsibilities, such as road construction and housing, have been ceded to the municipal level as well.⁴

The increase in municipal government resources and responsibilities has been accompanied by legal changes that have strengthened political accountability to citizens. Since 1988, mayors have been popularly elected, and overall election processes have become more transparent. Citizen participation has increased as a result of several laws and the action of national programs such as the *Plan Nacional de Rehabilitación*.⁵ Citizens can present projects to the municipal councils, and there are open town hall meetings. Participatory councils involve citizens in plans and municipal programs for social and economic development and public works. Citizens participate in oversight councils monitoring the quality of services and the use of resources. Constitutional reforms have also addressed issues of property rights, culture, and language of indigenous people.⁶

The 1988 Brazilian Constitution clarified the roles of different levels of government in provision of public goods and services. Functions such as primary education, health care, and transportation have been assigned to municipal governments. The municipality has both executive and legislative power via the mayor and the municipal council. The central government's share of public sector revenue has declined significantly since 1987.⁷

A number of initiatives, mostly by motivated mayors and other local officials, have increased popular participation in Brazil over the past decade. The result has been very flexible and broad-ranging types of participation, with much dependent on the discretion of local public authorities and citizen groups. Some examples of initiatives include the institution of municipal council forums organized around sectoral issues, to include citizens in the policymaking process. Other councils and commissions have been established to familiarize community members with government functions and capabilities and to enlist their participation in development activities and local decisions. Local community works projects have also been developed in a participatory manner with citizens.⁸

In Bolivia, ongoing decentralization reforms involve a strategy to formally incorporate the participation of institutions to express the voice of the grassroots communities. The Popular Participation Law of 1994 created community organizations (*organizaciones territoriales de base*) which propose, control, and supervise local investment projects and the provision of public services, according to community need. Each neighborhood and small community has its own organization. The law provides municipalities with special revenues for community-designated projects and states that 90 percent of these revenues must be used directly for community investment. The community organizations also provide oversight in the areas of the municipal budget and quality of public services. If a community's complaints to the central government are found valid, a municipality may lose its tax-sharing revenues.⁹

Reforms implemented in Venezuela in recent years have substantially altered the local political system. Changes include direct elections of officials at the municipal and state levels for the first time this century. The *Ley Orgánica de Descentralización* substantially increased financial resources for local entities and governors. However, the transfer of administrative responsibilities and resources to the local level is not yet complete and can be considered

the primary challenge to the future of the decentralization process in Venezuela.¹⁰

The 1989 municipal law also addressed the issue of community participation in local governance. According to this legislation, citizens have the right to participate in the political process. Legislative provisions incorporate the use of referendum votes and support the development of *Asociaciones de Vecinos*. These *asociaciones* present community interests to government and promote political reforms to increase participation in decisionmaking processes.

Unlike other countries discussed, the original drive for decentralization in Chile came before democratic reforms and reflected more of a deconcentration model that did not encourage citizen participation. Thus, responsibilities of local governments remain limited and key issues such as the direct and separate election of mayors have not yet been resolved. Conditions are still unfolding that would enable effective popular participation. Although "*Consejos Económicos Sociales*" were established in 1991, they do not function in many communities.¹¹

Some improvements have been made with the recent process of municipal reform initiated with democratization. Legislative reforms passed in 1991 increased financial resources of the municipalities. During the last several years, the capability of municipal-level government has grown substantially, rising to meet the new demands that have arisen with the return of democracy. Since 1992, mayors have been elected by popular vote. There have also been some innovations in local participation such as FONDEVE, a community works program described in the Annex.

The difficult task of building partnerships

This section of the paper examines the conditions that facilitate the involvement of various actors in poverty reduction—in independent motivation and, more importantly, in taking action to work together in new types of partnerships.

Although the individual actors have their own motives for participation in poverty reduction, the key issue of this paper is that of working together. Incentives for partnerships hinge around the issue of collective action. Who takes the initiative in forming such partnerships? How can they be sustained? How can trust and communication be developed among the various actors? What are the concerns of the key actors in forming such partnerships? What biases and fears must be overcome? Answering these criti-

cal questions is beyond the limits of this paper, which, nonetheless, tries to highlight some initial responses.

Although decentralization implies that the **central government** cedes direct control over critical decision-making instances to other players, there is still a strong national-level interest in effective poverty reduction policies, because ultimately national politicians are generally held responsible by citizens. National governments may thus be reluctant to push measures that result in free interaction among new actors. Partnerships involve sharing of power and resources previously held by the national government. Giving up power and resources is not always accomplished easily. In the case of Ceará, Brazil, the higher-level government was at first quite unwilling to cede power to the municipalities (see next section).

On the other hand, central governments (not just national but sometimes provincial or state) are often motivated to participate in partnerships as a way of leveraging their limited political and fiscal capacity to address overwhelming social demands. While some authorities may be reluctant to give up control of programs they rightly consider critical, political realities may force power-sharing arrangements. In some cases, as in Colombia, Bolivia, or Brazil, this is expressed in new constitutional or legal frameworks. In some Central American countries, civil conflicts have led to a de facto decentralization of authority to the local level. As those changes are implemented, establishing partnerships becomes a natural way for authorities to recuperate some of their lost protagonism. Once a potential partner—be it a municipality, an NGO, or another organization of civil society—has been identified, the chance of mobilizing additional resources becomes a further motivation. In the example of mobilization against AIDS in Brazil (see Annex), decentralization reforms opened the door for new and effective partnerships between the federal government, subnational governments, and NGOs.

Nevertheless, because the changes in recent years have been so rapid and in some countries so profound, many central-level governments are still becoming accustomed to this paradigm shift and are struggling with the need to redefine their role.

Some newly empowered **local governments** have a strong vested interest in effective poverty reduction schemes because the political reforms have resulted in greater access to financial resources and increased account-

ability to citizens. However, in areas where much of a municipality's population is non-poor or where the political reforms have not significantly affected the old balance of power, local governments may not place poverty reduction as a top priority (or may even be "anti-poor"). Even those governments that do perceive poverty as a pressing issue may be interested in implementing programs as they see fit, without the added coordination needed to work in partnership with other actors. For example, several NGOs in Colombia, trying to increase coordination between community groups and local governments under the new political reforms, found that some local governments were not open to the idea of new partners (see Annex).

Limited fiscal and administrative capacity to deliver the programs their citizens expect has been perhaps the strongest motivation for local governments in several countries to get involved in partnerships with other governments through the associations of municipalities that have developed in, for example, Colombia, and which are described in a World Bank country study (1995b), or with NGOs and private companies. An increasing number of local leaders with previous experience in the private or NGO sector often appear to be proactive in seeking partnerships. Pressures arising from community initiatives and public affairs campaigns—by higher levels of government (as in the case of Ceará described in the next section) or by private citizens (as in the case of the antihunger campaign in Brazil described in the Annex)—constitute an additional motivation in many cases.

NGOs have entered a period of change with regard to relationships with the public sector. During times of authoritarian rule in Latin America, most NGOs defined themselves in opposition to the state. With democratization has come the opportunity for NGOs to begin to work in partnership with the state. NGO leaders are learning new skills of negotiation with entities they once viewed as the opposition. Although many NGOs have long histories of negotiating grants with international organizations, they have little experience in making contracts with local or higher-level government officials.¹² More generally, the NGO-local government relationship is still characterized by lack of trust. However, as the experience in Colombia suggests (see Annex), the success of initial forms of partnership could lead to further collaboration efforts.

It is also critical to recognize the heterogeneity of NGOs in Latin America. Although the NGO sector is

often discussed as a single sector, the types of organizations vary immensely in terms of size, mission, and capacity to effect change. The scope and strength of the NGO sector also varies by country. Argentina, Mexico, and Venezuela have small NGO sectors that are beginning to come forth from historically weak civil societies. Brazil, Chile, Colombia, and Perú, by contrast, have large NGO sectors.¹³

While attention has centered on the role of NGOs as providers of specific services to the poor (individually or in partnership with local governments), in a climate of warming municipality-NGO relationships NGOs can begin to contribute significantly to shaping social policy in a much broader sense. They can provide an outstanding forum for bringing the concerns of the local community to the political process, as was the case, for example, of the "*Mesa de Concertación de Políticas Sociales*" in the province of Córdoba, Argentina (see Annex). In the municipality of Conchalí in Chile, the strong links between the mayor and the NGOs, with which she had worked prior to assuming public office, opened the door for intensive collaboration (see Annex).

With the political and social changes that have occurred in the past decade, some parts of the private sector are beginning to realize that it is in the interest of businesses to invest in poverty reduction programs that contribute to their enterprises. However, private sector companies may not see a role in partnerships as part of a corporate philosophy they want to embrace, especially relationships that would require close collaboration with government entities or community groups.

Nevertheless, the realities of the 1990s—a smaller and less intrusive state, a stronger and more visible private sector—could lead to a corporate philosophy that goes beyond philanthropy and altruism to see how intertwined business needs and social-development goals are. The case of the municipality of Cali in Colombia may represent a model (see Annex).

Large, and in many cases growing, disparities in income may threaten stability, and environmental damage resulting from population growth, rapid urbanization, and pollution impede the progress of economic reform. Many communities in which businesses are located are confronted with complex problems that may lead private companies to establish partnerships with the public sector and NGOs to address underlying needs, as in the case of British Petroleum in Colombia (see Section 4). Legal changes can also stimulate private-public partnerships, as in Chile,

where a 1992 law encourages partnerships between the private and public sectors for primary education via tax incentives (see Annex).

Multilateral organizations—themselves limited by a “business-as-usual” approach that led them to work mostly with national governments and sometimes resist partnership formation—have, for several years, changed their *modi operandi* in ways that could position them as motivators and facilitators in bringing about working partnership at the national and local levels. Among the cases reviewed for this paper, the experience of British Petroleum (described below) and an AIDS program in Brazil (see Annex) are good examples of how the World Bank has encouraged cooperation and partnership building among several entities.

Partnerships in action: Some examples

This section will examine relevant case studies in some depth, looking at how partnerships among various players were formed, how biases and concerns were overcome, how communication was facilitated, and how interaction was sustained. Further examples are discussed in the Annex.

A private company takes the lead: British Petroleum in Colombia

In 1994 the World Bank held a meeting with the Prince of Wales Business Leaders Forum, an NGO comprised of more than forty international companies.¹⁴ The Prince of Wales Business Leaders Forum, headed by Prince Charles of Wales, was founded in 1990 to promote the practices of good corporate citizenship and sustainable international development as a natural part of successful business operations. The purpose of the meeting with the Bank was to explore partnerships for social development with the private sector. As a result of the information presented in the meeting, British Petroleum (BP) approached the World Bank about collaboration.

BP had found a large deposit of petroleum in Colombia and anticipated a long-term presence in the country. BP desired to develop a positive relationship with the people in the community. Of particular concern was the existence of guerrilla activity in the pipeline region, which might threaten the security of the pipeline. Business interests, rather than just corporate philanthropy, guided their social development objectives.

BP had started several projects and, along with the consortium of oil companies in the region, had funded some

NGOs that were building schools and supporting community activities. However, given their limited experience with social development programs, they asked for advice from the World Bank to help formulate the next steps. A Bank mission reported on the strengths and weaknesses of the current program: While BP was serious and was implementing good programs, the company had very limited relationships with key government agencies and NGOs. The Bank decided to work with BP to launch several pilot partnership projects. The Bank mission had found that there was a lack of child-care, educational, and nutritional programs in the area—thus, pilot projects in the area of services to children and mothers were appropriate.

The World Bank resident mission in Bogotá served as a facilitator and broker between the petroleum company, the governments, and NGOs, and helped BP identify consultants to carry out studies on health and welfare needs in the community. Two pilot programs—working in conjunction with the local government, a national agency, and NGOs—were begun for mothers, children, and youth. One very well-respected local NGO, “*El Minuto de Dios*,” was among the group of community organizations involved and helped further the credibility of the endeavor.

Thus, a coalition of very different players with different interests has been brought together to work toward a common end. The role of the World Bank as a broker and neutral facilitator among the parties has been crucial. The national government, private sector, local government, and NGOs all come from different points of view and speak different “languages.” The use of a neutral facilitator has enabled interaction among highly different entities, which otherwise may not have taken place.

Each actor contributes its own unique strength to the social development endeavors initiated by BP in Colombia. The private sector, which has capital but no links to the community, is able to gain from NGOs, who have community trust. Major, well-respected NGOs have contributed credibility to the projects and coordinated efforts to bring smaller NGOs on board. Local government officials, who want to avoid the appearance of being “bought out” by the private companies, are able to use the Bank to mediate the partnership arrangement. The national government has reached out to include the local mayors.

The interactions initiated by BP and a consortium of oil companies in Colombia provide an exciting model for development enterprises in the future. BP was motivated

to pursue partnerships by business interests who wanted to ensure that the pipeline would be secure and that there would be no employee strikes. In this case, sound business practice and a commitment to social development went hand in hand. This case also highlights a new role for the World Bank—that of a mediator and broker, rather than an organization financing projects. The Bank has room to expand this role by helping companies see that investment in development is good business practice and in facilitating the mobilization of private capital in the pursuit of sustainable development.

State, municipality, and community: Preventive health care in Ceará

The state of Ceará, located in Brazil's poorest region, has introduced government reforms resulting in outstanding and innovative programs in preventive health since 1987.¹⁵ In a few short years Ceará's preventive health program (*Programa de Agentes de Salud*, or PAS) contributed to a 36 percent reduction in infant mortality in a region that had one of the highest rates in Latin America. Vaccination coverage tripled from the lowest in Brazil to reach 90 percent of the population. By 1993 the health workers were visiting approximately 65 percent of the population in their homes each month, and the program was operating in almost all of the counties in the state. Decentralization, effective local-government performance, strong partnerships between state and municipal-level government, and community involvement were the keys to success in Ceará.

Decentralization reforms provided the backdrop for the Ceará program. In 1985, a new state governor committed to making the health care system more accessible and efficient took office. Motivated by a federal initiative to decentralize health services, the governor started to decentralize administrative and financial resources to local governments. A media campaign about the importance of preventive health care and a state health worker program were begun.

The health initiative in Ceará began in 1987 as part of an emergency employment-creating response to a severe drought. Prior to this time, most municipalities did not have a public-health program. The program, funded initially by disaster relief funds, was so successful that the government decided in 1989 to fund it permanently. Under PAS, the state selects and pays health agents to provide preventive health care, and the municipal government

hires nurses as supervisors of the agents. Overall, the program employs 7,300 health paraprofessionals to provide preventive health information to families in 177 of Ceará's municipalities, and the cost to the government is about \$1 per capita per year.

The health initiative in Ceará reflects an interesting, innovative partnership between the state government and the municipalities. With PAS, the state and the municipalities share power, responsibilities, and accountability. The state hires and finances the large labor force of health agents who work for a smaller number of nurse-supervisors hired by local governments. This division of labor allows localities to strengthen their own health capacities and to coordinate with the state.

Another important partnership in this case study is between community members and local government. The selection process for health workers results in strong community participation and monitoring, which significantly increases workers' accountability to the populations they serve. Because the number of applicants greatly exceeds the number of available positions, the program administrators charge those not selected with monitoring the quality of services delivered.

Obstacles were overcome to form these successful partnerships. First, the state government was reluctant to cede any of its power and control. However, since it needed to support the popular movement of decentralization, had funding constraints, and needed the support of local governments, it became willing to share control. Local governments were also initially reluctant to enter into partnership with the state government, since the shared responsibilities meant that local governments would not have exclusive power over the program. The hesitant mayors joined the program as a result of excellent publicity campaigns from the state government and pressure from community groups that had noticed success in neighboring municipalities involved in the program. Community mistrust of "anything government" was gradually overcome by the health agents' perseverance in provision of health care and preventive medicine.

PAS has greatly increased accountability of a public service to citizens. Because of the community-based nature of the program, citizens have learned to expect good performance and to direct complaints to the appropriate channel when performance is not adequate. The local health council, mandated by federal decentralization laws, has also

become more involved and participatory as a result of the PAS program. More than 7,000 health agents have learned new skills, more than 250 nurses have assumed supervisory responsibility, and more than 4 million people receive regular health information. The Ceará health initiative has allowed municipalities to have effective coordination with state-level government and to strengthen capacities at the local level. The division of responsibilities has allowed each level to capitalize on its particular strengths, has increased cooperation, and has prepared municipalities for assuming more functions in the future. More importantly, the partnerships between different levels of government and the community have resulted in greater health and well-being in Ceará.

Addressing infrastructure needs in Mendoza

The Mendoza Provincial Program on Basic Infrastructure (MENPROSIF) in Argentina is an innovative program to provide sanitation and other services to low-income households at the neighborhood level.¹⁶ Since 1991, the program has implemented more than 270 small projects benefiting more than 50,000 households in a majority of the municipalities in the province. The program relies on social censure to secure credit for low-income residents, which enables the residents to afford 70 to 80 percent of project costs and minimizes state subsidies. Repayment rates and project completion rates are extremely high, and project costs have been lowered.

MENPROSIF is highly participatory and decentralized. It is an excellent example of successful partnership building, because it involves collaborative effort between public agencies, NGOs, community organizations, and private contractors. Beneficiaries in each neighborhood are involved in identifying local needs, selecting projects, taking responsibility for short-term credit, choosing contractors, and overseeing implementation of projects.

The innovations of MENPROSIF were enabled by political reforms that took place in Mendoza since the return of democratic rule in 1983. The province aimed to promote social well-being in a decentralized way, as opposed to through large state institutions. Although decentralization and democratization provided the backdrop, it was the cholera epidemic of 1991 that provided the catalyst for the beginning of MENPROSIF. Prior to 1991, administrative delays were common in government-provided public services such as waste systems, due to

numerous reasons. The cholera scare, combined with previous poor state performance in waste services, led the governor-elect of the area to initiate the MENPROSIF program. This program was designed to be heavily dependent on neighborhood organizations and local control. The first project was a wastewater project for seventy-one families in a neighborhood where many low-skilled former provincial bank employees lived. The high level of trust between the provincial bank and community allowed both sides to overcome the uncertainties involved in extending credit to the poor. This project proved successful, and MENPROSIF was extended to other neighborhoods.

Partnerships between community organizations and their local governments are one of MENPROSIF's most salient features. Neighborhood groups identify needs and pledge individual and collective responsibility for improvements. These organizations take an active role in selecting contractors. Neighborhood organizations present their projects to the mayor's office. The provincial government then plays a facilitating role in areas such as provision of technical assistance.

The main obstacle that was gradually overcome under the program was the discomfort of banks and low-income residents with the notion of extending credit to the poor. The uncertainties and risks of borrowing made both sides nervous. However, MENPROSIF secures credit through a system of mutual solidarity, which relies on social censure to lessen the risks for both banks and community residents. Payment amounts for each household represent a substantial fraction of monthly household income, yet repayment rates are high.

Another obstacle was the unwillingness of the provincial Ministry of Works to accept the management of basic infrastructure projects outside of its traditional channels. However, with the success of the initial wastewater project, community demand for these types of projects intensified, and the Ministry of Works felt pressure from the community. This exemplifies a "virtuous circle" found in many successful partnerships: Success begets success as community residents strongly advocate for programs that have already brought them benefit.

Some basic lessons learned

This paper is not a treatise, nor is it the result of lengthy empirical research. It is, mostly, a reflection on possible approaches to poverty reduction based on personal experi-

ence, reviews of work done by others, and an intensive dialogue with many practitioners in the challenging field of Latin American development. These final notes, which we have purposely avoided referring to as conclusions, represent some simple lessons we have learned throughout this exercise.

Decentralization provides the background for partnerships to form. Decentralization reforms have allowed power to flow beyond the central state and have been essential to new forms of partnership formation. Because subnational governments are faced with new responsibilities, there are incentives to explore new ways of public administration. Had there not been a federal initiative to decentralize health services in Brazil, the unique partnerships which evolved in Ceará could not have happened. It is hard to imagine the federal government's having the capacity to become involved in a program that required links with a large number of municipalities and community groups in a distant and poor region of the country. Likewise, the wide array of partners working together to fight AIDS in Brazil took decentralization reforms as the starting point (see Annex). Similarly, in Argentina, decentralization in social welfare provision created the space for the neighborhood-dependent MENPROSIF program in Mendoza.

Democratization provides the context for active participation of communities. With democratization, collective action at the grassroots level can play an active part in policymaking and policy implementation. New opportunities for participation and accountability have changed the framework for considering obligations and benefits of citizenship. The prevalence of democratic institutions throughout the continent has given the state (at all levels) renewed legitimacy and made it a credible partner. The increased voice of the community has allowed for "the virtuous circle" of partnership-building identified in the Ceará and Mendoza cases. Use of the media has also capitalized on increased participation, as in the Citizen's Campaign in Brazil (see Annex). Democratization was the driving force behind the innovations in participatory governance seen in the *Mesa de Concertación* in Córdoba (see Annex) or in Cajamarca, Perú (see Annex). Mexico's successful national solidarity program, PRONASOL (see Annex), has utilized democratization to create intense grassroots activity and partnerships between community groups and all levels of government. Democratization has enabled these and other exemplary programs to institute

reforms that have made local government more democratic and have increased the participation of community organizations in political decisionmaking. Without democratization, it is unlikely that decentralization would have opened the doors to the types of partnerships we have described.

Partnership is not a "one-shot" game; it involves learning by doing and multiple changes and adaptations. Effective programs are replicated as communities see their success. If a neighboring municipality has instituted a partnership-driven program that has resulted in increased service delivery in health or education, for example, citizens are likely to desire such reforms in their own municipality. Because under democratization reforms communities have a larger voice in the political process, they can advocate for desired changes. Some of the highly successful programs we have reviewed, such as the FONDEVE program in Conchalí, have followed this pattern (see Annex). Initial steps that lead to early success in partnership programs can ignite a "virtuous circle" in which results produce more results. An initial success leads to others and infuses the partners with an infectious spirit, as, for example, in the Ceará health program.

Opportunities for partnerships are often exogenous. Events such as cholera epidemics, emergency drought relief, and personal relationships among key players have provided catalysts for partnerships to emerge. Many of the most creative experiments in mixed undertakings were begun in a time of crisis. A sense of crisis can redefine what is "legitimate," and entrenched conventions or modes of operation suddenly may become very flexible. In Cajamarca, NGOs formed a coalition in response to a cholera epidemic, yet they realized that they desired to continue working together even after the crisis had passed. A cholera epidemic also provided the catalyst event from which MENPROSIF in Mendoza was begun. In Conchalí, the intense partnership activity of FONDEVE was fostered by an innovative mayor who had worked for many years in the NGO sector.

Many of these exogenous events cannot be imposed as part of a development "program." Events occur, and sometimes new ways of interacting emerge. Thus, a critical issue becomes: How can partnerships be facilitated or encouraged? The answer to this question is likely to be complex but should necessarily involve the wide dissemination of the experiences of emerging partnerships as a way of both facilitating the implementation of other partnerships

under similar circumstances and as a way of encouraging others to get involved and achieve public recognition.

International organizations can work as facilitators to create synergies. Trust among very different entities can be developed through mediation by a respected international organization. Likewise, international organizations can encourage governments to adopt reforms that promote partnership building. The role of international donors in this paradigm is quite different from that of implementing development projects. As facilitators and mediators, international organizations have a unique role that will require different skills. The case of British Petroleum is an example of this new, emerging role. Similarly, the Brazilian AIDS program exemplifies the challenges of an international organization working with new and diverse partners.

A “**package approach**,” encompassing multiple sectors, often results from partnership initiatives. Most people look at these partnerships in a fragmented way depending on their particular focus of interest. This results in a narrow view that examines initiatives from the point of view of a particular sector (health, education, employment, etc.). However, as the case studies mentioned in this paper have shown, effective partnerships often cross sectors. In Latin America there are interesting experiences that encompass multiple sectors in terms of provision of social and infrastructure services, employment creation, lending, and representation.

Many of the innovative partnerships emerging in Latin America encompass a package approach. PRONASOL in Mexico and FONDEVE in Chile fund projects across a spectrum of sectors and activities. The anti-AIDS program in Brazil uses media and education, in partnership with health entities, to get the message across. The unique participatory governance in Cajamarca (and the *Mesa de Concertación* in Córdoba, to a certain extent) sponsors consensus-building forums in varied community problems such as employment, women’s issues, and education.

However, in some cases, a fragmented approach may be what is desired. For example, some businesses might be interested in education but not as interested in supporting a comprehensive program of, say, health. The private sector’s involvement in education, such as EDUCA in the Dominican Republic and the *Comisión de Educación del Sector Empresarial* in Mexico could be an example (see Annex). In any event, an essential aspect of these emerging partnerships is the unplanned and unregulated way in which

they develop in response to the varying and complex needs of communities at different times.

The question of **institutional capacity** is critical. On the one hand, partnerships constitute a response to weak capacity to undertake initiatives individually. On the other hand, a collection of weak partners does not necessarily make a strong partnership. The cases we have reviewed indicate that when the basic preconditions exist, the development of capacity becomes, to a great extent, endogenous and possibly not a critical bottleneck.

Critical basic preconditions include autonomous actors that are motivated and have initiative to form partnership relationships in searching out more effective poverty reduction programs and strategies. However, basic preconditions go beyond motivated actors. Local governments operating under a mismatch between functions and finances may find it difficult to be effective in some instances. Furthermore, local governments are still weak in parts of Latin America and face difficulty executing projects, either alone or in partnership. NGOs also vary in their degree of capacity for sustained involvement.

Our understanding of the ways to develop capacity at the local level is still limited. A recent study of local-government capacity in Colombia suggests that institutional capacity should not, as a rule, be an obstacle to service delivery and partnership formation. Case studies prepared of sixteen Colombian municipalities revealed that these municipalities are effectively meeting the challenges of decentralization.¹⁷ It is sometimes assumed that there exists a close correlation between the size of the subnational entity and its capacity. The evidence collected in the referred World Bank study, however, does not support that view. A recent paper¹⁸ suggests that, in fact, when it comes to local capacity, “small might be better”: There appear to be some advantages in being small from the point of view of identifying community needs and establishing partnerships. Nevertheless, the issue of local capacity and the means to promote it remains an area in need of further research and discussion.

As this paper has briefly reviewed, the old model for poverty reduction in Latin America based on a strong presence by the central government is changing, opening the doors to a new approach that involves partnerships among numerous actors. State and municipal governments, NGOs, community groups, and private businesses are facing significantly expanded roles in poverty reduction.

Political reforms across Latin America in the last decade have provided an essential enabling environment. Without decentralization of power and democratization to increase community involvement in governance, these new types of partnerships would not have emerged.

This new emerging paradigm could be somewhat disconcerting to many policymakers and analysts. Change depends on the initiative coming from individual actors and can hardly be directed, much less mandated, by others. But this is exactly the strength of the model, which engages multiple actors and relies on the creation of synergies.

While the development of partnerships for poverty reduction is beyond the possibilities of national governments, international organizations, or other such actors, there is significant room and need for actions that facilitate and promote the involvement of local governments, NGOs, the private sector and other organizations of civil society in the fight against poverty.

Identifying, disseminating, and rewarding innovative partnerships that are conducive to improvements in the living conditions of the poor and underprivileged constitutes the most powerful intervention available to multiply the various initiatives already being carried out by many local governments, NGOs, and private companies. This is what we understand as the challenge of building partnerships for poverty reduction.

Annex: Case studies

La Mesa de Concertación de Políticas Sociales, Córdoba, Argentina

The *Mesa de Concertación de Políticas Sociales* has operated in the city of Córdoba, Argentina, since the end of 1992.¹⁹ The problem of poverty in the city had been worsening as the population increased, and the number of people living in “*villas de emergencia*” had grown drastically during the 1980s. The *Mesa* emerged as a partnership organization to combat poverty. The *Mesa* is composed of four principal actors: the provincial-level Ministry of Social Development, the municipal government of Córdoba, four NGOs, and local organizations (*Unión de Organizaciones de Base por los Derechos Sociales*). In December 1992 these parties signed a pact to work together, and in 1994 a provincial-level decree formalized the organization. This decree specified the creation of the *Mesa de Concertación* to analyze needs and implement solutions to the problems of the

“*villas de emergencia*” and “*barrios carenciados*” in the city of Córdoba.

The basic functioning of the *Mesa* encompasses several arenas. First, there is an annual discussion of the budget of the *Mesa*, in order to reach agreement. Community organizations present the demands of their constituents and demonstrate to the state that with NGO technical assistance they have the capacity to use the funds effectively. The base organizations, working with NGOs, also present and discuss the projects and programs desired by the community to be implemented by the *Mesa* with financial assistance from the government. The government supplies funds to the community organizations, which are responsible for implementing the programs. The government pays part of the costs of technical assistance and conducts periodic evaluations of projects. Funds are committed from a specific program from the provincial Ministry of Social Development.

From the end of 1992 to 1994, the *Mesa* brought a total of 250 community projects, primarily in the areas of housing, infant nutrition, and youth centers. Several factors contributed to this successful partnership. There was a relatively high level of organization within the poor neighborhoods of the city, assisted by previous extensive NGO work in community organization. There was a relatively low level of political partisanship in the affected neighborhoods, which permitted diverse organizations to work together. Political reforms, such as decentralization and the encouragement of new actors in public affairs, were critical. The existence of government officials who supported such a broad partnership was also crucial. This consortium of actors working together in partnership—state government, local government, NGOs, and community organizations—represents a new model for social development.

Fighting AIDS in Brazil

AIDS is a rapidly growing problem in Brazil.²⁰ In 1994 there were more than 400,000 cases of HIV infection and 50,000 confirmed cases of AIDS. Heterosexual sexual activity is the main transmission method, making the disease a potentially devastating public health crisis.

Decentralization reforms in Brazil have opened the way for new partnerships to fight against this disease. The federal government’s AIDS/STD program has made superb progress in implementing decentralization. Fund transfers are made from the central government to all Brazilian

states and to the forty-two municipalities that have the largest incidence of HIV infection. Collaborative surveillance systems for monitoring the epidemiology of HIV/AIDS, other STDs, and tuberculosis have been established with each state. State and municipal governments have the responsibility for operating HIV/AIDS/STD health care delivery. This decentralization program provides states and municipalities with technical assistance, as well as responsibilities and funds, to implement programs.

Partnerships are being forged beyond those between different levels of government. NGOs and community organizations are active partners too. More than 190 NGOs are supported in the delivery of services and in health education campaigns. NGOs compete for grants from the government to contract for services such as HIV counseling, prevention efforts, and hospices.

Competition is a unique characteristic of the grant-awarding procedure. The selecting committee of six judges is independent of government control. Grants are officially capped at \$100,000. Brazil has now completed four competitions to select NGO projects. The first round, in 1993, financed seventy-five NGO-run projects for a total of US\$4.1 million. In 1994, eighty projects for a total of US\$3 million were selected, and in 1995 the committee selected thirty-six new NGO projects in addition to continuing to support earlier projects.

The World Bank has been important in encouraging partnership relations. The Bank's loan of \$160 million for the Brazil AIDS and STD Control Project strengthens government funding. However, the Bank realized, along with the government, that good NGO partners were essential and thus recommended the innovative grant selection process. NGOs are a critical partner in fighting AIDS, since there are many infected people who may not be comfortable with government-provided services. Certain groups in society that have a high incidence of HIV infection, such as prostitutes, are receiving special funding and attention from the government, working through NGOs. The Bank has also worked with the central health ministry to end taxation of condoms and to advance their use through social marketing.

This case reveals that decentralization reforms are at the heart of successful partnership building. However, decentralization laws are not enough. Proactive implementation, along with the incorporation of NGO partners, can lead to effective programs.

The Fondo de Desarrollo Vecinal (FONDEVE) of Chile

FONDEVE, a participatory local-government investment program, began in 1991 in Chile and has spread to approximately one-third of the 335 municipalities of the country. FONDEVE affects the organization of local government and results in more open dialogue between citizens and municipal government.²¹

The FONDEVE is funded from municipal own-source revenues. It is a purely local initiative that was formed by municipalities taking advantage of an opening in an otherwise legalistic constitutional structure during the period of democratization. Its success led the FONDEVE to spread from municipality to municipality, and finally it was incorporated into national legislation in 1995.

The FONDEVE of the municipality of Conchalí provides an interesting case study, because it reveals the power of personal relationships in building effective partnerships. Conchalí's FONDEVE began as an initiative of Mayor Maria Antonieta Saa. Mayor Saa had worked in the NGO sector for more than fifteen years before democratization reforms in Chile, because in the NGO sector she could be involved in public affairs without embracing the government's philosophy. When she became mayor in 1991, she brought contacts and information from her previous career. Mayor Saa initiated local government partnerships with NGOs, using NGOs as a link between the community and the government. She also used NGO expertise in training and planning, and she approached international NGOs for funding programs that the municipality could not afford. At one point the municipality of Conchalí had established agreements with sixty different NGOs.

The mayor was also aware that since neither she nor the local council had been elected, she had to take extra care to open up the policy process to the citizens of the municipality. The participatory nature of the FONDEVE was one result. In the FONDEVE, community organizations propose community works projects and receive funds transferred from the municipal government to implement projects that are approved.

In this case study, leadership, personal relationships, and the framework of democratization contributed to providing an enabling environment for an effective partnership program to form. The FONDEVE of Conchalí provides an interesting example of the fact that partnerships spring out of many different sources. In this case, the

groundwork for partnership building had been laid during the many years in which the mayor of Conchalí was actively involved with NGOs.

Participatory municipal governance in Cajamarca, Perú

Democratization and decentralization have provided the backdrop for exciting reforms in local government in the town of Cajamarca, Perú.²² Located in a valley in the northern highlands in Perú, Cajamarca provides an outstanding example of new partnerships and alliances working effectively. Under the leadership of a charismatic and energetic mayor, a number of reforms in local governance have galvanized the town and enhanced development.

In March 1993, Mayor Luis Guerrero Figueroa initiated a process leading to a new style of governance in Cajamarca. Realizing that local development and effective provision of services would benefit from democratic participation and alliances with partners, participatory reforms were begun. Since lack of planning and coordination among public agencies and private institutions such as NGOs had led to duplication of effort, Cajamarca devised a consensus-building planning strategy.

To make the local government more democratic and to include grassroots organizations in the planning process, the municipality called for broad elections for local authorities who would represent neighborhoods and rural areas. These new political authorities who represent local concerns share in political decisionmaking with the municipal government.

Cajamarca has also prepared a Provincial Development Plan, designed to meet the needs of the numerous constituents of the area: local organizations, business leaders, farmers, and state institutions. In developing the plan, Cajamarca has held six consensus-building forums between the municipal government and community entities. Each forum has focused on one of the community's major problems such as education, employment, and women's issues. Each forum results in the formulation of a strategy, which is signed by all institutions involved in the implementation. Participants in the forums include the municipal authorities, NGOs, grassroots community organizations, private businesses, and local political officials.

In addition to the partnerships forged by the initiative of innovative local government, NGOs in Cajamarca are involved in a unique cooperative relationship. In February 1991 a cholera epidemic provided the catalyst for NGOs to

work together under a communal emergency plan. Evaluating the experience after the crisis had passed, the NGOs decided that this effective instrument of coordination should not be deactivated. Thus, a consortium of NGOs in Cajamarca, CIPDER, was born. The cooperation of these groups has greatly contributed to the region's development.

The private sector in education in Latin America

The private sector is slowly beginning to respond to educational needs in Latin America.²³ Some business leaders are realizing that involvement in education can enhance their firms' competitiveness in a global market. The shift to global competition and open markets in Latin America over the last decade has increased the private sector's need for skilled, technologically competent workers. Most Latin American schools, especially those that serve the poor, suffer from insufficient funding and low quality. Students at the primary level, where poor children repeat grades and do not continue to higher levels of education, are at particular risk. The majority of businesses in Latin America do not yet support education. Many of those that do follow a traditional model of supporting educational infrastructure in their company towns. However, some private sector firms are working more significantly to enhance education.

In the Dominican Republic a group of businessmen and women work together in an organization called EDUCA, to promote business involvement in education. EDUCA has initiated several innovative programs, such as "Private Initiatives for Primary Education," working with businesses to provide teacher training and materials to enhance primary schools throughout the country. In addition, EDUCA has become involved in the educational policy-making process and participates on task forces with governmental education ministries. In Mexico the major businesses represented in the country have formed the "Comisión de Educación del Sector Empresarial," to involve the private sector in educational policy formation. In Argentina the company Alto Parana created a foundation to establish a private school, *Instituto Los Lapachos*, for employees' children in the low-income district where it is located, to attract and retain highly skilled workers. The school has improved education throughout the community, because only 30 percent of the children it serves are employees' children and the rest are from the greater community. In Guatemala the private sector is involved as a key actor in a private-public "Comisión Eduquemos a la

Niña," to improve girls' access to education. In Chile a law was recently passed that allows businesses to make tax-free donations to schools. Several relationships established as a result of this law have evolved beyond financial support to innovative partnerships.

In countries with restrictive regulations, some businesses provide direct technical training outside of the public school system. In Venezuela where active participation by the private sector in public schools was forbidden by the Constitution until recently, the firm Cigarrera Bigott initiated a post-high school technical training program to train qualified factory maintenance technicians. Another firm in Venezuela, Grupo Delfino, created a foundation to establish a private school.

Key factors that are critical for business-education partnerships to succeed include the commitment of business leaders to establish well-managed programs, and receptiveness from government. Businesses have several motivations for becoming involved in education, such as investing in creating a skilled labor force and attracting and retaining good workers by providing education for their children. Business can also be motivated by a sense of conscience to respond to community needs, or it can seek to improve community relations and its corporate image by involvement in education.

Citizen's campaign against hunger and poverty and for life, Brazil

This unique citizen-initiated campaign in Brazil resulted in more than 3 million volunteers becoming involved in direct social service provision and in advocacy at the state- and local-government levels to improve social services for the poor.²⁴ The breadth of partnerships involved in this venture is staggering.

In 1993 a group of NGOs launched the Citizen's Campaign, a "struggle against abject impoverishment." At approximately the same time, the national government began a nonpartisan antipoverty campaign and established a new national food security council called CONSEA. Thus, from its inception, the 1993 antipoverty program was established on two paths: one public, one "civil." Citizen's Campaign organizers placed pressure on the federal government to use resources for the poor more effectively, and they also relied on a network of private citizens to monitor policy implementation.

Local committees composed of churches, unions, business professional organizations, NGOs, and schools sur-

veyed the local need for food and jobs. They then surveyed local producers of food and existing service providers, before arriving at a final plan of action. Employees of state-run corporations and public agencies were unexpected and significant participants in local committees, raising millions of dollars through fundraising drives. The national banks, petroleum company, agricultural research agency, and regional utility companies volunteered their labor and technical assistance.

Business groups, initially skeptical, also became involved. An entrepreneurial association, *Pensamento Nacional da Bases Empresarias*, actively worked with the campaign's national coordinating committee. The American Chambers of Commerce in Brazil, representing some of the country's largest corporations, supported the campaign with an educational drive. The active support of the media was critical. More than twenty different public-service television ads were run, and leading newspapers covered the campaign in detail. Brazilian pop-music stars and sports figures strongly promoted the campaign.

By July 1994, a nationwide survey by one of Brazil's largest polling firms had found that almost 70 percent of Brazilians had heard of the Citizen's Campaign, 30 percent (28 million people) had contributed money or supplies, and 3 million people had participated in local hunger committees. The national government's food council, working with campaign leaders, had decentralized school meal programs, implemented employee lunch programs at various companies, and linked a milk distribution program to the municipalities. In 1994, the Citizen's Campaign added a new issue, job creation, which has proved more challenging but has had some success.

The Citizen's Campaign is a social and political movement based on three concepts: partnership, initiative, and decentralization. It reveals the national leadership role of Brazilian NGOs and the material and human resources for combating poverty available throughout Brazilian society.

Private-public partnerships in Cali, Colombia

In Cali, a climate of intense interaction between private business and the local government has produced unique innovations.²⁵ Cali and Valle (the region in which the municipality of Cali is situated) are open to creative change and extensive cooperation between the public and private sectors. The coordination between the private sector and public administration has proved conducive to trying out

new services and means of delivering them. Private-public cooperation has had a major impact on social services in Cali, resulting in more effective management methods and greater client satisfaction.

Cali also has demonstrated enormous creativity in involving citizens in the formulation of public policy. In December 1995, Cali approved one of the most radical reforms in Latin America for popular participation and local government decentralization. The region's legal reforms have created an enabling environment highly conducive to partnership building and participation.

The motivation for businesses to become involved in Cali's social development stems from a desire to help create a stable environment conducive to good business practices. In the 1950s and again in the early 1980s, poverty and social unrest in Colombia led to several large waves of migration to the city of Cali. The existing infrastructure for social service provision was ill-equipped to handle large numbers of low-income rural citizens, and problems associated with urban poverty escalated. The private sector realized that "a healthy business can't survive within a sick society"²⁶ and decided that investment in community welfare was integral to successful business undertakings. Private sector involvement in social services began in the early 1960s in Cali, but it has grown greatly since decentralization reforms in 1986 and the new Constitution of 1991. Cali now exemplifies the "new paradigm of interaction between the public and private sectors."²⁷

The district of Aguablanca is one area of Cali where public-private cooperation has been extensive. *Fundación Carvajal*, a foundation created by the business enterprise Carvajal and Cía in 1961, operates numerous social-development programs in Aguablanca in partnership with the municipal government and other private entities. The *Fundación* runs three "basic community services centers" in the district, which provide essential goods and services reaching more than 70 percent of the population. The centers provide construction materials for homes at reasonable prices, financial services, microenterprise and infrastructure support, and phone and postal services at a low rate or on credit. The *Fundación* has several *Centros de Salud* in Aguablanca as well, designed to promote primary health care. Volunteers from the community visit families, monitor child nutrition, and ensure that expectant mothers receive prenatal care. This program has contributed to the significant decline in child mortality in Aguablanca in the past decade. *Fundación Car-*

vajal also supports an innovative program helping manage local education, a program of business development, a radio station to transmit music and educational programs, and an affordable-housing initiative.

There are a number of other partnership activities in Cali. *La Corporación para la Recreación Popular (CRP)* is a public-private enterprise formed in 1980. The mission of the CRP is to provide parks and other recreation spaces for low-income areas. The CRP has built and administers twenty-six parks in Cali. The *Corporación* also promotes sports and cultural events and sponsors summer camps. Funding is split between private and public entities. Businesses contribute 50 percent, beneficiaries 20 percent, and the government contributes 30 percent. Another interesting initiative is the *Corporación para la Tercera Edad (CTE)*, an organization founded by leaders of the CRP, the municipal government of Cali, and other groups. The CTE involves 44,000 elderly citizens in groups of approximately eighty people, making it the largest voluntary organization in the country. Its innovative structure promotes community participation, as each group is autonomous and holds fundraisers to raise financial support. The CTE promotes physical and psychological health for senior citizens by activities such as daily group exercise, civic events, and social activities. It also participates in an association with other governmental and nongovernmental agencies concerned with senior citizen well-being.

The private sector in Cali has strongly contributed to the capacity of local government to deliver services, especially under constitutional and legislative reforms that have decentralized government and allowed for more extensive private sector responsibilities. The motivation for business involvement is the creation of stable conditions conducive to productivity and growth, and the private sector has worked closely with local government to identify priority areas where businesses can contribute. The private sector has increased the management capacity of local government, helped synthesize and streamline development strategies, and promoted institutional development. The public sector, for its part, has provided conditions conducive to cooperation and partnership building.

PRONASOL—Mexico's National Solidarity Program
Mexico's National Solidarity Program (PRONASOL) was initiated in 1988 to pursue improvements in social conditions.²⁸ The main objective of the program is to reduce

poverty via income-generating and infrastructure projects. The primary target population is the urban poor, indigenous people, and poor peasants. PRONASOL, the largest matching-grant program in Latin America, takes a partnership approach to poverty alleviation. Since 1989 it has implemented more than 200,000 projects throughout the country and has matched more than US\$8 billion in funds with local funds to finance projects in education, health, roads, sanitation, and infrastructure. PRONASOL, which is larger than any Latin America social fund, differs from social funds in that it operates from within an existing government ministry.

Democratization and decentralization form the backdrop for the participatory nature of PRONASOL. The program has been effective in giving decisionmaking power and resources to communities in partnership with their local governments. Community demands are expressed through the formal channel of "Solidarity Committees," often composed of long-standing grassroots groups. There have been more than 150,000 Solidarity Communities formed since 1989. Through these committees, local communities select and rank projects, submitting written proposals to municipalities. The municipalities then rank and select the projects they feel would most benefit the municipality and forward the ones chosen to the state level for approval. When a project is approved, the Solidarity Committee that submitted the proposal becomes the project executor.

The use of the media has been a crucial factor in the success of PRONASOL. Throughout Mexico there are frequent television ads, newspaper articles, and radio songs about the program. Through the media PRONASOL ideals such as participation, joint responsibility, democracy, and plurality are put forth. The national government also runs a training institute to train members of Solidarity Committees, mayors, and other leaders about PRONASOL. Participants learn that projects should be community driven, with responsibility shared between the community and all levels of government.

The PRONASOL program has areas in which to improve. Funding is determined and allocated as federal grants to state and local governments with little transparency. Targeting in certain areas is not equitable, since states contribute more money depending on wealth, which disadvantages poor communities within wealthier states. However, overall, PRONASOL has been remarkably successful in producing intense grassroots activity and

partnerships between community groups and all levels of government.

Decentralization and democratization creating partnerships in Colombia

National-level political reforms in Colombia have created an enabling environment for new partnerships between NGOs and local governments.²⁹ Colombia had a highly centralist state for more than a hundred years, but in 1986 several laws were approved that began returning power to municipal governments. Reforms have opened channels to broaden citizen participation in the political process. Municipalities can contract services and projects from community groups, issues can be placed on local referenda, and citizens advisory boards can provide input into local government decisions. Thus, constitutional reforms in recent years have provided a legal framework conducive to formal participation of NGOs in local government. Decree 2626 of 1994 removed the last legislative obstacle to this important type of partnership. NGOs function in several important ways as partners with local government. They promote community participation, help design and implement municipal development plans, provide services, participate in cofinanced projects, and support institutional development.

There are a number of excellent examples of NGO-government partnership relations which have been enabled by the new political environment. One group, Cidesco, interacts with government and community members in the planning, control, and evaluation of projects. The organization has contributed to institutional development in several municipalities, and the relationship between Cidesco and the local governments has been contractually formalized. PARCOMUN, another NGO, is instituting workshops in a number of Colombian municipalities on decentralization, participation, and the new constitution. The workshops are designed to familiarize local officials and community leaders with the new opportunities available under the new laws and train participants in development planning. The NGO FUNDAEC has supported the development of local government capacity through agreements with various municipalities for implementing education programs. This has allowed the municipalities to increase the quality of education available to the most vulnerable citizens. The organization *El Cinde* participates in the design of development plans in several municipalities.

These types of partnerships can encounter obstacles. For example, some municipal governments were not open to working with NGOs, and some community members were reluctant to get involved because they did not trust the promises of mayors.

Donors can play a strong role in promoting participation in the context of political reforms. Both Cidesco and PARCOMUN are supported by the Inter-American Foundation. The collaboration of NGOs and municipal governments in encouraging participatory development and governance in Colombia is an important factor in effective poverty reduction.

Civic public partnerships for the delivery of education

In addition to private sector involvement in education, there have been some very innovative programs involving NGOs and community groups in partnership with the public sector for the delivery of education services in Latin America.³⁰ In El Salvador *Educación con Participación de la Comunidad* (EDUCO) reveals lessons for partnership building with rural communities in education. In Peru the NGO *Asociación Puklasunchis* operates a unique program that provides an interesting example of public sector-NGO cooperation in education.

EDUCO was instituted in 1991 in El Salvador, with the assistance of a loan from the World Bank. EDUCO grew out of the system of education created by rural communities approximately fifteen years ago. During the civil war, public education was not available in certain areas of the country, and some communities met the educational needs of their children by organizing themselves and administering a self-managed private-style educational system. EDUCO continues this model, working in partnership with the Ministry of Education to reach children in underserved rural areas. Funds are transferred from the central level to the community to operate new schools. Community education associations are elected in each community to maintain the schools, handle personnel issues such as hiring and firing teachers, and raise additional financial resources for the schools.

Overall, beneficiaries have been quite satisfied with the results of EDUCO. One potential problem area is reluctance of school directors to relinquish power, although many directors have been won over after seeing the increased involvement (and financial contribution) of par-

ents under a participatory model. Another possible problem area is potential misuse of authority by community associations (for example, restricting children's access to school if their parents do not assist with the school). However, EDUCO generally has been very successful and serves an excellent example of government-community partnerships in providing services to underserved areas.

In Peru, the *Asociación Puklasunchis* is an organization working to improve educational quality. Many schools have poor infrastructure and poorly trained teachers, making them unable to provide students with good quality education. The *Asociación* runs several schools, such as a pilot program in the San Sebastian neighborhood of Cusco and a preschool in the Belen neighborhood of Cusco (where children of convicts serving jail time in the local prison can attend school).

The unique feature of the schools of the *Asociación Puklasunchis* is the fact that the organization founds the schools with the intention of turning them over to the public sector. For example, in Belen, after building the school, training the teachers, and running it for three years, the *Asociación* turned the school over to the public education sector. The NGO wants to transfer all of its schools to the public sector to help create a stronger school system. The *Asociación* hopes that by creating and running excellent schools that are then turned over to the local government, the schools will become permanent and the effects will be multiplied to other public schools.

Notes

1. This section draws heavily on Campbell, 1995a.
2. Campbell, 1995a.
3. Ibid.
4. World Bank, 1995b.
5. Ibid.
6. *Programa de Gestión Urbana* (PGU), 1995.
7. Van Zyl et al., 1995; Campbell et al., 1991.
8. PGU, 1995.
9. Inter-American Conference of Mayors, 1994.
10. PGU, 1995.
11. Ibid.
12. Reilly, 1995.
13. Ibid.
14. This section is based on interviews with Amy Horng.
15. Based on Tendler and Freedheim, 1994; and Freedheim, 1993.
16. Based on Campbell, 1995b.
17. World Bank, 1995b.
18. Rojas, 1996b.

19. Buthet, Carlos, Graciela Maiztegui, and Marta de Borri, "Políticas sociales, descentralizadas, focalizadas y concertadas. El caso de la Mesa de Concertación de Políticas Sociales en Córdoba," *Pobreza Urbana y Desarrollo: Participación de La Sociedad Civil en la Definición de Políticas Públicas*, Año 4, No. 10, August 1995.

20. van der Gaag, Jacques, *Private and Public Initiatives: Working Together for Health and Education*, World Bank 1995; World Bank, *Investing in People: The World Bank in Action*, 1995.

21. World Bank, "The *Fondo de Desarrollo Vecinal* of Chile," DRAFT, Case Study for the *LAC Regional Study on Decentralization: Policy Lessons and Best Practices*, 1996.

22. *Concejo Provincial de Cajamarca*, "Juntos: Vecinos y Municipalidad," 1994; *Desafío: Promover El Desarrollo Rural Sustentable* "Cajamarca: La Lucha Contra El Cólera," Año 1, No. 1, 1993; Municipality of Cajamarca, "Building Consensus and Democracy for Sustainable Development," 1994; UNICEF-Mesa de Concertación de Cajamarca, "Concertando—Boletín de La Mesa de Concertación," Año 2, No. 3, 1995.

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25. *Fundacion Carvajal, Informe Anual 1994*; Rojas, Fernando, "Colombia: A Case Study of Cali as a City and Valle as a Region," Case Study, Decentralization in LAC Best Practices and Policy Lessons, DRAFT, March 1996a; Valencia, Amparo, and Marc Vandame, *Los Factores de exito de Cuatro Instituciones y/o Programas que Propenden por el Desarrollo Social y Económico de Cali*, Universidad del Valle, June 1995.

26. Quoted in Valencia and Vandame, 1995.

27. Rojas, 1996a.

28. Campbell, Tim, and Sara Freedheim, "Basic Features and Significance of PRONASOL," *Source Book Note 2*, World Bank, July 1994.

29. Llorente, Ana Maria, and Juan Rojas, *Organizaciones No Gubernamentales en Colombia y su Contribución a los Gobiernos Locales*, background paper for the Colombia Local Government Capacity Study, World Bank, March 1995; Rodriguez, Pedro Santana, "Local Governments, Decentralization, and Democracy in Colombia," in Reilly, (ed.), *New Paths to Democratic Development in Latin America*, 1996; project descriptions provided by the Inter-American Foundation.

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Innovations in the Rendering of Services by the Colombian Confederation of Nongovernmental Organizations

I N É S U S E C H E D E B R I L L

THE COLOMBIAN CONFEDERATION OF NONGOVERNMENTAL ORGANIZATIONS (CCNGO) THANKS the World Bank for its invitation to participate as a panelist in this important conference on innovations in the rendering of services. We hope we can add to the report by Ariel Fiszbein and Susan Crawford, "Beyond National Policies: Partnerships for Poverty Reduction." Their paper notes the present circumstances, the challenges ahead, and the need to generate alliances to reduce poverty—specifically, the role of NGOs in helping to achieve this goal through specific examples in the Latin American region.

The Confederation wants to acknowledge and highlight the important role of Colombian NGOs in the different fields of social development and the great challenge we face to generate true innovations in the rendering of services to the poorest. We also want to strengthen the action of our affiliates, especially those who have had an impact on reducing poverty in some of our most vulnerable communities, and we want to acknowledge the importance of the Latin American NGOs sharing their experiences.

Government reform, decentralization, and civil society

Since the 1980s the Colombian government has undertaken a profound process of institutional adjustment to make its actions more efficient. Changes began with the political-administrative laws on decentralization, the popular election of mayors, the transfer of functions to the municipalities, the creation of regional planning, and especially the opening of new opportunities for citizen participation in decisions at the local and regional levels. With

the greater autonomy of the municipalities and of the new resources transferred and, lately, with the subsidies on demand, new possibilities opened for NGOs and community organizations through contracting with local governments in the management and execution of projects.

Thus, there are many ways NGOs can contribute to public policies and to implementing programs. NGOs can help governments fulfill goals and generate new sources of employment as part of planning and controlling municipal and regional development. This takes into account the new paradigm sketched in the previous paper in which the reduction of poverty must take place in an environment in which the citizens are involved, including the poor, so that they can organize and have their own initiatives.

Because community participation is the central element in social development, it becomes necessary (a) to create new technical structures to generate large-scale participation processes and to take care of the needs of social development of the less-favored classes, and (b) to create information and integration technologies that facilitate the

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conformation of organization networks, which serve as government support and which meet the requirements exacted by the new social policy.

Thus, in Colombia there is an interaction between decentralization and democratization which has offered an important frame of action for the work of local development and for the construction of local, regional, and national alliances. Such cases as those analyzed in the paper, that of the private sector with NGOs and that of the already known relation of the public sector and private sector in Cali, are some of the many examples of alliances that have been developing for several years in the country and that have helped reduce poverty.

The challenge for the NGOs and the rendering of services

The challenge for the NGOs when faced with the new environment in our country implies first of all becoming aware of the new panorama and of the role that, as an organized civil society, they have in the construction of a truly participatory democracy. For this, it is necessary to generate a change of attitude in the NGOs to overcome the past paternalism and strengthen themselves institutionally so they will become real comanagement enterprises and social control alternatives to the government in development projects.

On the other hand, to strengthen the actions of the NGOs, it becomes necessary to continue supporting the channels of sectoral information and communication, and their capacity to negotiate and agree with the government, the communities, and international organizations.¹ These elements make evident the need for institutional strengthening and development of our sector, and for creating databases and the ability to conduct more reliable investigations into the social aspects that incorporate our successful experiences and the respective methodologies, to generate systematic processes that permit an influence on public policies.

The Colombian Confederation of NGOs designed a development plan entitled Colombia Answers to motivate and generate change among NGOs and to find ways to generate proposals, create unions of related NGOs, provide broader coverage, and encourage "umbrella" multiplier projects.

To reach our goals we have established relationships in the public and private sectors, both national and international. We have a permanent dialogue with the World Bank, the IDB, the PNUD//UNDP, and the agencies of the

United Nations system. We have also established a relationship with the government. Space has been obtained in the different Committees of Social Policies, of the National and Territorial Development Plan. Working groups from the different civil organizations have formulated concepts and written drafts on the proposed laws for the participation of the civil organizations.

Operating under the principles of diversity, plurality, transference, justice, and democracy, the Confederation has focused on the importance of maintaining the autonomy of our organizations, and on the alternative proposals for agreements of purpose with the different national, regional, and local agents from both the public and private sectors.

The process of change demands a greater investment in human resources to facilitate transformation from the conventional to the competitive model; to understand its new role in society; and to guarantee a democratic, legal, strong government and a strengthened civil society.

Toward innovation in the rendering of services: The case of the Colombian Confederation of NGOs

A globalized economy demands progressing from individual to collective and integral thought. NGOs from different sectors need to be developed and strengthened with the goal of understanding and integrating the experiences of the various sectors of society to create a strong civil society. At the same time, the participation of the disenfranchised civil society minimizes the possibilities of union. This implies (a) the need to begin to coordinate and integrate to foster greater political cohesion among the NGOs; (b) the need to create a common front to dialogue and negotiate with the government, with multilateral organizations, and with the private sector on the strategic programs, projects, and objectives to prompt the political, economic, and social development of the country; (c) the need to reach general and sectorial agreements; and (d) the need to agree on rules to solve conflicts between the different institutions.

These processes are not easy, and there must be a mutual understanding among parties that would lead to mutual trust to enable them jointly to construct methodologies and technologies of social development. What has worked includes the following:

- The investigation and information that result in the rendering of services of greater quality, efficiency, and transparency.

- Institutional preparation that allows NGOs to go through a process of change. First, the “present situation” is analyzed, studied, and restated. Second, the “desired situation” is identified. Third, in “transition,” the *how* is specified, and *action* is taken to achieve the desired situation, which is a new political, social, and economic environment in the country. Both public and private institutions must be engaged in this process.
- Regarding the new challenges of the public and private institutions engaged in development, we have this warning: The strengths of some agents are the weaknesses of others. This demands interinstitutional integration to ensure greater achievements with greater impact.

An NGO which provides social services is placing its knowledge and social experience at the service of the entities interested in prompting development programs, and with its work collaborates with them so that strategic objectives are reached.

Opportunities for alliances: The promotion of NGO networks or partnerships

We think of NGO networks or partnerships as an integrated system of planning, design, transference, distribution, and supply of social development products created to guarantee the effectiveness of social projects. The NGO network seeks to become an effective mechanism of distribution and vertical and horizontal integration which makes use of the specialization and comparative advantages of third degree (at the national level), second degree (at the regional level), and first degree (at the local level) NGOs, and distributes among these three levels the planning, execution, and control functions of a social project optimizing time, and physical, human, and financial resources. The network is a system which guarantees the national and international entities the implementation of development projects with quality and justice.

Thus, it is intended to reach a collective interinstitutional agreement, reflecting the complexity of institutional relations of a civil society, to achieve a common interest: development. To construct networks is to create a solid citizen fabric of NGOs which act autonomously according to their own interests.

The networks, groups, and/or partnerships which the CCNGO has promoted have been for solidarity, living together, acceptance of diversity, and the handling of con-

flict through negotiation and agreement. The intention is to adapt to different sectors, with similar interests, available and open to dialogue.²

At the regional level, NGO groups or partnerships need to have the appropriate experience and capacity to carry out specific social development projects. It is important to have coordinating consortia to guarantee wide coverage, multi-sectorial services, and to monitor and follow up on projects. Also needed is training in methodologies to execute projects according to the stated requirements and needs.

Examples of the kind of cooperation needed can be seen in cases where central and local governments and NGOs worked together to aid people affected by a catastrophe.

Through a group of NGOs in the departments of Antioquia, Chocó, and Boyacá, post-catastrophe (earthquakes, floods) assistance was provided to carry out the physical, social, and economic reconstruction of the affected areas. The affected population, including those who needed help because of an earthquake in Murindó, were some 1,200 families. To provide assistance, seventeen NGOs joined together around the “Plan Padrinos Municipal” (Municipal Sponsor Plan). The goal was to strengthen the capabilities of the NGOs and the local governments, with permanent support from the Dirección de Atención y Prevención de Desastres del Ministerio del Interior (Institute for the Attention and Prevention of Catastrophes from the Secretary of State) and with the participation of INURBE (National Institute of Social Interest Housing and Urban Reform) to deliver assistance to those affected, with the help of US\$15 million.

In the case of the flood of the Andaguada River in Bagadó and other municipalities, nearly 3,600 families were helped by an investment of about US\$2 million, and with the participation of five NGOs which coordinated the assistance of community organizations, banks, and subsidies from INURBE. In the case of the earthquake in Tauramena, five NGOs coordinated efforts to rebuild housing, with the support from the regional government, the Program of Integrated Rural Development (DRI), the local governments, and the Institute for the Attention and Prevention of Catastrophes from the Secretary of State.

This experience generated coordinated action among the different entities at the national, regional, and local levels. Schedules and goals were established, and each organization contributed to the effort, based on its own expertise.

Interaction among NGOs and multilateral banks to assist displaced workers

Project CCNGO assists NGOs which train displaced workers. Six NGOs (Carvajal, FICITEC, Fundaempresa, Neo Humanista, CINSET, and CITE) created a pilot program that draws on the particular talents of each organization. The purpose of the program is to give organizations and professionals the knowledge and ability to help displaced workers. They do this by providing the social, psychological, technological, and/or management assistance in the five regions of the country where there is high unemployment.

During its six months in operation the program exceeded its goals. Between forty and fifty-four displaced workers have been retrained, 310 employees have been upgraded to positions in sales and systems, and 266 workers were placed in apprenticeships, of which 148 resulted in jobs. The program has generated a set of other actions in five regional federations, and partnerships with NGOs have been created in Valle, Risaralda, and Bogotá, to work with Cali's City Hall, the governor's office in Risaralda, the City Hall of Santafé de Bogotá, and the governor's office in Cundinamarca, respectively.

Central governments, health departments, NGOs, and community interaction

Eighteen NGOs banded together to create *Empresas Solidarias de Salud* (ESS) (Health Solidarity Companies) with the Health Department. This effort resulted in the creation of 182 Solidarity Companies, of which 142 registered as administrative entities. The program covers 1,500,000 families, and is expected to reach 2,500,000 by July of this year, in thirty regions of the country. In addition, departmental federations of ESSs (each ESS normally has 50,000 members) are being created. After coordinated efforts among the Health Department, the Confederation, and the NGOs, efforts were rationalized and experiences shared. This resulted in the publication of seven brochures on various health-related subjects.

Interaction among NGOs, OSCs, and government multilateral banks

The work of the Consultancy Workshop Forums on Strengthening of Civil Society Organizations³ (OSCs) is an example of the synergy that can be created through organizations such as NGOs, the OSC, and the government working together. Coordinating our actions and having a common agenda has indeed been a great challenge in mov-

ing from a welfare state to a pluralized system of social welfare. The achievements of this process—which has lasted almost two years—have been the results of the teamwork between governmental entities and OSCs in the following ways: (a) the participation of the OSCs in formulating social policies; (b) the institutional strengthening of the OSCs; (c) the mobilization of resources and the creation of a program of international cooperation with the OSCs; and (d) the proposal of the OSCs to hold the Sustainable Development in the Hemispheric Summit in Santa Cruz, Bolivia in December 1996.

The most important achievement of these alliances is the relationship established between the NGOs and the other OSCs which has permitted a more unified focus on public policies, and has enabled our input into the decisions made by the multilateral banks.

To strengthen these alliances, it is recommended that a system be implemented to teach the public and private sectors about the obstacles to and achievements of social development at the local level.

Institutional strengthening

The CCNGO considers institutional strengthening to be one of the fundamental pillars to achieving social development through NGOs and other entities. In addition, such organizations must learn to work together as synergistic, dynamic forces working together to achieve common objectives, and they must know how to achieve their objectives.

How institutions are strengthened depends on their objectives, but certain principles exist. They include: engendering a global vision in the institution; achieving interinstitutional integration; ability to supply social services; promotion of a participatory culture; dissemination of publications about the various projects and experiences; establishing a useful system for obtaining information; and learning how to negotiate.

We reiterate here that without institutional strengthening and public information, it is not possible to fulfill the challenge to the NGOs.

Through communication, the CCNGO has made strides in gaining acceptance of programs that might have been met with resistance. Efforts have been made to study the availability of and demand for social services. Studies have been made of the social factors, such as employment, education, health, and housing. The results have been disseminated through publications and tele-

conferences. Nevertheless, greater effort is required on the part of NGOs.

In the case of employment and for the IDB-CCNGO project, the project has been based on the contents of two critical documents. The subject of the first document is employment policy, and the subject of the second is competition policy. These papers provide a macroeconomic perspective, present the regional situation, and enable the regional federations of NGOs to establish their priorities.

The international entities as facilitators to create synergies

With the opening of the World Bank and the Inter-American Development Bank to the participation of organizations of civil society in projects, a very important opportunity has presented itself to facilitate involvement in social policies and to create synergies. Already with the World Bank we have a monthly work agenda to coordinate both national and regional actions.

Likewise, with PNUD and Project INT 92/104, "Approximation Between Local Governments, Nongovernmental Organisms, and the Agencies of the United Nations System," coordinated efforts have begun with organizations including the ILO, WHO, FAO, and UNESCO.

It is worth mentioning that in the process of preparing the first consultantship workshops in which assistance was expected from the multilateral banks, a positive effect was achieved through creation of a national synergy among the eight participating organizations, which will ensure permanence and sustainability.

Given the experience of these organizations, greater NGO participation is recommended and encouraged.

The role of the National Association of NGOs in the Latin American region and the Caribbean

In the Latin American region and the Caribbean, we have founded the National Association of NGOs to formulate

by consensus a written constitution of principles, and a common agenda for action. This will surely allow a strengthening of the NGO sector in a more organized way.

The private sector and outsourcing: A potential service to agree on

Outsourcing of services is something still to be agreed on with the private sector, although the CCNGO's aim is to offer social welfare services to private companies by NGOs. This makes it necessary for the CCNGO and the Federations to identify the NGOs in health, education, recreation, employment, and the environment to develop programs and/or projects useful to the private sector but for which they want to decrease their social service contributions. Again, coordination, monitoring, and follow-up are needed to ensure adequate services and excellent quality.

Various factors have brought together NGOs and governments that have resulted in international cooperation among the Solidarity Network, Labor Secretaries, the World Bank, the IDB, the IAF, and the Colombian Center of Philanthropy. Alliances have been formed to establish common goals and purposes, and methods have been established to work toward them and to obtain feedback on what works and what doesn't.

We agree completely that constructing strategic alliances will result in reducing poverty. That is why our message is: Prompt development is the responsibility of us all!

Notes

1. International NGOs as well as the multilateral banking.
2. In addition, there are interesting experiences such as the Consortium Caja Ecológica, and the Consortium for Community Development.
3. Held in July, 1995 in Santafé de Bogotá; in December, 1995 in Barranquilla; in March, 1996 in Cali; and in June, 1996 in Rionegro (Antioquia).

Comment

JOSÉ CHLIMPER

I AGREE THAT IN LATIN AMERICA IT IS NECESSARY TO COORDINATE EFFORTS AMONG PRIVATE COMPANIES, NGOs, and the State, but before answering the four questions asked by Ariel Fiszbein I would like to make a philosophical point. We are talking about poverty reduction. Poverty cannot be reduced. Actually, poverty is an entelechy. Even though it represents a reality, poverty does not exist per se. You can measure the cloth used in a garment, or how much a horse weighs, but there is no action that will lead to poverty reduction. So, actions that we take in this respect are actions to generate wealth. That is, we should not strive for poverty reduction but for wealth generation. I think this underlying premise will explain the basis of my comments.

First, we have talked about creating an environment to enable this new process of wealth generation to unfold. Three needed elements in our countries have been mentioned: democratization, decentralization, and structural reforms. In general terms this is correct. However, about the specific case of democratization, I would like to say this: Democracy is more than free elections, or national elections, or municipal elections. Half of a recipe does not make half a cake. With respect to democracy, let us require the other half of the recipe—that is, judicial power. We need judicial power to strengthen justice for the poor, for the marginalized, for women, and for children. So while elections are important, we need to accelerate the strengthening of judicial powers.

Second, we also need to engender respect for property, both intellectual and real. After some five or six years of global meetings, the International Trade Organization was created. One of its mandates is to oversee intellectual property rights. It is commonly said that knowledge is the basis

of wealth. Therefore, we must protect intellectual property. As for real property, ninety percent of Americans have an adequate title to their properties. Ninety percent of Latin Americans don't. They don't have a title on their urban properties. So, in our case, property has an intrinsic purpose per se, but has no purpose as capital to generate an enterprise or financial resources. This is important because, nowadays in Latin America, we have heard about large investments, and it is true that foreign investment is an important indicator. However, according to our Central Banks, by far the largest investment in Latin America is made by Latin Americans. It is made by medium-sized and small-sized companies, and by microentrepreneurs. Yet these people do not have adequate protection for their property. So, I would like to reiterate that we need to defend property and have an adequate judicial system.

Third, let me talk about the international environment. The three highways Ariel mentioned are internal or domestic pillars, or highways, in our countries. But what is hap-

José Chlimper, an entrepreneur and a member of the local government in Colombia, also works in the NGO sector.

pening in the international environment? The goods and services we produce can be disseminated throughout the world. Are we all happy with the International Trade Organization negotiations? Were they fair? When we talk about developing a fertile environment, we must look not only at our own countries, but also at the international environment.

What is the real leitmotif for this partnership? In the paper presented ten different examples are given. It seems that all case studies were motivated by exogenous factors: droughts, cholera, AIDS, or in the case of British Petroleum, the guerrillas in Colombia, where people of the "Minuto de Dios" neighborhood tried to protect themselves from the possibility of having the pipeline blown out. This is okay, but I think there is another leitmotif, and that is good business, and we must not fear to say so bluntly. Of the twenty NGOs that are here, they all say they are nonprofit organizations. Why are we afraid of profit? Why can't we see in this partnership the possibility of good business—legitimate and honest business—where we can advance the interests of NGOs, entrepreneurs, and the country? The examples in the paper demonstrate this is possible.

Multilateral agencies such as the World Bank, but not only the Bank, could review the indicators to evaluate megaprojects. To normal indicators, such as balance-of-payments, product growth, and employment generation we could add other indicators that will tell us something about the progress of this partnership. We have some examples in Peru where once distrust between the sectors was overcome, excellent business has been conducted quite productively, simply by combining the knowledge that the NGOs have about the community with the knowledge of private companies.

Fourth, I'd like to talk about partnerships. When we talk about NGOs we normally talk about valuable but small or isolated efforts that are then joined in confederation, such as the one that Inés de Brill represents. But there are two entities that I consider NGOs that are not represented in the literature but are to a greater or lesser extent respected in the region. I mean the army, with all their abilities, and the church, especially the Catholic church. Latin America has no resources or intelligence to waste. Perhaps we should consider this because all our armies have means of transportation, printing presses, construction materials, and so much more that could be included in this network and used to foster development.

Fifth, I would like to talk about wealth generation as an underlying ideology of these programs. During the 1970s and the 1980s, the prevalent paradigm was that State intervention was going to solve all problems. The notion did not exist that private companies could solve problems. Now when we talk about privatization, we think of large corporations with white collar workers, dictaphones, and cellular telephones. Very few of us accept the notion that our informal workers—the marginal people—are self-employed. But they are private companies, as well, and they constitute 80 percent of our peoples.

As of 1996, ninety-seven of the top hundred companies began as very small companies. That demonstrates the wealth generation capacity of small-sized enterprises. You must have noticed that I did not talk about the microentrepreneurs. Entrepreneurs are entrepreneurs. But when we ask the chauffeur, or the street seller, that 40 percent of self-employed people, if he is an employee, he says no. So, here lies an ideological problem that breaks the trust between the NGOs and the private sector. I think that one of the challenges we have is to reinvigorate the concept of the private company related to wealth generation, to encourage marginal sectors to participate in wealth generation.

An enabling environment is essential for this partnership to succeed. If there is no democracy, there is no decentralization; if there is no judicial process, that partnership will not take place.

How can we motivate these partnerships? First, through deliberate policies. Federal, municipal, and local governments can pass credit or tax measures, or have purchasing powers, with which to define policies. This is something which is not widely used in Latin America but is very widely used in the United States. So we can persuade entrepreneurs to overcome their fears of becoming a partner with NGOs through deliberate policies.

Second, we should promote a development ideology. Some time ago, the World Bank, the IDB, and the IMF were touting the benefits of privatization. Nowadays it seems these organizations are actually defending partnerships among the State, private companies, and NGOs. I think we need to model that paradigm and go for it.

Third, we need information. Each micro example from the papers represented leads to a successful relationship that can then be replicated. We can eliminate distrust, and we should provide incentives to NGOs to fundraise. We can start demanding that they generate their own

resources, and that they become profitable—that they make money to increase capital for these projects. In the same manner, and this is the fourth point, we need to promote private companies. We have to provide incentives depending on the nature of the program, such as training programs, labor programs, or tax incentives.

Finally, to solve the partnership problem we must be bold. To explain what I mean by being bold, I would like to tell you a story. An entrepreneur who has a large shoe manufacturing company sends a salesman to a rural zone of

Africa to explore new markets to see how he can be global. He receives a fax telling him, this is a disaster, we can do no business here, no one uses shoes here in Africa. There is another entrepreneur who sends a different salesman to Africa and he reports back, this is wonderful, this is crazy, here we have big opportunities, no one uses shoes here.

That is what I mean by being bold. And if we are bold, there is a very real possibility of creating partnerships between NGOs and private companies.

Comment

HÉCTOR OSUNA

WE HAVE BEEN TALKING ABOUT INNOVATION IN RENDERING SERVICES TO OUR LOCAL communities, and how this helps to address issues, mitigate problems, and improve the living standards of our citizens at that level. There is one common denominator to all we have heard, and that is that we must begin with common sense. Sometimes we get so lost in technology and developing ideas that we depart from common sense. But all the practices that are really creative—the ones that light a spark in everybody’s mind—the ones about which people say, “Oh yes, that works!”—are the ones that are infused with common sense. We need to remember that when carrying out our responsibilities.

Let me turn to the question posed here: What does a community want from a local government? I was a mayor, a municipal president we call them in Mexico, and I realized that the community understands its problems, knows what to do about them, and normally is able to find a solution if it can count on the economic support to do so. Citizens always perceive the government as a whole, and always perceive that the local government is the closest one—the one probably most able to solve its problems.

As for the characteristics a local government should have, they are the ones that Ariel Fiszbein mentioned. A community wants a legitimate, democratic government, and it wants the government’s actions to be fair, transparent, and honest. And it is important that government is *perceived* that way. A community also wants participatory government—one that involves the people in decision-making, establishing priorities, and creating programs that are aimed at solving the community’s problems. And it wants a government where the community can partici-

pate in assessing the performance of the local government. Finally, the community wants a local government that works.

The idea is to create a partnership in which the government does what the community wants it to do. But the government is composed of the civilian population, so the civilian society is responsible for the government. Thus, there is a mutual need, dependency, and responsibility.

I am now going to talk about something to which I have a lot to contribute because I was a head of a municipal government. It is taboo to say, as we have been saying, that local governments, which are the closest governments to the community, cannot solve certain problems. I would like to ask about the results of centralism in our Latin American countries. I know that in Mexico the results were populism and all its vices. What have been the costs? I would also like to compare these costs against the costs that municipal governments might incur if they begin to learn to work the way they should. In Mexico, we say that

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the country is upside down regarding its structures. Since 1972 local governments have administered 4 percent of the national budget, the state governments 14 percent, and the federal government 80 percent. The pyramid is upside down. This power structure has concentrated political control as a result of policies designed to keep it that way.

I think we have to try to rectify this situation. We need democracy and a common sense structure of federalism—one that seeks support in its regional governments and which has ever-growing possibilities of solving problems where they exist. People should not have to go to a country's capital city to solve a problem.

Here are some examples of how citizens participate in government in Mexico. We had three or four levels of federalism. We established, first, that the government has two responsibilities. When we get close to election time, we don't like to talk about taxes, but to have a transparent government, we have to talk about them. We have to tell the community that tax collection, both federal and municipal, is something a government must do to have a responsible community.

The government is reluctant to talk about taxes, but I think a very clear tax policy would generate more confidence and trust among the people. For a municipal government, there are two types of citizens: those who pay taxes, and those who don't. It's that easy. Taxpayers, they're no problem. To the contrary, they are the allies of a government. But those who do not pay taxes *are* a government problem, and they have to be divided into two groups: those who do not pay because they cannot, and those who do not pay because they do not want to. For those who do not pay because they cannot, we have to create an economic program to help them. We have to subsidize them. Against those who do not pay taxes because they don't want to, we have the government obligation to apply all of the appropriate interests, fines, punishments, and laws. If that rule is clear, everybody will understand it. Then everybody will know that it is expensive not to be in solidarity with the community. You cannot be irresponsible; you punish those who don't contribute. So above all, we have to be transparent and open with the community. But few are the citizens who say they cannot pay taxes, and few actually require a lot of help.

We had a government program, the urban infrastructure plan, to improve roads, toll collection, etcetera. This required an effort beyond municipal capacity. We told the

community, "This costs so much," and we could collect it among all of us, and it could be a one-time tax to improve the living standard of all the people who live in Tijuana. We held a public forum and the plan was approved. We took it to Congress and it was approved there. But most important, we had the support of the citizens.

Another program was designed to foster community participation. Our principle was that work done in the community must be requested by the community. So we created a citizen's council to decide which request had higher priority, and to decide the distribution of work among the urban territory. We created committees for each project, then we did the following. We told the community, "Okay, if we want to be able to carry out these works, we are going to subsidize between 40 and 50 percent, depending on the economic situation. The rest is up to you." They self-assessed their financial capacities, told us what economic level they belonged to, and what subsidies they felt they deserved. We said, okay, the money we promised is approved. See you later.

The secret is that for citizens to participate, we have to give them the money, show interest in their priorities, and give them the confidence to accomplish their goals. We have to trust that they are going to do the work. But, we wondered, why is the community going to trust us if we don't show any trust toward the community?

In the end they built about 1,000 civil projects, much better than we could have done, and at a much lower cost—60 percent of what the municipal government used to pay for those projects. Since we subsidized an average of 50 percent, it meant a cost to us of 30 percent of the traditional cost of such projects. The community itself evaluated the program and we began to correct its flaws. This year, the new administration continued this strategy.

There are other considerations. You cannot have an alliance with the community if you are not transparent. There are small problems from the viewpoint of a government that are very large from the viewpoint of the people experiencing them. So we have public audiences twice a week in various parts of the city, and there we obtain information about what problems need to be solved. We give the money directly to the people, depending on the cost, so they can solve the problems themselves.

To foster transparency you have to use the media. We decided to make use of a radio station. We told them we need Saturdays from 8:00 to 10:00 so community members

can say anything they want and tell everyone what they feel.

Finally, I want to talk about something that is quite interesting and that I am quite enthusiastic about. We launched an initiative with the community that was translated into a civilian association to make strategic plans for the city's future. The entire community participated through its representatives. These representatives were the foremost leaders of the community in terms of trade, industry, altruism, nongovernmental agencies—anything that has to do with the community's life. Their goal was to try to do strategic planning based on analysis of community weaknesses and strengths, opportunities and obstacles, and the priorities of what the city wants.

We believe that our country is comprised of a whole set of communities, and the only reality that exists is the reality of the local community. The state or regional governments are the summation of all communities, and the federal government normally deals with things that go beyond the scope of the community. This is a common sense view. Things happen at local government and community levels, and that is where the possibilities and solutions lie. The approaches I've seen in some of the presentations, especially Ariel's, are oriented toward problem solving with the participation of the community, with society organized through nongovernmental agencies. We should have the political will to continue to open such doors to creativity to all citizens in all our countries.

Panel Discussion

Paul Isenman, Moderator: Thank you very much, Inés (de Brill), for those very wide-ranging comments and for the examples you gave about how NGOs are working effectively together or individually to aid groups, and about the importance of an open flow of information between NGOs and governments. Let me take this occasion to thank you for the work you are doing as the leader of the Confederation of Colombian NGOs. We value very much the contact with you and with other similar leaders in the other countries we are working with. It is an important part of our work. Now we'll take the first comment.

New Speaker: I would like to add something regarding innovation policies. No doubt there is a very clear consensus about the fact that without economic growth we cannot fight poverty. Economic growth is the sine qua non—one of the basic conditions—for fighting poverty. Nonetheless, we consider the role of the state to be a basic element of this process, as well. The recent history and economic indicators of Latin America provide ample evidence of the great failures of the State in channeling resources to the social sector. The banks, including the World Bank, have financed immense projects that give us the measure of the waste of resources that Latin American nations have suffered in the implementation of these social programs. However, the international banking sector has helped create new methods of modernizing the State. Among these methods is the creation of the social investment funds that have transferred many of the functions of the State to civil society. We have excellent experiences in Latin America in this area, and these social investment

funds must be considered as one of the innovative methods to fight poverty.

Newly passed laws have allowed private managerial activities within the modern State. In my country, as in many other Latin American nations, we have been able to define the guidelines for ministries and policies, for the social investment funds, for the execution of these policies, for the processes with NGOs and with members of civil societies, and for local governments. I mention this because we consider these innovative policies important.

P. Isenman: The next speaker, please. Minister.

New Speaker: I have been very depressed the two last days. First, they told us we are the most violent region in the world. I got depressed. Then they told us that the rural poverty problem that has been discussed by the World Bank has no solution yet. I got even more depressed. Then they told us that unemployment is growing. I was heading to a psychiatrist. And then they mentioned poverty. I was headed to take Prozac. But this has lifted up my spirits because I consider poverty a problem that concerns us all. It is a problem that all of us NGOs have to solve. But we also have to get rid of the prejudice against NGOs. NGOs should not be anti-government organizations. I belonged to one such NGO, the FUNDE, and I felt that prejudice, and now I feel it being part of the government

Second, the participation of the private sector is basic and, as Ariel Fiszbein stated so well, we have to apply the

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concept of interest to the private sector. It is very important that the private sector be convinced that there is a commitment from the private sector, and that it must come out ahead. That is civil society. But we must not forget either the communities or the government. That is why I would rather exchange the theory of the circle that you drew for the theory of the triangle. A badly drawn triangle. At one point are the communities—the beneficiaries. At another point is civil society, the NGOs, the private sector, etcetera. And at the third point is the government. But who upholds this triangle? The international community, which is very important. So instead of that circle you drew, I prefer the triangle. And if that triangle is not closed, poverty is not fought, because poverty is a problem that concerns all of us. It is not just a government problem.

I would like to say a few words to Ariel about what my colleague, mayor, and future president of Mexico just said. I told him that there are two very important things we must not forget: Decentralization, and the process by which it is achieved. Decentralization is to hand works over to the municipalities, while to decentralize is to hand over power. It means to give up power, and that is what governments have not yet done. We are working on it. But we have to differentiate between decentralizing as a process of deconcentration.

Now the theory of the funnel. Another very important theory is the one of civil society, in which the communities organize themselves, establish priorities, and social demand arises. I say social demand to make economists happy. But if this social demand is not addressed by the governments, the social contract breaks down. That is why it is necessary for governments to be coordinated enough to address social demands and to find answers to social problems. We don't have the money needed to solve all of the problems, so priorities need to be established and government needs to address them. But ultimately, the problem of poverty needs to be addressed through the participation of all the governments, civil society, the NGOs, the private sector, and the international community.

P. Isenman: That was an action-filled minute and I'm sure that José Chlimper will be delighted with your recommendations for Prozac and for other pharmaceuticals, and with the triangular versus the rounded. I suppose you'll be proposing the knights of the triangular table instead of the

knights of the round table, but that is very useful. Next question.

Manuel Chiriboga: I want to comment on how to generate coalitions. I believe that is the greatest challenge we have and it is important to start from the basis that each one of the actors of these coalitions has different objectives and interests. The private sector seeks profit. NGOs, as Inés said earlier, do not have profit as their goal. Rather, we see our goal as social capital. This is an important point. Obviously, there are areas in which we can conduct good business—both NGOs and the private sector. For example, in Peru an association of ours, CEPE, I think, works with the Banca Latina to give credits to small producers, and that works very well. Those producers can and do solve a problem of transaction costs. But not everything can be done from such a perspective. There are environments in which the markets and governments fail. There are uncontrollable externalities. The reduction of AIDS, or the generation of identity and culture, are difficult to perceive as businesses. And it is here where the NGOs and the government and private sector all have a long-term responsibility.

P. Isenman: Thank you very much for those comments about the areas in which the profit motive may or may not apply. Mr. Mayor.

Mayor of Pasto: There is a serious credibility crisis facing governments, not only in Latin America but in the whole world, not only of political forms, but of public functions. And there is a crisis of trust/confidence between us and citizens. I believe the best place to start to close the gap is at the local level where we can all contribute, where we can start to reconstruct more quickly the trust among the citizen and the state. I believe that in many parts of Latin America there are City Halls with the same principles as those of Tijuana. The first principle must be zero corruption; the second is participatory democracy, with many ways for citizens to participate; and the third is that there must be results. There must also be associations among nations, the private sector, and social organizations. In Colombia public utility companies are being privatized. We have examples of companies of mixed economy where the state, prosperous entrepreneurs, community organizations, and citizens who purchase shares, are all participants. This is another mechanism that may allow lasting relationships between different social sectors.

P. Isenman: Now I am going to call on the members of our panel. I think what we should do is to reverse the order. Inés, you'll be first.

Inés Useche de Brill: Coming back to what the mayor of Pasto said, I think the basic point is to identify where the possibilities of new alliances exist, but in any case to generate public information. With respect to the experience of social organizations and nongovernmental organizations, basically there has been a lack of knowledge about opportunities—there has been a lack of public information—on how to have input in the right place at the right time. It is through social policies that we have a chance to construct a participatory democracy—one with adequate access to information, and one in which everyone can share in a governing capacity. It is very, very important that social organizations take advantage of the opportunities now opening up.

José Antonio Ocampo: With respect to making the case for the Latin American entrepreneur, I believe that a lottery salesman who has to work twelve hours each day without any type of social security, without any housing fund, without a policeman to protect him since he has no power, without protection of justice, does not live in a situation which we would either applaud or desire, and I would certainly not want it for my children. Nevertheless, I believe he is an entrepreneur. I believe the person who sells menestras in the marketplace or the one who sells fruit knows what la merma is. He knows exactly what discounts on perishable products are, because tomorrow he will not be able to sell them; he knows how to give credit and to whom; he knows what working capital is, and he does not spend all his money because tomorrow he has to buy more products.

In 1914 with the First World War, and then in 1917 with the Russian Revolution, then during the 1930's, and then during World War Two, wave after wave of immigrants reached Latin America without anything. They arrived and slept on park benches as many of us witnessed. Nevertheless, these people prospered much faster. Why? I believe it is because they thought they could make it. Forgive me for this example. My father worked as a mason, and he sold wine door to door. This year the corporation over which he presides is experiencing \$90 million in sales. That is what I referred to when I was making the case for the entrepreneur.

On the topic of intellectual property, I have been one of the champions in Peru in the battle to put it in its rightful place and define the breadth of intellectual property. In the same way that six years were dedicated to the topic of PRIPS at the GATT, it is also important to make efforts to consider the topic of urban private property of the poor sectors. Peru subscribed to the 1994 Rio agenda along with most of the 150 nations of the world; something that the Reagan administration did not do but which President Clinton's administration has done. So we believe, on the topic of intellectual property, that we have to respect it but that we must assess its consequences.

Finally, with respect to social policies and democracy, if one goes first and the other one follows, I think the answer is easy. It is a virtuous circle. We can separate them for the sake of analysis, but they constitute a virtuous circle in which each one of them reinforces the other. In the long run, they must go hand in hand.

New speaker: I would like to ask a question about the way civil society is spoken about. In Mexico, much has been said regarding the fact that civil society has taken over the political parties and that the NGOs are the road to achieving this. I don't know. I have trouble understanding this when no matter how bad the reputation of politics is, there is free and willing political participation and allegiance to the political parties. Why can't this be seen as another NGO activity? They don't belong to a government; their goal is to benefit society. We must think about all of this because the process of learning has to begin at the local level, specifically in the local community. Civil society must understand that it must be responsible and must choose its best men and women to form a government; that they must participate in government and must decide on everything that the government does because this concerns civil society.

New Speaker: Somebody said that poverty is a problem that concerns all of us. That's true. It is a problem for all of us. How are we going to solve it? This is a question on which we must all reflect, and in which we must all participate in solving. That is why I think civil society is the one which must learn. But I also think it has to see itself as capable of being a good government that can solve all the problems.

Others here have said that power must be decentralized. Obviously, to do this is to acknowledge the real power that

civil society or the people have and should have. Many times it has been said that power has its roots in the people. *We are acknowledging this; we are giving it to them.* But this has great and serious obstacles that have to do with the ugly politics that has lost prestige, that has to do with interests—sometimes legitimate, sometimes not so legitimate, sometimes totally illegitimate—with the concentration of power, of political decisions for the benefit of the few, with matters that are a problem of the civil society and not of the government.

For that reason I believe those obstacles are the real problem, and they occur, as somebody said, because of the modernization of the State. And, of course, they occur as a condition of democracy. But democracy is not just one day of elections and a clean voting process. Democracy must be practiced by the government, by society, and by NGOs as a way of life. For that reason democracy is a vocation that must be practiced everyday, every hour, and everywhere.

VIII. Concluding Discussion and Remarks

Panel Discussion: The Role of the State in Reducing Poverty

MODERATOR: RUDOLF HOMMES

PARTICIPANTS: CARLOS BOLOÑA,
SEBASTIAN EDWARDS, AND GUILLERMO PERRY

Rudolf Hommes, Moderator: Something very interesting has perhaps not been discussed sufficiently, and that is the problem of information—the problem of the evaluation and control of social policies. This was discussed yesterday only very briefly. We would also have to determine above all how to reach different population groups. What are the common denominators of good social policies besides a good macroeconomic policy? And to conclude, I still have a question. It is whether, in this environment of very good intentions for civil society, of participatory democracy, we sometimes lose sight of factors that have to do a lot with growth and with the eradication of poverty, such as the growth of investments, the formation of human capital, and the creation of jobs.

These conferences sometimes tend to center themselves excessively on the factors that are socially attractive, and more fundamental factors are lost. I would like to hear the members of our panel on this topic. Now I give the floor to Carlos Boloña.

Carlos Boloña. First, when they ask us to speak on the role of the World Bank we start from the premise that the State already has an important role to play to reduce poverty. Good social policy has to be defined, and the word “social” is an adjective that describes the good. This word “social” is always used and interventions that work must be sought. But one must go even further in all of this. The State has a monopoly over cohesion, and if one analyzes who has manufactured more poor people over these last years, it has

been the State. In the case of Peru, over these last thirty years, with populist and socialist policies, we had per capita income of \$1,000. This has probably fallen to \$800 per capita. In thirty years, the population living in extreme poverty has grown from 20 percent to 50 percent, all with State policies. No matter how one measures extreme poverty, the State’s policies have led the country to ruin. It is called hyperinflation. Belaunde gave us 2,000 percent in five years, Garcia gave us 2 million percent in five years, and the military gave us 2,000 percent in five years. That can be called “manufacturing poor people,” and through inflation and closed politics the State produced the largest number of poor people that we could imagine.

Second, the State led us into indebtedness. If our income per capita was of \$1,000 we ended up with an external debt of \$1,000. That is to say that what we produce per year per person, we now owe. When one owes all that one produces, one is broke by definition. That is the foreign debt, and of that debt, \$250 is for defense. So when we hear that the State has to formulate social policies, let us see what it has really done.

Third, if we speak of hyperinflation, we are speaking of indebtedness of the State.

Fourth, the distribution of privileges—that is—privileges to certain sectors, maintenance and marginalization of other sectors. The state simply gave out privileges to the automobile sector, the pharmaceutical sector, and to many sectors that did the lobbying, making the rest poorer. So the State increased the rate of poverty.

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Fifth, the element of monopoly over social benefits. The State forced us to save for housing, for health care for the most needy, and for pension and retirement plans. Yet the State called itself the champion of the poor and of those who were least capable of defending themselves: children, women on the verge of giving birth, the unemployed, the old. And what happened? The Social Security system went bankrupt, the health sector went bankrupt, making health services twice as expensive, three times, five times more expensive, and providing fewer utility services. Housing? The State never provided housing. So let's take a look at what the State has actually done.

Finally, the State wanted equality. It actually achieved this objective, making us all equal at the bottom. If the government devoted just a little more time to this policy, it could have achieved 95 or even 99 percent extreme poverty. Thank God policies were changed.

So whenever somebody says that the State has a great role, I have serious doubts. I believe the State has been the greatest manufacturer of poor people in Peru, and in many other countries in Latin America, as well. I believe we should limit the size of the State drastically, and limit State interventions, because social policy is not just a little charity over here but the people still becoming poorer. So I think the State should be smaller; a very small percentage of the GDP. It should not take away from us more than 15 percent of the GDP to carry out State activities. That's not a magic number—I just mean less is better than more. I prefer there be no deficits. I prefer that social expenses have limits—let's say 1 or 2 percent—but let's not give it more because when the State intervenes, it produces more poverty. Or it stands in the way whenever there is a chance to create wealth.

I believe a small State should guarantee individual freedom and individual liberties, and should protect equality of justice under the law. There are four great principles that should guide its actions. First, the State should keep in mind that individuals act according to economic incentives. In other words, the pocket is man's most sensible organ. Second, nations can go broke and the State can break them. Third, there is no such thing as a free party, and this is something the State must keep in mind. Fourth, "that which costs us nothing, we turn into partying." What we give away has no value. It must cost the population something if you're going to lighten its burden of extreme poverty through social programs. It must cost effort or money, since poverty is fought by creating wealth.

When I speak of a small State, I mean one that dedicates itself to guaranteeing safety of individuals; that guarantees equal justice for all; that provides infrastructure; and that reduces the burden of extreme poverty through education, health, and housing, by financing them. The State should neither provide the infrastructure nor lighten the poverty burden directly, but through financing them.

In my view the private sector is everything else that is not part of the State. In all things for which not even the profit motive provides an incentive for private action, the State should help finance assistance. For example, it could help with nutrition, or in many other areas. I believe we are going to discover that such a State is going to have a much less negative effect than previously. I say this from experience because in Peru the State was the most consistent and efficient manufacturer of the poor we have ever had. And I believe we owe thirty years of poverty to State policies.

Sebastian Edwards: I would like to start by answering very emphatically one of the questions that Rudy asked at the start of this panel. That is, whether there are good populisms and bad populisms. Emphatically, all populisms, whether they be from the right or from the left, are bad populisms. This is because they create an illusory and temporal sense of well-being that in the end produces a crisis that ends in an indigent, impoverished, frustrated population.

I will now comment on the role of the State, and I think I am going to differ somewhat from what Carlos Boloña just said.

I think we must start by acknowledging that in Latin America economic reforms have been extremely deep. But these have been reforms in economic policies, not in the institutions that implement the policies. That is the most important role of State institutions. We have had reforming governments that have used the apparatus and institutions of the traditional State. And this implies, by definition, that these reforms have been temporary, that they could be reversed, if tomorrow a nonreforming government gets in. And if they are reversed, or if the possibility of reversal exists, we find ourselves facing a situation where uncertainty is created. This uncertainty, in turn, instills fears about stability. Thus, families, companies, and foreign investors decrease investments. So, growth and economic prosperity will not be what they could be under more favorable circumstances. This means that the economic policies that have changed need to be permanent, and they need to yield

results. So as the second phase of the transformation process of Latin America, the State institutions must be reformed. We must be able to move from the old traditional Latin American State, what Chaves, Burki, and I have called the populist State, to a modern, efficient, administrative State.

What are the characteristics of the old Latin American State, of the traditional State? Carlos Boloña has articulately outlined how a populist Latin American State can function. But this doesn't mean that we have to end the State. This doesn't mean that we should conceive the Latin American future without a State. The unfinished revolution, the agenda that we have ahead of us, is to transform institutions. The traditional Latin American State had certain paradoxical features. Contrary to what has been expressed—and contrary to the myth of the region—the traditional Latin American State was not strong. It was omnipresent but weak. And it was weak in at least two ways.

First, it was weak because it was unable to develop and perform its basic functions—such as protecting its citizens, providing efficient and effective basic social services, protecting the poorest, and protecting its citizens from one another, from companies, and from the State itself. Second, the State was weak because it let itself, and still lets itself in many cases, act on behalf of private interests, such as pressure groups of the privileged who have dedicated themselves in a very effective and successful manner to capturing the State and obtaining its largesse to the disadvantage of the majority and, especially, of the poorest.

This weak and omnipresent State should be transformed into a strong but limited State—strong in the sense that this new State should be efficient and effective; it should be capable of protecting individuals from the abuse of other individuals, companies, and of the State itself. At the same time, a limited State must dedicate itself, as Carlos was saying, only to those functions in which the private sector is unable to participate, or doesn't want to participate.

This challenge—to transform the omnipresent and weak State into a limited and strong State—is extraordinarily great. Perhaps the most difficult aspect is that it is the State itself that has to create institutions which are going to limit its own actions. It will have to limit its own actions in the economic and social activities of the country in such a way as to avoid abusing and taking advantage of individuals and of the population in general. The idea then is to create a modern State—one that limits itself, and that

accepts that only by limiting itself can it become capable of establishing a group of institutions that would build up the confidence of the people and of the private sector so as to enable them to undertake economic actions that will further the progress of the entire country. It means the State must set up independent institutions, such as an independent judicial system accepted by all.

An additional step is to create an independent Central Bank, an idea nowadays under attack in many countries in which that step has already been taken. Even in Colombia there is frequent talk of limiting the autonomy of the Central Bank, a mistake that I would grade as absolutely tragic. Three days ago the President of the Central Bank of Chile, an independent Central Bank in a country we have thought of many times as an example that should be studied carefully, resigned because he said he was unable to work under the political pressures. Again, we must establish a very clear system for the assignment of resources, and we must establish an independent administrative system and an independent and efficient judicial system which, as I said, protects the weakest from abuses from other individuals, the private sector, and the State itself.

Therefore, the thought I want to leave with you is not the need to eliminate the State. Yes, we have to abolish the *bad* State and replace it with a *good* State. The "bad State" was the populist State, the weak State, caught in the grip of interest groups, and yet omnipresent. The State we should yearn for is a limited but strong State—one that can play well its small role and that does not let itself be influenced by pressure groups, and therefore, a State that is a State for all.

Guillermo Perry: The question is what have we learned over the last ten years about what we should do to achieve high and sustained economic growth rates in order to reduce poverty and injustice. As can be seen from this Conference, we haven't achieved this in Latin America.

What we have learned is that populist stabilization policies as those presented by Eliana Cardoso are necessary conditions but are not enough. We know that the economic reforms of the 1980s—liberation of trade, financial liberation, lack of regulation in the labor markets—are all necessary conditions, but they are not enough.

What else have we learned? In the area of economics we have new questions because the reforms caused a big decrease in domestic savings in all of the countries. Neither

investment levels nor growth rates have been high. The financial liberation produced much riskier local financial markets. This leads us to the following questions.

How much effort should we make specifically to increase the rate of savings? Or will it rise later on through growth? What are the measures we must take so the rate of investments grow more in open economies? Should we be more selective in financial liberation, such as consumer credits? Must we mitigate the volatility of short-term capital flows, as Chile and Colombia have done so successfully? Since with financial liberation we are exposed to greater volatility in the financial system, do we need Central Bank reserve requirements and stricter financial supervision than do the economies of the first world?

A second, more relevant group of topics in this meeting refers to our rediscovery of the crucial importance of infrastructure and of human capital for economic development; that is, for the supply of public goods and social services. We know we need ambitious reforms to increase the efficiency of the supply of these public goods and social services, but that they are more complex because they are nonmarketable goods. We don't have the stimulus of international competitive discipline, and there is no way to achieve perfect competition in the production of these services. Therefore, we need complex State regulation and supervision. For example, we know that in the supply of social services we require systems that are more market oriented, responsive to citizen's demands, that use more market mechanisms, and that they are more decentralized for the supply of the services. We have started to make reforms of this type: seven countries in social security, a few in health, almost none in education.

We have found difficulties in two fields. First, we try to bring in criteria of solidarity and of redistribution in these reforms that are market oriented, precisely because that is basic to reducing poverty. But that is not simple. How can we do it so that adverse practices of selection are not furthered, or without damaging those incentives that promote efficiency? This is not an easy problem to solve. How can we be sure that the potential benefits of decentralization for the production of social services really take place and that this does not go against the global fiscal equilibrium? How to manage decentralization in an efficient and sustainable manner, without busting our economies, is a central topic and not yet solved in Argentina, Brazil, Colombia, and several other countries.

In the area of public utilities infrastructure, we know we need much more private participation, not only because of efficiency but also to be able to concentrate scant public resources on basic social services. Here we have experienced great difficulties. How can we reach an adequate balance between financing private projects of such large size and future tax consequences that are being undertaken by governments, and the protection of users and the environment? We need extremely sophisticated regulatory systems, adequate concession, or similar contracts. But we have advanced very little in creating good contracts. The State now makes contracts instead of making roads, but both exact the same level of technology. We need a good assignment of risk between the public and private sectors in the design of guarantees, and in the accounting of contingent fiscal costs of decisionmaking. We have become aware that we must develop long-term domestic capital markets and a whole scope of instruments to make "project finance," to avoid excessive currency exchange rate risks, both for those who perform the private projects and for the country as a whole, because these are nonmarketable goods of which we are financing 90 percent of their investment from external markets. And even in external markets we have not found enough mechanisms.

Finally, we know that we have to increase tax revenue in almost all of our countries without raising tax rates. We have discovered that it is much easier for Congresses to raise tax rates than to put an end to tax avoidance and tax evasion. The administrative problems are much more complex.

But beyond these factors that create growth are some that are more specific to poverty reduction and ensuring justice. We have learned that it is crucial to have a good system of support for microenterprises, and that such a system not be sponsored directly by the government but through nongovernmental entities and other organizations. In many countries, land reform is basic to progress and not badly executed, as in El Salvador or Colombia. In many countries we haven't been able to establish good nutritional programs. The poorer and more vulnerable groups are being left out of the benefits of growth in the market, and are also left out of the reach of traditional social policies.

In some nations we have tried to rectify this through social solidarity networks or solidarity funds. And there is a very complicated problem. Wide community participation is required, but whenever these programs are successful, as is the case in Colombia, tremendous political oppo-

sition arises. It arises from those politicians who have a clientele and who say "they are leaving us out of the handing out of the resources and the solution of the problems"; from political opposition because this makes the government popular; from the Ministries who would rather maintain previous policies without all the problems of communal participation; and even from the guerrillas, as in Colombia, since they feel these types of actions legitimize the State. So violent opposition to these type of programs arises from all quarters.

Summing up, we know that we want a State that is more supervisory, more a guide, one that does not directly supply goods and services. We know it has to become more decentralized, that it has to focus its actions better. We know it must welcome support of the nongovernmental organizations and other sectors. We know more about the general aspects but we need to learn a lot more of the engineering details.

I agree completely with Juan Luis Londoño and with Dr. Carlos Eduardo Vélez, who emphasized that we need a lot more research to better understand what is actually happening. Why not say it? We require more experimenting from the governments and from the multilateral entities.

R. Hommes: I think we have achieved a good synthesis. Carlos Boloña tells us of the problem of bad economic policies, of a bad government that can devastate any chance of making social policies; one that can lead a country to do the opposite of social policies. Sebastian tells us that some States prevent autonomy of such entities as the Central Bank, and some States compromise an independent judicial system. We need to fine-tune and strengthen the institutions in our countries. Guillermo says that there is a macro role for the State and that there is also the possibility of improving the micro policies, and making them more focused, but that we haven't been doing that because of a lack of information.

That allows us to end the Conference on a note of optimism because Eliana Cardoso's presentation yesterday left us a bit pessimistic.

I would like to ask the members of the panel to comment in the final round on matters beyond macroeconomics, and give us a vision from the point of view of economists on what could be a good approach to social policies. Let's come back to Carlos.

C. Boloña: Before entering the micro, I want to clarify a couple of things. First, I have not mentioned a future without a State. The State is definitely necessary, but a very limited and small State. We are rediscovering the State as conceived by classic liberalism. Second, bureaucratic management measured against entrepreneurial management will never get close. Bureaucratic management has its own features and to leave things in the hands of bright bureaucrats or good bureaucrats is a difficult task. I think we are going to create a problem, especially for the microeconomy. The bureaucrat seeks to keep himself in power. He does not seek results. He simply seeks. I recall a bureaucrat in the social spending area who told me one day: They did not steal one penny from me today. I asked him, How much did you spend? He answered, I spent nothing. That is a bureaucrat. He seeks his own permanence.

Third, I totally agree with the need for an independent judiciary. In our countries, this is a huge problem. I think that if in Peru, instead of giving computers as gifts to the judicial power, we should tell judges: You won't have to sentence anymore; we're going to set up American-style juries, where the judge has no authority to sentence. I think that would be the best judicial reform to the legal system. And that can be learned from our neighbors to the north.

An independent Central Bank? I have seen Central Banks that have their own constitution, their own governing laws, but they are not independent. They are part of the State and subject to pressure. If we could turn the Central Bank over to private hands, even better.

Regarding growth with justice, I panic when I see such a combination. The growth with justice that our neighbors to the south are carrying out—I speak of Chile—means that it is going to cost them—that instead of 6 or 7 percent growth, it will decrease to 4 percent. That simple word "justice" is going to cost them, definitely, three or four points of growth. Solidarity, another little word, is a great human value but one that cannot be forced on people through speeches or decrees. I have seen it in my country and in other countries. That doesn't work. Social policies at the macroeconomic level do work. But let us focus on what it takes to finance education, nutrition, and health. But be sure it has some cost to the person who receives it. Don't give it away. Don't let the bureaucrat simply decide on how to spend it.

I believe the private sector is everything that is not government, and the private sector can make much better use

of resources and human capital. But we were talking today with someone who manages a social program, and he said the cost of a school breakfast program being run by the private sector was double and triple what it had been when the government managed the program. Previously, responsibility for the program had been shared between the local governments and the teachers unions, and it was cheaper to run. What is needed, then, to keep costs down, is a system in which various entities compete, through a bidding process, for example, and responsibility is broken up among competitors. It is through such a method that policy for poverty eradication should be implemented.

I believe that with the macro elements, with clear rules of the game to allow growth, to double our per capita income every seven years, we can advance much more than with those policies. I think it is good business to invest in education; in fact, that cost-benefit is going to enhance the public and private sectors. The companies in my country had to spend between 5 and 10 percent of their sales to defend themselves against terrorism. It is cheaper for them to invest in education, and education will ensure a better future for the country.

Someone said to me: Tell me what universities you have today and I can tell you what country you shall have in ten years. Tell me what education you have today at the primary, secondary, and higher levels and I will tell you what country you will have in twenty years. It is at the lower levels where we have to work really hard and focus our social policies.

S. Edwards: I think it's important, at this stage, to recall what some of the members of the panel have said. And that is that both for social policies and for other policies there isn't just one solution for all Latin American countries. There is no such thing as a magic formula to be applied to all of them, except that in the end, the way in which each one of the different countries solves its problems will depend on its idiosyncracies, its own culture, and its own particular history. I believe the formulation made by Carlos Boloña in the previous round clearly reflects the influence a country's history, culture, and immediate past have on the way in which it solves its problems.

In the case of Peru, the crisis of the State was of such magnitude that I can understand why Carlos Boloña is determined to put everything in private hands and why he wants to do away with the State, to practically a level of being a nonentity. That is possibly what Peruvian history

dictates, but it certainly is not the recipe. To mock the concepts of justice and solidarity is certainly not in tune with the histories and cultures of other nations of the region. And I am willing to bet our friend, the food entrepreneur Boloña, that the concern of President Frei's administration over justice will not cost my country four points of growth. To the contrary, it will affirm the nation's growth at a rate whereby income will double every ten years, and where successful economic reforms will make it less and less likely that the country will return to the violence of the past. Therefore, I believe we have to think of different solutions, which in some countries will be more drastic than in others. In some, the solution will be to have a smaller State; in others, a larger one. But I definitely think we have to think that this State we will have—whether larger or smaller—has to be a State that cannot be captured by interest groups.

Rudy asked us to come back more to the microeconomy, and in this continent of ours which has been historically scourged by inflation and recurrent currency exchange crises, it is sometimes difficult to turn our attention to the microeconomic aspects. But I intend to touch on three or four topics at least that are more microeconomic than those that we have been talking about.

First, decentralization. It is a political fact that our region is decentralizing. We cannot go back. Along with democratization comes a policy of decentralization. Over the last five years more than 12,000 subnational entities, municipalities, provinces, etcetera, have had elections for the first time in modern Latin American history. With elections comes the capacity and the opportunity to handle budgets. Economic decentralization has taken place behind political decentralization, and that is bad. We must be able to create economic decentralization with subnational governments that have rigid budgets and that have the capacity to incur debt artificially through provincial banks, State banks, and developmental institutions. And this debt is nothing more than a damaging and hidden fiscal deficit.

Second, public services. I believe the role of the private sector has to be essentially greater than the one we have seen so far. At the same time, however, the State must make sure there are minimum public services provided to the poorest citizens. What must be avoided is a situation in which there is a great discrepancy of services between the haves and have nots. The private sector should have a greater role in providing public services. The fact is that seven countries have advanced along the path of social

intervention—as Guillermo Perry pointed out. But when one sees the details of these reforms, five of the seven countries are extremely deficient. Their efforts amount to nothing more than scratching the surface of the problem, and are not giving the private sector enough importance.

Third, labor relations. There is an urgent need to create new institutions—to reinvent modern unions and achieve a harmonious relationship between workers and entrepreneurs. This must be done to avoid the antagonism of Latin America's prehistory and definitively enter into a decentralized system of labor relations to avoid the possibility once and for all, of winding up with extremely damaging and retrograde centralization.

Finally, supervision and control. I believe it is very important—and the bank crises over the last few years in practically all of the countries of the region proves—that there must be entities to control and supervise financial and educational activities within the private sector. This must be done to avoid abuses and crises, and the oversight must be independent, autonomous, professional, extremely well-paid, and not at the mercy of the government of the moment. Finally, I believe that if we achieve institutional reform such as we are talking about, if we create a new State in Latin America and at the same time create and promote a vibrant civil society, an efficient, dynamic private sector that works according to the monetary incentives of which Boloña spoke, we shall achieve, through the combined effort of the State, civil society, and the family, development that not only translates into accelerated growth, but into a harmony and prosperity that our region not only hopes for but after so many years of indigence has the right to have.

G. Perry: I sincerely thought all during this Conference that we had a larger consensus than the one I perceive at this round table. I am sure that after economic reforms become more solid in Peru, they will also find, as we have found in Chile and Colombia and Mexico, that there are other things to do in addition to economic reforms.

But in the case of growth, I believe it is important to clarify a bit more the relationship between growth, poverty, and justice. I think this relationship has become clearer in this Conference. No doubt high and sustainable growth rates, and in general, a stable macroeconomic environment, without large variations in currency exchange rates and other such things, are key points for the reduction of poverty and improving justice. They are necessary

conditions. Without such conditions, we cannot achieve them. But they are not enough. The other things that must be done are not contrary to economic growth. Perhaps that is the confusion. They are topics which also help economic growth, but if one's objectives are to reduce poverty and improve justice, then one is going to pursue those goals with greater emphasis. With the exception of very few topics that were dealt with during these two days, these are a few actions oriented toward reducing poverty and improving justice that go against economic growth.

In the mid-term future, economic growth and social development are two sides of the same phenomenon. To illustrate the problems of design, I would like to mention something. First, let me ask Sebastian—when you say that of the seven reforms there are five which have only scratched the problem, which are the two good ones?

S. Edwards: The Chilean reform and another one I would not mention because I would be embarrassed.

G. Perry: Ours? I don't know, I believe that the Colombian one, which was made, by the way, by the previous administration, is an important reform.

The Chilean reform is a reform that, from the point of view of design, is much purer, but also has fewer elements of solidarity. In the discussion in Colombia, that was a basic fact that was kept in mind when designing the Colombian reform. And since it was a design that was greatly discussed over a long period, it also had some problems, no doubt.

But what have we found? When one wants to have reforms that use market mechanisms and competition among the pension funds, private and public, why not have them? And why not have reforms that ensure competition among entities for the rendering of services to ensure health and the supply of health services? If one wants to ensure that this doesn't end merely in good pensions and good health services for the rich, intermediate health services for the middle class, and bad health services for the poor, then you must have mechanisms for solidarity and internal redistribution. And it is not easy. In fact, it is not easy to introduce market-oriented reforms. We have been observing difficulties along the way, but there have been great advances. Among the important things being achieved in Colombia is the increase in health insurance coverage through the reform that was implemented.

Concluding Statement

S H A H I D J A V E D B U R K I

Thank you very much. It's incredible, the success of this conference. I see many people still sitting here even though it is 7:20. I know that some of you have been here for twelve hours today, so we seem to have captured attention.

As everybody says at the start of a presentation, I'll try and be brief. The last two days have further enriched our understanding of four issues: populism, poverty, service delivery, and the social compact. I will take up each of these issues in turn, and conclude with some implications for further research, and for policy action by governments, the World Bank, and other international agencies.

First, I would like to say a word about populism—in particular, the threat of its return. This is something that Sebastian Edwards and I talked about in the background paper that was circulated before the start of this conference. Some presentations provided additional insights into the forms and methods of populism, which can be defined as the defense of sectoral interests under the guise of protecting the common good. We were reminded that the mix and sequencing of macroeconomic policies have important distribution consequences to which we must remain alert. Stabilization programs that generate high interest rates and overvalued exchange rates, but that are not sufficiently supported by fiscal adjustments to be sustainable, can deliver powerful benefits to certain groups. At the same time such policies leave the poor to suffer the brunt of the burden of adjustment. This is what happened in a number of countries. It was also underscored that poverty does respond to policy; that the resource requirements for success in fighting poverty are not impossibly high—certainly not when compared with the vast sums that some govern-

ments have poured into supporting bankrupt banking systems. The main issues are ones of political will to undertake the targeting, and to more efficiently deliver public services. Here, too, the necessary adjustments are imposed by existing interests, such as public sector unions and the educational, medical, and legal professions. They make popular appeals for maintenance of the status quo.

The presentations we heard, yesterday in particular, endorse the central message of the paper that Sebastian Edwards and I wrote, which is that achieving sustainable broad-based growth in the countries of the region requires a particularly difficult second generation of reforms. Countries that undertake these reforms are likely to achieve a high quality and, more particularly, sustainable, pattern of growth. Those countries unable to rise to this challenge are likely to face erosion of the fragile public consensus that exists in favor of an open economic model. There is as yet no clear model of how the long-term interests of the poor will be articulated in the political arena. This is an issue that each country must confront within its own political tradition.

Let me now turn to the subject of poverty. The heart of a poverty strategy is generally agreed. There is consensus about it. It is steady, sustainable, less volatile growth in a policy environment that generates increased employment and rising labor productivity, coupled with a social safety net for marginal groups and those caught in the transition. In this seminar we heard some criticism of the strategy, particularly with regard to labor market reform and the need to extend the strategy to take into account significant marginal groups: the rural poor, the indigenous popula-

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tion, and children. The extraordinary level and rise of violence in the region and its heavy incidence on the poor, particularly the extremely poor, was forcefully presented, and we have begun to recognize that violence and crime can have a terrible, important impact, and an adverse impact, on poverty alleviation.

The seminar presentations have reminded us once again that poverty manifests itself in many ways, and there are no simple solutions. To work, the strategies on the ground must take full cognizance of the groups that are vulnerable, the environments in which they live and work, and the types of interaction they have with markets.

The deliberations of the seminar have confirmed my personal view that poverty and inequality *are* public goods that affect the whole society—economically, socially, and morally.

The diagnostic and analytical approach to the issue of violence was thought provoking. The analogy with epidemiological risk factors, the focus on the structure of human capital, the possibility and value of consulting those affected, the different fears and types of violence, and the channels by which violence actually influences the life choices of the poor—all these suggest rich directions for further research, and more realistic and urgent models for intervention.

The presentations also made clear that diagnoses and solutions have to be fashioned locally. The failure of the justice and police systems emerged as important environmental factors in the rise of violence. The presentations we heard in the conference also suggested that extraordinary multipliers can be generated by focusing on maternal health, preschool education, and the economic role of women more broadly. The role of land tenure, and of access to education as a point of intervention for empowering the indigenous, were also reinforced. Finally, the need to strengthen mechanisms to share experiences in these areas emerged very clearly.

With regard to labor markets, the willingness of credit unions to modernize themselves was most heartening, even if there is disagreement on the exact direction of change. This is an important area where consensus on analysis and policy must be sought.

Now, a very brief word about the delivery of services to the poor and more vulnerable sectors of the population. Of all the issues that received attention at this conference, I would like to underscore three. The first is the importance of getting service providers closer to the people through more effective decentralization of government functions. The second is how to increase efficiency of social sector ministries. It is clear that a greater impact of public expenditure on social outcomes will be achieved not by increasing the level of expenditure, but by making the utilization more efficient. The third issue is how context and mechanisms could play an even more meaningful role in delivering social services.

Finally, what are the implications for the future? This conference has identified a number of areas that need greater policy attention. The integral role of poverty alleviation in the quality of life and growth agenda needs to be reinforced at the political level. Risk avoidance, contingency planning, and sustainability analysis of macroeconomic policy remain critical. Macroeconomic adventurism is very risky and costly. Exit strategies from exchange-rate-based stabilization programs need to be thought of from the beginning. Leakages through financial systems need to be blocked. Public expenditure analysis, both in terms of incidence and efficiency, needs to be strengthened in several countries. A stronger consensus needs to be forged on the agenda for liberal market reform, country by country. High-quality, policy-relevant analysis of poverty needs to be supported, deepened, and widely disseminated.

In conclusion, I would like to express my great satisfaction with what we have accomplished during these last two days. A number of very thoughtful papers were presented that invariably provoked dialogue among members of a very attentive audience. We are now making arrangements to publish the proceedings of the conference. In my opening speech I said that the third conference in this series will be held in 1997 in Montevideo, Uruguay. I am pleased to announce that we have now accepted the invitation of El Salvador to hold the fourth conference in San Salvador in 1998. The subject of the fourth conference will be the modernization of the financial sector.

Thank you very much.

Concluding Remarks

C E C I L I A L Ó P E Z

In my concluding statement I would like to pose a question that I believe is on the minds of each and every person here: Will poverty be overcome in Latin America? In my statement I will clarify a few concepts, and I will discuss populism, poverty, human capital, and some of the characteristics of the Latin American development model with respect to poverty.

Which concepts do I think must be clarified? The first one is poverty. We have to abandon any concept that limits poverty. We have to put aside the consumer view that to be “poor” is not to have access to consumer goods. “Poor” is not that alone. A poor person is also one who is unable to develop his or her capital and his or her human potential. That is to say, we have to add to the quality of life the topic of human development.

Why does the definition condition the indicators, the instruments, and the policies? Because we have to discuss it within the concept of the kind of society we want. This is what will lead us to determine the kind of individual we hope for. It would enrich and would give a frame of reference to the topic of poverty, and it is the supportable model for human development. This conceptualization that the United Nations is supporting has all the elements we need. As Professor Panaioto from Harvard mentions, clearly supportable human development starts with the recognition that economic growth is fundamental, essential, indispensable. But also it is necessary to introduce the time element, which is the supportability. We need the “shock” of assets to pass to the new generation to give it continuity and growth. Also, without impartiality it is impossible to reach a supportable development. The support is not only a

problem of natural resources but also a problem of political viability, the lack of friction, of something Sebastian’s and Mr. Burki’s papers mentioned—the possibility that the voters support the needed reforms.

Then who are the poor? The poor are not those who have no house; the poor are those who have been excluded for a long time in Latin America. They were excluded from the industrialization model because even in its best moment the model was not successful in totally reducing inequalities. Perhaps the merit of the industrialization model was that it did succeed, at least in some countries, in helping to form the Latin American middle class.

Who are the poor? Those excluded from the model of an open economy? To what extent are the poor excluded from the benefits of an open economy? It depends on the social capital which a country has when it opens its economy. I think Chile and Colombia are very different. Chile had many years of social investment, thus, it had more social capital on which to draw. It had a social capital base. Colombia, on the other hand, did not have a social capital base, and today, after opening our economy, half of our population is poor.

But also, those who are excluded from traditional policies are poor. Thus, we understand by poor more than the consumer view, and we talk about the excluded.

Another concept I want to discuss is populism. I think we all agree on this topic. I sincerely believe that populism should be treated very rigorously.

There is much discussion about populism. Politicians have done anything but criticize economists about the way the term has been used. For a politician, populism is a

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form of popular movement. How do we use it, or how do the economists use it? The economists frequently use the term in a pejorative way, meaning that everything that diverts from a certain economic management is populist. Sebastian, along with colleagues, has contributed to the definition of macroeconomic populism, which we understand—Sebastian, correct me if I am wrong—as the search for social benefits at the cost of economic stability. I agree with the suggestion of the World Bank: The definition of populism is not what matters. Populism is not efficient for the reduction of poverty for two reasons—because it doesn't reach the poor and because it isn't supportable because it isn't growth based on real wealth. Without a doubt sound economic policies are necessary in the fight against poverty.

Also without a doubt, one of the most interesting contributions to this seminar is the recognition of the fact that right-wing populism rose in the region, understood as an assessment process to produce insupportable consumption booms. We were given the example of several countries, of which I remember Argentina. For a moment, let's look at Colombia's experience with populism, because it seems to me that it might be interesting and might provide thoughts for reflection. Let's look at what happened in Colombia in 1994. During this period there was a commercial opening. This was done without customs officers. There was an influx of long-range investments and indiscriminate property-tax exemptions. It is somewhat similar to Argentina's experience, but with two additional elements. Here the laundering of dollars became possible, as did great investments due to the exemptions. There, there was an influx of inexpensive goods. But because in Colombia narcotraffic is definitely an epidemic, these inexpensive goods were even less expensive than they would have been in a simple opening of the economy.

In 1991, there was massive investment, and in general a process began that sparked a construction boom, an expenditure boom, and an increase in urban employment, probably unskilled employment, because that, to a great extent, is what construction demands, and a more specialized employment boom in another sector. But this didn't last, as usually happens with populist plans. The truth was that the neoliberals found a way of making right-wing populism. And it was populism, among other things, because it didn't last. This is reflected in the conditions we have to manage today: unemployment, a structured ten-

dency toward fiscal deficit, a deficit in the balance of payments, and monetary restrictions and high interest rates.

And what has this government been doing? Right from the start it has been trying to stop assessments and to maintain a real exchange rate. It is trying to control the laundering of dollars done through contraband and undercharging. It has tried to put public expenditures into focus through the "Solidarity Network," frequently emphasized as a populist plan. But I don't want to go into this further because Guillermo covered it very well. I think the system recognizes that in Colombia there are excluded and unattached people, as they might be called, who can't be attracted by the traditional education policies or the traditional health policies. They need a network of services that will help them. A great effort has been made to combat narcotraffic, which I wish the world would acknowledge, and consumption has been lowered. Tax reforms have also been made. That is, to close this chapter about the situation in Colombia, not only do we—this government—not fulfill the requirements to be called left-wing populist, but we are suffering the consequences of the right-wing populism of the previous government. With this I end the part about Colombia.

The third concept we are all in agreement on is that of social capital. The notion has been far better developed by the social scientists than by the economists. We understand social capital as that which society is capable of appropriating: culture, knowledge, natural resources, education, the environment, and human capital. Here I think our definition is too narrow, which to me seems dangerous. The notion of human capital limited only to solidarity is inadequate. I don't think we should lose this idea because while we are talking about social capital, we could also talk about social poverty, not only individual poverty, which could be defined as the destruction of social capital. With respect to refining these three notions I have two conclusions. I sincerely believe we are not managing poverty appropriately. I am not an optimist. I think poverty has to be managed in a broader context. It is not a problem of one person who has nothing to eat. It is the problem of a development model and the kind of society and kind of individual we want. One other thing, and fortunately being an economist I can say it: Poverty cannot be the property of economists. We can't work well with it. We're learning ideas that are much better managed by politicians, anthropologists, and sociologists. Poverty is not the property of economists but of all the social sciences.

The second point I want to briefly discuss is the Latin American development model and its relation to poverty. And here I want to be a bit drastic to stir you up, and according to macroeconomists, which I am not, I probably won't be strong enough. I think that if one looks at what has happened in Latin America, clearly poverty seems to come from within the model. There is a kind of political culture around poverty because those who make the policies have become accustomed to it. Remember how "Susanita" defined the poor? They are poor because they don't like to bathe, because they don't want to eat. And even worse, the poor have resigned themselves to this. This is not a problem of a closed or an open model. No, one really worries about Latin American history because a real obligation to reduce poverty isn't visible. It is true that poverty has diminished. But why are we here? Because there is a real social problem, the greatest inequality in the world. We are not alone in saying this; everyone is saying it. The second part of this example related to poverty is almost a matter of course in that in the Latin American development model we individualize the gains and socialize the losses. We do this constantly. Besides, when we socialize the losses of the wealthy, we are not populists. When we finance banks that go bankrupt, it is not pop-

ulism. But give \$150 million to the poor on credit, that is populism.

Another interesting characteristic of the Latin American model: In the same way that we have accepted a scarcity of resources, we have accepted the need for concentration. Since everyone can't have everything, it's better that only a few do in order to produce the important capitalist process of accumulation, saving, and investment. This means that we accept that concentration is worthwhile when there is scarcity. But there are two ways to attend to social development: by means of taxes—this economic machine—pay taxes and have public expenditures, social investment; and at the same time the economic machine distributes through employment.

Let's see whether this has been efficient. Let's look at social investment. I couldn't be more in agreement with what the World Bank and everyone says: Social expenditure is insufficient. It is tremendously insufficient. There is, with the exception of what is happening to economic stability, no formula for making progressive programs. We have talked about microenterprise, about programs for women, about everything, but there is no magic formula. Otherwise, we would have done something, or at least some people would have persuaded us to do it.

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