



# Social Cohesion in Latin America and the Caribbean

## Analysis, Action, and Coordination



Sustainable  
Development  
Department

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## Foreword

Since the Summit of Rio de Janeiro in 1999, the Heads of State and Government of Latin America and the Caribbean and of the European Union have consolidated and expanded their commitments to development and cooperation adopted in Madrid (2002) and Guadalajara (2004). The Vienna Summit will provide a further opportunity for advancement of the strategic biregional partnership.

The Declaration of Guadalajara designated social cohesion as a primary responsibility of governments, underscoring the determination of the Heads of State and Government to build fairer societies by fighting poverty, inequality, and social exclusion by favoring social investment. Moreover, the European Commission and the Inter-American Development Bank signed a Memorandum of Understanding that establishes a work program between the two organizations which identifies regional integration and social cohesion as priority areas.

The present document seeks to set forth the IDB's commitment to the objectives contained in the Declaration of Guadalajara and the parallel Memorandum of Understanding, a commitment that has taken shape in Bank programs and lending, as well as in a growing number of coordination efforts and analytical contributions.

Despite progress thus far made, a long road lies ahead if more cohesive societies are to be achieved. Challenges in the operational arena include moving from good design to good execution, the need to improve and expand evaluation, and the building and further consolidation of country institutional capacity.

New times bring new opportunities, and the Vienna Summit will be one of these. We hope that this document, with its proposal on how to define and measure social cohesion and its discussion of Bank activity and the situation in Latin America and the Caribbean, will help to ensure that such opportunities result in concrete achievements for the region.

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## Introduction

The objective of this document is to contribute to the discussion generated around the topic of social cohesion and to inform the reader about the action undertaken by the Inter-American Development Bank (IDB) since the Summit of Guadalajara in May 2004, which brought together 58 Heads of State and Government from Latin America and the Caribbean (LAC) and the European Union (EU). The document also aims to guide thinking in relation to the joint effort by the European Commission (EC) and the IDB to exchange experiences and cooperate in promoting social cohesion in LAC.

The Summit process is solidifying recognition of the importance of EU/LAC bi-regional relations and the expression of shared interest in strengthening existing ties and coordinating actions in both the political and social and the economic and commercial area. At the Summit held in Rio de Janeiro, in 1999, the first steps were taken towards forging a strategic partnership between the two regions. The intent expressed at that first Summit was reiterated and solidified at the 2002 Summit of Madrid where, more specifically, institution-building, sustainable development, poverty reduction, promotion of cultural diversity, equality and social equity, and regional economic integration were identified as priority objectives.

In the same year of 2002, the EC and IDB signed a Memorandum of Understanding that laid the basis for a work program defining regional integration and social cohesion as priority areas for joint action. Since then, a number of different events and initiatives culminated in the Guadalajara Summit, whose primary objective was to strengthen the EU/LAC strategic partnership to achieve sustainable growth while maintaining the commitments regarding poverty reduction, inequity, and social exclusion.

Pursuant to the Guadalajara consensus, a high-level meeting was held in May 2005, also attended by the International Monetary Fund and the World Bank. The conclusion from this meeting was that it is imperative to promote social cohesion as a means of facing the challenges of inequality and fragmentation and ensuring more inclusive development and growth. Also in May 2005, the same conclusion emerged from a conference on social cohesion in the Andean countries that took place in Lima, jointly hosted by the IDB, the Andean Community of Nations and the EC. In March 2006, the issue of social cohesion was taken up at the conference *Promoting Social Cohesion: The European Union (EU) and Latin American and Caribbean (LAC) Experiences*, that took place in Brussels.

First used in Europe, the concept of social cohesion is key to understanding certain aspects of integration in the European Union. The *acquis communautaire* favors actions to strengthen economic and social cohesion as a means of promoting harmonious de-



velopment throughout Europe.<sup>1</sup> In this way the European Community has strengthened its commitment to reducing disparities among different regions.

The Revised Strategy for Social Cohesion, approved by the Council of Europe<sup>2</sup> in March 2004, proposes the concept of social cohesion as a priority (Council of Europe, 2004). In the document, social cohesion is defined as the capacity of a society to ensure the welfare of all its members by minimizing disparities and avoiding polarization. According to the strategy, a cohesive society is a mutually supportive community of free individuals pursuing these shared goals by democratic means. At the same time that the strategy emphasizes the importance of social cohesion for development, it recognizes that because every society has to live with the tensions arising from existing and potential divisions, no society can ever be said to be wholly cohesive.

The strategy underscores the fact that social cohesion is not limited to the struggle against exclusion and poverty. It also concerns generating solidarity in society so that exclusion can be minimized. This does not mean ignoring measures to support the most vulnerable members of society. So long as poverty and exclusion exist, any social cohesion strategy must confront both issues.

In a similar fashion, the IDB is wrestling with the issue of cohesion, employing definitions that have much in common with those set forth by the European Union and Council of Europe. (See, *inter alia*, Bouillon, Buvinic, and Jarque, 2004.)

In general, social cohesion can be defined as the set of factors that foster a basic equilibrium among individuals in a society, as reflected in their degree of integration in economic, social, political, and cultural terms.<sup>3</sup>

For the purposes of this document, what is needed is a working definition that translates the general notion of social cohesion into observable measurements that, in turn, permit empirical analysis of the relationship between different levels of cohesion and the outcomes of development. The concept of social cohesion is tied to the notion of social capital, but is not identical. Social capital is an informal norm that encourages cooperation between two or more individuals (Fukuyama, 2000). The norm has to take shape or make its presence felt through a human relationship, and it requires cooperative patterns of behavior among individuals. Social capital can generate positive and negative externalities with effects on individuals beyond those encouraged by the norm to cooperate. Greater social capital is not always desirable, given the potential for negative

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<sup>1</sup> Title 5, Article 130A, Official Journal L 169, 29-06-1987, p. 0009.

<sup>2</sup> The Council of Europe was established in 1949. It consists of 46 member countries and has its headquarters in Strasbourg (France). The Council of Europe does not form part of the institutions of the European Community (with 25 member states), though no country has entered the Union without first belonging to the Council of Europe.

<sup>3</sup> The notion of integration is used as an analytical concept that refers to the degree of functionality of a set of factors to achieve an objective, in this case, greater development. It therefore does not imply assimilation, but rather the ability of the system to achieve certain kinds of functional equilibrium with respect to diversity.

externalities: social capital does not always contribute positively to social equilibrium, since the solidarity fostered among the members of a group may be exclusive, generating hostile behavior patterns toward individuals outside the group.

*As a cumulative societal concept, social cohesion is the set of positive externalities accruing from social capital, in addition to the sum of factors promoting equity in the distribution of opportunities among individuals.* Accordingly, social cohesion is limited neither to social capital, nor solely to matters of exclusion and inequality. It presupposes both social capital with positive externalities and reasonable levels of equality and inclusion as well. Inequality is one of the key determinants of how a society navigates between fragmentation and cohesion.

Latin America is the most unequal region in the world. There are vast inequalities in the distribution of income, assets, and services, including education and access to credit. These are detrimental to the development prospects of the region. While the average Gini coefficient for Latin America is 0.51, that of Eastern Europe is 0.29, and the Gini coefficients corresponding to developed countries, Southeast Asia, and Africa are 0.33, 0.37, and 0.46, respectively (see next section). Inequalities are exacerbated by the exclusion of certain population groups that are targets of discrimination on the basis of ethnicity or race, gender, physical disability, and/or age, or because of their geographic isolation. Therefore, in order to attain the social cohesion necessary for sustainable development, the region needs to overcome major challenges related to inequality.

In this document, social cohesion is viewed less as an end in itself than as a means to achieve other objectives, such as greater economic growth. The challenges of growth require flexible societies with a capability to adapt, innovate, and anticipate change rather than fall victim to it. In principle, cohesive societies will be better positioned to face these challenges and more responsive at the individual level and in organizational terms.

Since inequality is one of the two major components of social cohesion, in the next section an assessment of inequality in Latin America is presented in order to examine potential sources of social fragmentation and the sectors in which it is found. These analyses provide the foundation for a social cohesion index that allows exploration of how different levels of social cohesion relate to growth and competitiveness, and other development outcomes, such as a country's ability to withstand economic shocks, technological innovation, and democratic governance.

A presentation of the IDB's activities linked to the strengthening of social cohesion comes after these analyses. The IDB is firmly engaged in following up with the areas of action emerging from the Declaration of Guadalajara. Accordingly, the discussion naturally develops along the lines of ideas there stated, including, among others, the Millennium Development Goals, inequality and exclusion, access to basic economic and social infrastructure, employment, and democratic governance.

The main findings are then brought into the final section where the implications for the design of public policies are discussed. It is hoped that these considerations can contribute to the cooperation undertaken by the EC and IDB oriented toward the promotion of development and growth and furthering social cohesion.

# Social Cohesion and Development in Latin America and the Caribbean

In the preceding pages, social cohesion is defined as the sum of the set of positive externalities generated by social capital, in addition to all the factors that promote equity in the distribution of opportunities among individuals. This section focuses on the diagnosis of the mechanisms through which inequality and the distribution of opportunities take place, as well as on the analysis of the benefits of social cohesion for selected desirable development outcomes.

## Poverty, Inequality, Exclusion, and Fragmentation

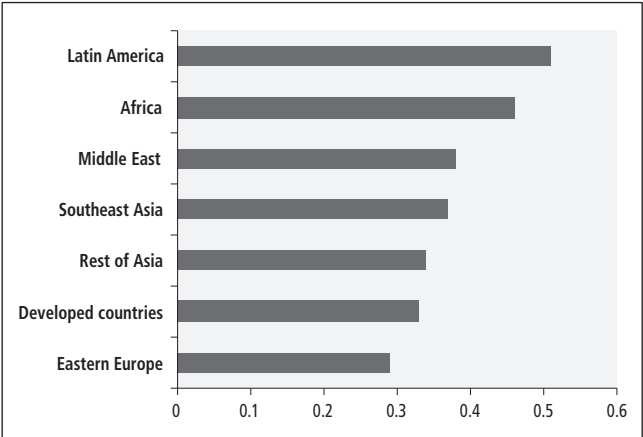
Latin America’s situation as the region of greatest inequality in the world (Figure 1) has an important consequence for the positioning of the region in respect to the relationship between levels of per capita income and poverty. For example, in 2004, Latin America had an average per capita income of US\$3,763, as compared to US\$2,730 in Eastern European countries. However, for the same year, the incidence of poverty in the total population was 42 percent, as opposed to an estimated 21 percent in Eastern Europe (IDB, 2005).

With regard to meeting the first of the Millennium Development Goals, namely, to cut by half the incidence of extreme poverty between 1990 and 2015, the figure estimated for 2004 (18.6 percent) corresponds to an advance of 34 percent in respect to the goal of halving the 22.5 percent of the region’s population in this condition in 1990. The

UN’s Economic Commission for Latin America and the Caribbean (ECLAC) finds this progress encouraging but notes that the pace is insufficient to meet the goal, given that 14 of the 25 years have already passed (ECLAC, 2005b).

Per capita GDP growth went from a rate of –0.2 percent between 2000 and 2003 to a rate of 3.5 percent between 2004 and 2005, and it is expected to continue rising. To meet the first of the Millenium Development

**Figure 1. Comparison of Inequality among World Regions**  
*(Gini coefficient, 1990s)*



Source: Own calculations based on World Bank indicators.

Goals, the region will have to achieve an annual per capita rate of growth of 4.3 percent through 2015, according to IDB estimates (IDB, 2005). The incidence of poverty has changed minimally in most of the past 15 years, having scarcely responded to changes in economic growth, which has been low and volatile, except in 2004 and 2005. Studies performed in Brazil show that this situation holds true particularly in the case of extreme poverty, which is fairly unresponsive to changes in growth rates, although not to public policies that reduce inequality by creating opportunities for the very poor. Economic growth per se has little potential to bring about a reduction in poverty amidst high levels of inequality, as in the region.

The level of inequality in Latin America, high compared to that in other world regions, has not been constant over time. In Brazil, the Gini coefficient, which measures the distribution of income across households, increased from 0.574 in 1981 to 0.625 in 1989, thereafter falling back to 0.564 in 2004, a decrease of about 10 percentage points (Ferreira, Leite, and Litchfield, 2006). Given the significance of these changes, debate has arisen over the factors that determined Brazil's reduction in inequality in the years to 2004. Among possible causes suggested are the recent creation of conditional cash transfer programs, a likely marked convergence of incomes in rural and urban areas, and a possible reduction in racial inequality. Still, inequality and exclusion in Brazil today remain very high, and there is no room for complacency if the ultimate aim is to achieve higher levels of social cohesion.

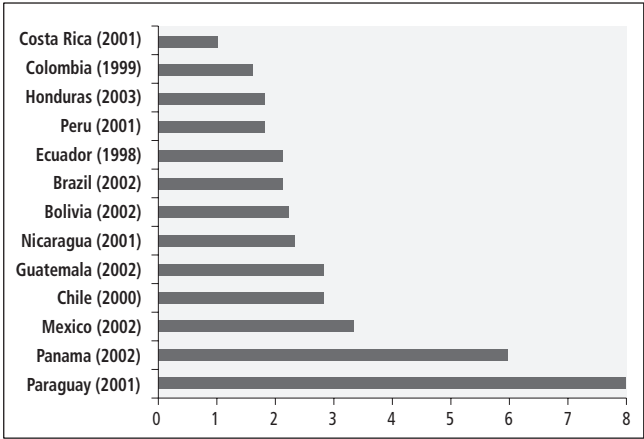
Exclusion in Latin America tends to be associated with factors over which the excluded exercise no control: for example, their ethnic-racial origins and traits such as gender, age, physical ability, and geographic location. Gender and ethnic-racial factors affect the largest proportion of the excluded population in the region. In recent decades there has been significant improvement in gender conditions, such as in the educational access and performance of the female population. However, gender continues to rank as an important variable of exclusion, particularly in terms of economic opportunities and political participation. (Only 15 percent of seats in national legislatures are occupied by women.) Domestic violence, often a product of the social pathologies of exclusion, disproportionately affects women and children. Domestic violence can and does extend outside the home into the street, becoming a social phenomenon that (because violence tends to beget violence) is perpetuated from one generation to another.

With regard to economic participation, even though there has been a growing incorporation of women into the labor market—due in part to advances in education—relatively adverse conditions for female integration into the labor market typically persist. Women face higher unemployment rates than men; they are concentrated in fewer types of occupations, are overrepresented in the informal sector, and have lower levels of social security and health care coverage. Women's salaries also continue to lag significantly behind those of their male counterparts. In many instances, labor laws aimed at protecting women in respect to maternity rights and access to certain high-risk occupations have in practice undermined their economic opportunities. There has also been an increase in

gaps *among* women themselves; women of indigenous and African descent, in particular, are in a disadvantaged situation.

Ethno-racial exclusion potentially affects a vast segment of the population of the region, including more than 40 million indigenous persons and approximately 150 million persons of African descent. As can be seen in Figure 2, in 12 of the 13 countries for which information is available, groups of indigenous and African origin are overrepresented among the populations living in extreme poverty; in seven countries, the incidence is more than double.

**Figure 2. Latin America: Incidence of Extreme Poverty among Groups of Indigenous and Afro-Descendents as a Multiple of the Incidence in the Rest of the Population (poverty line of US\$1 per day)**



Source: ECLAC (2004b).

overall population. Political participation of Brazilians of African descent, who account for 45 percent of the total population of Brazil, is lower in all three branches of government. For example, between 1995 and 1999, only 15 seats in the national congress were occupied by persons of African descent, which nevertheless was an advance from the previous decade, when they occupied only four such seats.<sup>4</sup>

The absence of control over the determinants of exclusion can generate perceptions of injustice, violence, and conflict, as well as governance problems. Important groups within society are cut off from the mainstream and function outside the scope of institutions and formal markets. These groups have sought refuge in niches, creating at times genuinely “independent nations” with their own territory, norms, and systems of government. These segments depend on social networks of mutual trust, rather than the services of the formal

<sup>4</sup> IDB data taken from the Congressional Research Service, Washington, D.C. In contrast to indigenous peoples, some groups of African descent are more integrated into the general population and can be reached through targeting criteria within general poverty reduction policies and programs.

judicial and public social security system. Informality is an intrinsic characteristic of these groups: their labor relationships, property and housing, marital arrangements, and, in the case of undocumented individuals, their very existence are informal.

Inequality in access—to productive resources, decent and stable work, infrastructure and basic services, and the opportunity for political participation—leads to disaffection and polarization among groups and individuals. Good-quality schools, jobs, and medical care, for example, appear to be reserved for the few, which is a perception hardly compatible with the ideal of greater social cohesion.

## **Sectors in Which Fragmentation Stands Out**

Latin America exhibits its high levels of fragmentation in a number of sectors: the labor market, access to opportunities for human development and to economic and social infrastructure, and participation in political processes. Another important element, not considered here, is access to productive resources. The skewed distribution of access to assets such as credit, land, and technology is another expression of the pattern of inequality found in the region.

### ***The Labor Market***

The labor market in Latin America has undergone substantial change in the past 15 years, bringing greater fragmentation and inequality among groups of workers and, significantly, greater unemployment, especially in the Southern Cone and Andean regions. Wage disparities between workers of different educational backgrounds have increased, while the average real wage has tended to decline.<sup>5</sup>

Job creation has been extremely weak, concentrating in unstable economic activities notable for low productivity. The percentage of workers who receive “poverty wages” (US\$1 per hour) ranges from 40 percent in Chile, Costa Rica, Mexico, Panama, and Uruguay to more than 70 percent in Central America and Bolivia (Duryea, Jaramillo, and Pagés, 2003). Jobs in the informal sector have burgeoned—7 of every 10 jobs created in the last 10 years have been informal—opening severe gaps in the social, health care, and labor protection systems. Many of the unemployed or “poorly employed” thus turn to the recourse of emigration.

Wage inequality, although varying in intensity across countries, has become more severe in the region within the context of market liberalization and technological change that has broadened the gulf between skilled and nonskilled workers. By contrast, in East

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<sup>5</sup> Average wages (adjusted for purchasing power in U.S. dollars) remained constant or declined in most countries in the region in the 1990s, falling mainly in Central America, the Andean region, and abruptly in Mexico (Duryea, Jaramillo, and Pagés, 2003). The countries of the Southern Cone in which the average wage increased are also those where increases took place in unemployment.

and Southeast Asia the differences in wage levels have tended to fall in a context of much more dynamic growth (Avalos and Savvides, 2003).

## ***Access to Opportunities for Human Development***

If human development is defined (following Amartya Sen) as the expansion of capabilities and freedoms of people to choose among different options, the importance of access to adequate levels of education, health care, and social protection is clear.

In *education*, Latin America has made great progress in reducing illiteracy and increasing attendance in primary schools, with coverage today in excess of 90 percent of the school age population. Nevertheless, in only 12 countries of the region do more than 90 percent of children manage to complete primary education, whereas in 10 of the 29 countries in the region, the rates are below 80 percent. Average education for the poorest quintile is 4 years, whereas in the highest income quintile it reaches 10 years.<sup>6</sup> Apart from these measures, academic achievement among poor children is well below that of children from families with more resources.

Compared to the rest of the world, Latin America is also characterized by a lack of educational quality. In countries of the Organisation for Economic Co-operation and Development (OECD), 50 percent of students score over 500 points in mathematics and reading on standardized tests; in Brazil and Mexico only 4.4 percent and 11 percent, respectively, achieve similar outcomes.<sup>7</sup> A relevant tool to improve learning is bilingual intercultural education, which has been adopted as a matter of public policy in a majority of countries in the region. In 2004, 18 countries had bilingual intercultural educational programs in place.

Children from poor families also have less access to and lower levels and stability of attendance in secondary, vocational, and higher education; poor children are unlikely to complete primary school and begin their secondary education. Among persons in the region 25 to 30 years of age, persons in the top income quintile average 5.5 more years of education than those in the two lowest quintiles. In Brazil, Honduras, and Mexico, the difference is more than 6.5 years. An important factor in educational segmentation is geographic location. In 2002, secondary education coverage for persons from 15 to 19 years of age was 37 percent in urban areas and only 12 percent in rural areas.

The *health* situation in the region has improved substantially but not consistently in the past 30 years (1975 to 2005). Life expectancy at birth increased from 61 to 72 years and average infant mortality dropped from 82 to 27 deaths per 1,000 live births. This picture is encouraging, but it conceals important differences among countries and among different groups within countries. For example, in 2002, infant mortality in Chile and Costa Rica was approximately 8 per 1,000 live births, while in Bolivia and Guyana it was greater than

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<sup>6</sup> Data from UNESCO.

<sup>7</sup> Data from IDB and the OECD. Hereafter, the source of data is the IDB, unless otherwise specified.



50. Chronic undernutrition affects about half of all children five years of age and under in Guatemala, but 2 percent in Chile and 6 percent in Costa Rica. Maternal mortality is 95 deaths per 100,000 live births according to the most recent data from the Pan American Health Organization (PAHO), which is considered high in relation to the region's average per capita income. Rates vary substantially from less than 15 deaths per 100,000 births in Chile to more than 200 in Bolivia. Moreover, all these figures fluctuate according to household income.

Important efforts are being made to improve access to and productivity of health services, such as the program for access to essential medicines in Argentina and the use of revolving funds for the purchase of basic drugs in Bolivia. Models to provide mixed public-private health services have also been introduced, both for the direct provision of care and the provision of services through public networks. Incentives to boost demand among the poorest people is being encouraged through public spending and programs such as the *Seguro Popular* in Mexico, the *Régimen Subsidiado* in Colombia, mother-child insurance in Bolivia and Peru, and programs providing conditional payments of cash transfers.

Social security systems in Latin America are currently leaving uncovered informal sector and unemployed workers, who comprise the great majority of the economically active population.<sup>8</sup> In response, countries in the past decade have expanded social protection safety nets that involve assistance benefits and monetary transfers. More recently, conditional cash transfer programs have grown in number; examples include *Oportunidades* (Mexico), *Familias en Acción* (Colombia), *Bolsa Família* (Brazil), *Programa de Asignación Familiar* (Honduras), the Program to Advance Education and Health (Jamaica), the *Red de Protección Social* in Nicaragua, and *Chile Solidario*. According to existing evaluations, these are promising programs that are having a positive impact, increasing human capital in poor beneficiary families.

### ***Access to Economic and Social Infrastructure***

Combating poverty also involves facilitating the access of low-income people to infrastructure and basic services, especially water, sewer service, electricity, housing, and improvement in the urban habitat. Latin American cities are marked by extreme inequality in the provision of infrastructure and municipal and social services. Established residential areas exist alongside informal housing settlements on the fringes of society that fail to offer minimally acceptable living conditions. These areas, in which the poorest groups and social minorities tend to be concentrated, are visible manifestations of social exclusion and segregation.

The population with access to drinking water increased from 82 percent in 1990 to 89 percent in 2002. Access to better sanitation systems increased from 68 percent in 1990 to

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<sup>8</sup> Remittances from family members who have emigrated are an important mechanism of income protection.



74 percent in 2002, but the coverage is far better in urban than in rural areas and among higher income groups. In Brazil, for example, access to sanitation systems is currently 83 percent in urban areas, but only 35 percent in rural zones. In Mexico, sanitation coverage is 90 percent and 39 percent, respectively.

## **Participation in Political Processes**

The regional scope and level of stability of democratic regimes in Latin America during the past two decades is without historical precedent. The fact that a number of the region's democracies have suffered severe economic crises and/or internal conflicts makes this phenomenon all the more remarkable. However, questions continue to be raised about their degree of institutionalization and their quality with respect to the inclusiveness and efficiency of political representation, the impartiality and accessibility of justice systems, and the efficacy and neutrality of the state. Other signs of difficulty include in some cases irregularities in the transfer of political power, low levels of citizen confidence in democratic institutions and low citizen satisfaction with democracy, the power of street protests to veto decisions reached through formal representative institutions, and unstable electoral support for political parties.

The high degree of inequality and social exclusion in Latin America is a serious obstacle to the smooth functioning of democracy. Democracy is based on the notion that decisions are based on consensus, compromise, and the presumption of political equality among citizens. Consequently, building an effective democracy requires citizens to be able to participate fully and freely and to handle disagreements and conflicts in a peaceful manner through democratic institutional channels. Such conditions have not yet become strongly rooted in the region. Significant progress has been made in removing the formal and legal inequities that exist among different social groups. However, major deficiencies in securing equal protection of citizen rights still remain.

An indication of these inequities is the poor capacity for revenue collection and for spending public revenues in such a way that they provide optimal social returns. A comparison of Latin American countries with industrialized economies shows the weakness of tax bases in the region (Table 1). Whereas in a sample of OECD countries, public rev-

**TABLE 1**  
**Tax Collections (percent of GDP)**

	<b>Total tax revenues</b>	<b>Income tax</b>	<b>Taxes on goods and services</b>	<b>Taxes on foreign trade</b>	<b>Social Security contributions</b>
LAC average	19.78	4.78	8.82	1.79	4.39
G-7 average	36.99	13.54	9.51	0.08	10.54

Source: International Monetary Fund (2001).

venues are equivalent to 37 percent of GDP, in Latin America they barely reach 20 percent. Similarly, Latin American countries experience great difficulty in raising income through real estate and income taxes, which tend to be less regressive than indirect taxes or taxes on goods and services.

Between 1990 and 1999, social expenditure in the region rose from 10.4 percent of GDP to 13.1 percent. However, steps taken to improve the progressive nature of spending yielded mixed results. Generally, social security expenditure—which tends to be less progressive—grew more rapidly in countries with higher incomes and those which have larger formal sectors with a larger presence of senior citizens who receive benefits from pension systems. As a consequence spending tended to be diverted from other areas. In the same period, spending was more progressive in health and education in lower-income countries.

The progressivity of social spending is improving in some countries as a result of advances in the design and implementation of cash transfer systems, which aim to improve equity among groups and regions by using various mechanisms to target benefits.

## Links between Social Cohesion and Development Outcomes

The assessment of inequality presented above serves as background for what is going to be discussed next: our analysis of levels of social cohesion and development revolves around the argument that the region needs to deepen its social cohesion as a strategy if it is to face the internal and external challenges within a context of globalization that requires flexible and adaptable societies. In order to proceed with the analysis, and keeping the relevant methodological and conceptual caveats in mind, an index has been calculated allowing for the examination of how social cohesion correlates with important areas of development, such as growth, competitiveness, and capacities for technological innovation and democratic governance.

The index here introduced aggregate indicators related to two conceptual components: (a) those factors, especially the socioeconomic structure and the political structure, which promote equilibrium in the distribution of opportunities among individuals;<sup>9</sup> and (b) externalities generated by social capital, both positive and negative. Each subcomponent is measured by a set of variables, as indicated in Table 2.<sup>10</sup>

A social cohesion index requires a clear conceptual definition, a theory that provides a basis for linking its components to the broader concept, and conceptually valid and reliable indicators for each of its dimensions. The second and third of these requirements

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<sup>9</sup> Social cohesion implies that certain kinds of structural equilibrium have been established in a way that allows every individual to gain access to the resources generated by the relevant economic, social, and political system.

<sup>10</sup> For a conceptual and methodological description of the index and a description of the indicators see the appendices.

**TABLE 2**

**Components of the Social Cohesion Index**

<b>Social cohesion</b>	<b>Distribution of opportunities</b>	<b>Socioeconomic structure</b>	Poverty incidence GINI Size of the middle class Educational GINI Intergenerational mobility
		<b>Political structure</b>	Equality under the law Biases in political participation
	<b>Social capital</b>	<b>Positive externalities</b>	Involvement in organizations Interpersonal trust Trust in public institutions Trust in politicians Fiscal capacity
		<b>Negative externalities</b>	Labor conflict Crime victimization Homicide rate

cannot be entirely met because of limitations in the available data and the lack of empirical research on the interactions between different dimensions of the concept of cohesion as defined. Thus, this attempt to construct an index should be considered an exploratory exercise and treated as such.

The index discussed in Appendix I is used below to examine the degree to which social cohesion is connected with the capacity of countries to implement effective development policies, innovate, withstand shocks, and adapt appropriately to change.

The results of the bivariate analysis presented do not imply the presence of causal relationships but indicate an association between certain desirable development outcomes and countries with more cohesive societies.

### ***Relation of Social Cohesion to Innovation, Competitiveness, and Economic Growth***

The number of studies that have attempted to examine the relationship between social cohesion and innovation, competitiveness, and, as a corollary of these, growth are not numerous, among other reasons because of the still embryonic state of the concept of social cohesion. There is some empirical evidence in the literature regarding particular relations between partial measures of social cohesion and economic growth. For instance, high rates of violence (included here as a negative social capital externality) have been shown to hamper growth. Violence results in enormous direct and indirect costs in the region, including resources for goods and services that need to be directed to security and prevention and the costs of caring for crime victims and for the prosecution and trial of

offenders. In addition, violence adversely affects the business and investment climate and has deleterious effects on human capital (child abuse in domestic violence, for instance, hurts academic performance and school attendance); violence and crime also weaken labor market participation and work productivity.

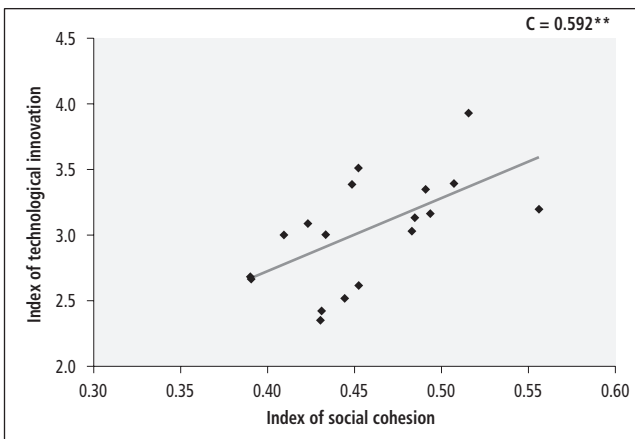
Among the studies in the recent economics literature are Easterly, Ritzen, and Woolcock (2005), Rodrik (1999), and Knack and Keefer (1997). On the basis of empirical evidence from a fairly large sample of countries, the first of these studies shows that there is a relationship between social cohesion<sup>11</sup> and institutional quality, which at the same time affects economic growth. The argument is that social cohesion contributes to producing more innovative, competitive economies which are more capable of growing because they rest on relatively strong political institutions and consensus, thus contributing to the capacity for adaptation to the changes and demands imposed by the market and helping to strengthen the capacity to resist potential destabilizing policy changes and the effects of economic shocks.

Only highly competitive economies can function well in a context of ever more demanding markets. Competitiveness implies being efficient and productive, as well as having a great ability to innovate and change when market forces demand. Thus, competitiveness is intimately connected with the capacity for technological innovation. Among other factors the capacity for innovation depends on the level of human capital. Those countries that have invested systematically in developing this capital and have managed to create and conserve comparative advantages in a context of macro-

economic stability and an adequate real exchange rate are also those which are better positioned in terms of competitiveness.

In the countries of the region with higher levels of social cohesion, the trend in scientific and technological production is more favorable than in more fragmented societies (Figure 3). It therefore would seem that, all else being equal, the higher the level of social cohesion, the greater the level of human and social capital and of suc-

**Figure 3. Technological Innovation Capacity versus Social Cohesion**



\*\* Correlation is significant at the 0.01 level.

<sup>11</sup> In this study, social cohesion is measured as a function of income inequality and ethno-linguistic fragmentation.

cess in scientific and technological production, all of which may boost responsiveness to the demands and opportunities of globalization.

Generally, the proportion of researchers in the workforce is significantly lower in Latin America than in advanced countries, and the available data show that this gap is growing. The number of researchers per thousand persons in the economically active population increased less than 10 percent between 1995 and 2003. In the same period, the rate of increase was more than 20 percent in developed countries. In China, the number of researchers is growing three times faster than the labor force as a whole (IDB, 2006).

In contrast to more advanced countries where the majority of researchers work in the private sector, in Latin America they are mainly employed by universities and public institutes. However, in Brazil and Mexico, for example, the proportion of researchers employed by the private sector is rising rapidly. These countries have also increased the intensity of their investment in research and development (spending as a percentage of gross domestic product [GDP]). In Brazil, for instance, investment in research and development is approximately 1 percent of GDP. Most countries in the region, however, show a declining trend.

The virtue of social cohesion is that it not only contributes to higher growth rates,<sup>12</sup> it also affects the quality and sustainability of growth, especially in the context of sharp and frequent changes in external conditions. In addition to the importance of *human* capital, which is captured in the first component of the social cohesion index, *social* capital is key—and, in this respect, civil society is vital. As the example of Argentina shows (Box 1), in times of crisis the capacity of society to organize itself (on the basis of high levels of social capital) produces externalities that can be essential for attending to the basic needs of the population and favors the chances for an economic recovery.<sup>13</sup>

### ***Relation of Social Cohesion to Democratic Governance***

As previous studies have demonstrated,<sup>14</sup> high levels of social cohesion should be reflected in greater efficiency in the workings of the main components of the institutionalized political system: (i) efficiency in the process of policymaking, (ii) the quality of development policy, and (iii) the capability to withstand political shocks.

Greater efficiency in policy design implies that decision-making agencies are able to adopt at reasonable cost high-quality policies that reflect high levels of social consensus, can be effectively implemented, and fit into a country's short-, medium-, or

<sup>12</sup> For this document's sample of 18 Latin American countries the correlations between growth and competitiveness and between growth and innovation are .527 and .575, respectively, with a level of significance of .05.

<sup>13</sup> See Kliksberg (2006) for an analysis of the role of volunteer action.

<sup>14</sup> As mentioned, Easterly, Ritzen, and Woolcock (2005) find empirical evidence that shows the existence of a relationship between social cohesion and institutional quality, which in turn is found to positively affect the rate of economic growth.

**BOX 1****Civil Society in Argentina**

Beginning in the early 2000s, the IDB and the UNDP made a joint effort to gauge and analyze the development of activities through associations in Argentina. The study was based on a survey sample of more than 8,000 civil society organizations (CSOs), out of a total of more than 100,000 identified organizations. These included organizations involved in assisting in the provision of education and hospital services, mothers' clubs, neighborhood associations, social and sports clubs, retiree centers, trade unions and associations, professional associations, associations of work cooperatives, business and microenterprise associations, community kitchens, student associations, mutual associations, popular libraries, environmental groups, women's associations, networks, and public forums, among others. The study shows that in Argentina there were 2.9 CSOs for every thousand inhabitants. In Chile, the proportion was 2.8, in Brazil 0.7; in the United States the figure was 4.3, in Spain 3.8, in Great Britain 5.1, and in France 12.1. The proportion of CSOs per inhabitant far exceeded that of state educational establishments at all levels (1 establishment per 1,000 inhabitants). In Argentina, organizations created for purposes of mutual assistance predominate, a heritage of massive European migration at the end of the 19th and beginning of the 20th centuries. Among them, nongovernmental organizations (NGOs) related to education predominate (24 percent), with a particularly notable presence in poor provinces. Education-related NGOs played a significant role in the efforts of the state to expand public education between 1880 and 1914. CSOs in Argentina accounted for an approximate total of 1.8 million people. Of these 75 percent were volunteers (around 10.3 percent of the economically active population), while the rest were paid workers. These organizations annually mobilize financial resources totaling 2.6 percent of GDP, largely through membership fees and the provision of services (29 percent and 27 percent, respectively). Education is the principal area of action, even though more than 60 percent of the organizations concentrate on fighting poverty and assisting vulnerable groups.

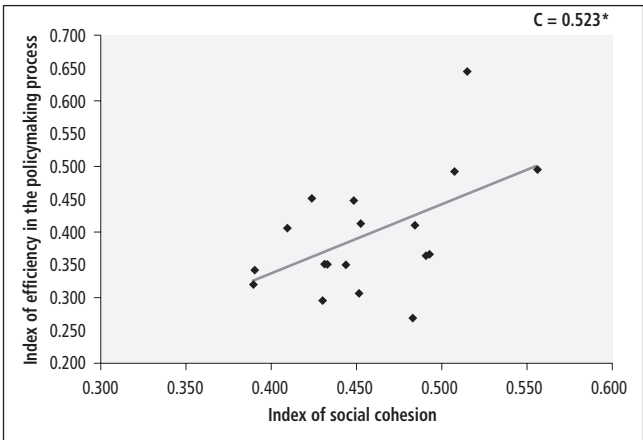
The significant capacity of social capital in Argentina was demonstrated when, because of the economic crises of the past decade, the country experienced an unprecedented upsurge in poverty. According to many studies, 60 percent of the population had fallen below the poverty line by the end of 2002. In these critical years, the number of people engaging in volunteer work tripled, reaching more than 30 percent of the population. Millions of volunteers worked in the major NGOs (such as Caritas, AMIA, and the Red Social), creating their own organizations and volunteer projects. Caritas was the leader in voluntary work; with 150,000 volunteers, its assistance extended to three million poor people.

*Source:* IDB/UNDP (2004).

long-term development plans. A highly fragmented country is one riven by internal divisions that impose significant constraints on government decision making. Fragmentation reflects the presence of a multiplicity of groups that have conflicting interests, which are unlikely to be made compatible, all seeking to influence public policy for their own benefit. This entails a significant increase in transaction costs for each one of the policies negotiated, in terms of both the time required and the extent of substantive

concessions necessary. By contrast, transaction costs in a more highly cohesive country will be lower (Figure 4).

**Figure 4. Efficiency in the Policymaking Process versus Social Cohesion**



\* Correlation is significant at the 0.05 level.

Inefficiencies in decision making often result in poor-quality development policies. Regardless of its particular contents, for a public policy to be effective it must meet a number of requirements (Stein et al., 2005). Policy must (a) be stable, meaning it must be consistent over time; (b) be flexible enough to adjust to shifting contexts; (c) take into account in its design the requirements for implementation and be consistent with other policies in the same area; (d) be implemented eff-

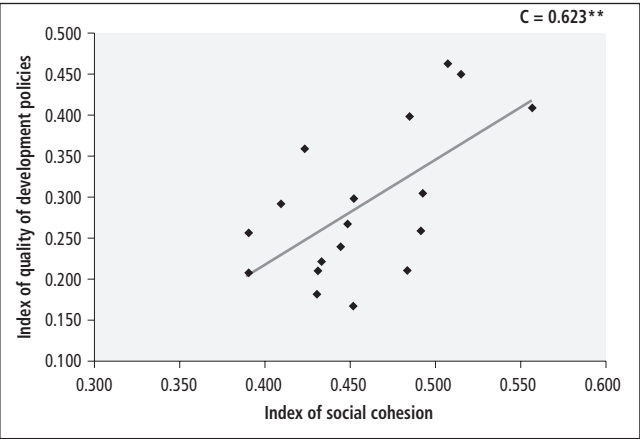
ectively; (e) serve general public interests; and (f) be efficient in respect to the allocation of resources. Often how much is spent is less important than how the spending is done.

All of the above assumes that the actors involved in decision making will be able to reach intertemporal agreements on the core elements of state policy. Intertemporality assumes reasonable stability in the identification of a country's development objectives, which implies that they are not subject to dramatic changes with changes in the composition of the government and the congress. These agreements also require considerable capacity to forge consensus, which is more feasible when the elements of society are united around the same purpose, that is, when society is cohesive.

The implementation of projects and the advance of a country towards higher levels of well-being require it to have an ability not only to generate resources but to know how to spend them. Limitations in respect to budgetary policymaking and management are among the most important constraints faced by low- and middle-income countries. Revenues collected by countries are low, and some revenues are lost because of inefficient spending, whether as a result of poor policy design or poor implementation, or because resources are diverted for other purposes. Moreover, in fragmented societies, government fails to reach certain sectors of the population. High levels of cohesion are thus associated with greater efficiency in the relationship between state institutions and citizens; policies will have a greater impact with a lower use of public resources (Figure 5).

The willingness to pay taxes depends considerably on the benefits that people expect to receive in return. Citizens of a cohesive country will be more willing to contribute to the common pool of public resources, since the benefits will be distributed on a more equitable

**Figure 5. Quality of Development Policies versus Social Cohesion**

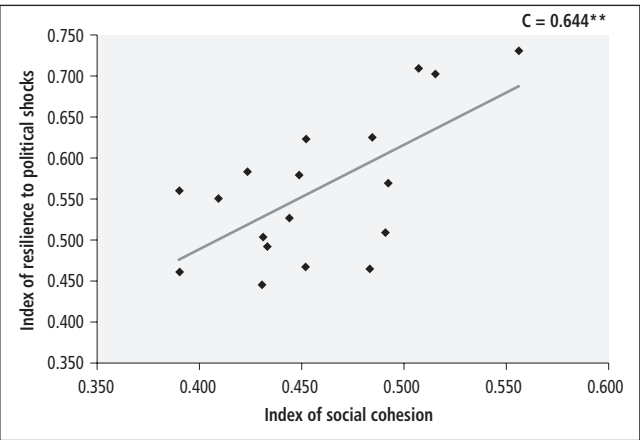


\*\* Correlation is significant at the 0.01 level.

policy also assumes that technical agencies are able to interpret and properly implement policy decisions. This capability implies an independent and professional civil service in which civil servant careers are not cut short by changes in the political leadership. Only in this context can the institutional stability of an effective and neutral public administration be assured.

Greater efficiency in policymaking processes and better-quality development policies will improve the capacity of the system to withstand crises of any sort or to safeguard itself against political shocks (Figure 6). Even though the relationship between the two outcome dimensions discussed above and the measure of social cohesion may seem obvious, it is reasonable to expect an even closer relationship between this latter concept and the index.

**Figure 6. Resilience to Political Shocks versus Social Cohesion**



\*\* Correlation is significant at the 0.01 level.

basis than in fragmented societies. Furthermore, there will be less incentive to misuse resources through the practices of clientelism and corruption: first, because the mechanisms of control work better in a cohesive society and the risks to those that abuse the public purse are accordingly greater; and second, because there is greater likelihood of citizens' benefiting from the direct products of government.

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Significant improvements in the design and content of policies are intermediate outcomes, but the system's safeguarding capacity is an end product. Social cohesion indicates up to what point a degree of balance has been achieved within economic, social, and political structures. The system's capacity to withstand shocks is indicative of the probability that these areas of balance will be maintained in the future.



## **IDB Action and Coordination in Social Cohesion**

As mentioned above, social cohesion is a key element of the Declaration of the Guadalajara Summit, in which the Heads of State and Government of Latin America and the Caribbean and of the European Union affirm their commitment to build fairer societies by strengthening social cohesion. The IDB shares and supports this commitment through its operational presence in the economic and social sectors in support of equity and human development, poverty reduction, and promotion of democratic governance in the borrowing member countries of the region.

The Declaration of Guadalajara<sup>15</sup> brings together commitments by the signatory states and governments in specific areas, including the commitment to attain the Millennium Development Goals (MDG) by 2015; lead processes and reforms aimed at increasing social cohesion by fighting poverty, inequality, and social exclusion; promote access to basic economic and social infrastructure; and dedicate an adequate level of social spending to social sectors, among other aspects. The declaration indicates that the Millennium Declaration (signed by 189 Heads of State and Government at the 2000 United Nations Millennium Summit) and the MDG should be used as a comprehensive framework for policy dialogue and formulation of measurable objectives and goals. It refers to the essential role played by financing for development, multilateral mechanisms and international organizations, among them the IDB, in the challenge of achieving the goal of greater social cohesion.

The aim of this section is to summarize the IDB's strategic contribution to this agenda, with special reference to what began in Guadalajara and has been achieved since that time, with a view to the May 2006 Vienna Summit. In that connection, five interdependent action areas may be distinguished: support for the MDG; social programs and reduction of inequality and exclusion; promotion of access to basic economic and social infrastructure; promotion of employment; and strengthening of democratic governance. As discussed above, these themes emanate from the Declaration of Guadalajara and are critical aspects in resolving the problems of social cohesion.

The loans and guarantees totaling over US\$13 billion (including all sectors) approved by the IDB in 2004 and 2005 will help to finance programs and projects representing a total investment of more than twice that amount. IDB financing covers only part of the total cost of projects executed by borrowing countries. For the most part, the countries of the region themselves contribute the rest. Nearly half (48 percent) of the total approved in 2005 is targeted at investments in, and reform of, the social sector, and nearly 15 percent at institutional strengthening and modernization of the state—both key social cohesion

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<sup>15</sup> Available at [http://europa.eu.int/comm/world/lac-guadal/00\\_index.htm](http://europa.eu.int/comm/world/lac-guadal/00_index.htm).

topics, as discussed in this document. In 2005, approximately 36 percent of loans were targeted at strengthening country competitiveness through programs in, inter alia, the energy, transport, credit, and science and technology areas. Bank activity in areas such as entrepreneurial development, microfinance, and private sector promotion as a poverty reduction instrument is not included here, in keeping with the “social” focus of this section.

## Millennium Development Goals

The IDB has an institutional commitment to social development and the MDG. The Bank’s mandates to help accelerate economic and social development and poverty reduction are consistent with the MDG agenda. Accordingly, since the goals were first introduced, pertinent institutional processes have been adopted to enhance the support provided to MDG-related policies. As achievement of the MDG is a priority objective of the Bank, in 2004 and 2005 it strengthened its country strategies and programs in this regard; promoted training efforts; approved loans to expand programs in such areas, insisting on monitoring and evaluation aspects to ensure their effectiveness; and promoted research with the aim of extracting lessons learned and good practices to improve Bank policies and programs.

The Bank has sector strategies for sustainable economic growth, social development, poverty reduction and promotion of equity, modernization of the state, and regional integration and competitiveness, and is preparing others in important MDG areas, among them education, health, and rural development. In early 2006, the *Environment and Safeguards Compliance Policy*, the *Strategy for Indigenous Development* and the *Operational Policy on Indigenous Peoples* were adopted. The objective of the latter is to strengthen the IDB’s contribution to the development of indigenous peoples, supporting their *development with identity*, safeguarding them and their rights from potential negative impacts, and ensuring that they are not excluded from projects financed by the IDB.

To implement its new strategic framework and enhance its capacity to support the MDG, the Bank has strengthened its institutional arrangements and, among other aspects, has created an *interdepartmental group on the MDG* to ensure incorporation of the goals into IDB activities. In addition, work plans and departmental budgets have been adjusted to take explicit account of the MDG.

As part of its efforts to ensure an effective contribution to the economic and social development of the borrowing member countries and to achieve the MDG in the region, in 2004, the Bank formulated a *Medium-Term Action Plan for Development Effectiveness*. This plan details a series of ambitious activities whose purpose is to establish a development effectiveness system; the plan includes long-term objectives and short-term actions for the 2004–2006 period. It consists of three interrelated pillars, addressing external matters, internal matters related to IDB operational activity, and institutional matters.

As a result of the plan, in 2005 the Bank created a *Development Effectiveness and Strategic Planning Department* to strengthen the support given to the MDG, to which end, more specifically, greater effectiveness of operations, monitoring, procurement, fiduciary risk assessment and project management, among other activities, will be ensured.

In 2004 and 2005, the Bank supported consensus building at the highest political levels, as well as country dialogue, to identify and define MDG-related country programs. The IDB has also supported activities to disseminate information regarding the importance of the MDG for Latin American and Caribbean countries. In November 2003, the IDB cosponsored the *Brasilia International Conference on the Millennium Development Goals in Latin America and the Caribbean*, in which presidents, legislators, government authorities, private sector and civil society representatives, and donors participated. The conference further defined the role of the different parties (governments, legislatures, civil society, the private sector, and the donor community) in joint efforts to implement the MDG. The outcomes of this high-level meeting were set out in the Brasilia Declaration, a proposal for implementation of the MDG in the region.<sup>16</sup>

As follow-up to the Brasilia Conference, the IDB, the United Nations Development Programme, the government of the state of Bahía in Brazil, and the Luis Eduardo Magalhães Foundation sponsored (in May 2005) a seminar on the MDG, which brought together 42 representatives of 16 Brazilian states. The objective of the seminar was to renew and strengthen ownership of the MDG at the local level and explore effective linkages between local government projects, programs and planning and central government in order to more successfully address the social agenda. Another objective was to demonstrate the need to *adapt the MDG to each country's characteristics and social profile*.<sup>17</sup>

The IDB has aligned many of its social investment and technical assistance programs with national strategies and plans designed to achieve the MDG and is assigning priority to such investments. From 2000 to 2004, 51 percent of IDB loans were targeted at sectors directly related to attaining the MDG.

As established at the Conference on Financing for Development, held in Monterrey in 2002, special attention must be given to *measuring and monitoring the effectiveness of actions* to support development, particularly the MDG. To that end, mechanisms must be established to monitor progress made in implementing poverty reduction strategies and activities, and indicators and monitoring and evaluation systems must also be available to follow up on policies, programs, and development targets. Through technical cooperation programs, the IDB supports the development of monitoring and evaluation capacity,

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<sup>16</sup> Available at <http://www.iadb.org/sds/doc/LibroODMConfBrasilia.pdf>.

<sup>17</sup> Adaptation of the MDG agenda to the region requires greater emphasis on inequality and exclusion, especially with regard to the health and education MDG, more ambitious educational goals, health goals more in keeping with the region's epidemiological profile, inclusion in the environmental MDG of vulnerability to natural disasters, and adjustment of the gender MDG to strengthen gender equity and empowerment of women.

including participatory elements, to be able to improve, adjust, and adapt poverty reduction policies based on the validity of lessons learned.

In the past two years, the IDB has placed greater emphasis on creating capacity to monitor and evaluate progress made in achieving the MDG, both internally and in the borrowing member countries. The Bank's activities in this area include new institutional arrangements to strengthen monitoring and evaluation of Bank operations, conducting surveys of living conditions (such as the MECOVI program) and strengthening national statistical institutes. The *Equity and Social Indicators* (EQxIS) system is an IDB Web-based information tool that allows users to monitor equitable social development indicators (focused on the MDG), identify the main challenges associated with each sector, and provide disaggregated data.<sup>18</sup>

## Inequality and Exclusion

The Guadalajara Summit advanced topics of social inclusion and inequality reduction in the region by underscoring the need to promote greater social cohesion. The Bank's commitment to this agenda is reflected in its policies and strategies, which confirm the mandates of its Eighth Replenishment of Resources. These include the cumulative target of devoting 40 percent of the Bank's financing and half its operations to promoting social equity. In financial terms, this target is being exceeded, which reflects the Bank's position as a promoter of social policies and programs aimed at reducing inequality. Table 3 shows the distribution of social development sector loans in 2004 and 2005.

**TABLE 3**  
**Social Development Loans, 2004–2005 (US\$ millions)**

	2005	%	2004	%
Social investment	2,505.6	72.9	2,545.3	83.9
Water and sanitation	340.0	9.9	61.8	2.0
Urban development	96.5	2.8	164.7	5.4
Education	250.0	7.3	91.0	3.0
Health	123.6	3.6	136.5	4.5
Environment	123.4	3.6	34.0	1.1
Total	3,439.0	100.0	3,033.3	100.0

As the table shows, the most important components of this portfolio are social investment programs, including *conditional cash transfers*, which are targeted at poor

<sup>18</sup> For further information and access to EQxIS, see <http://www.iadb.org/xindicators>.

families based on means testing and are designed to break the vicious cycle of poverty by obtaining synergies among nutrition, education, and health. Accordingly, in 2004, for example, the IDB approved a US\$1 billion loan for Brazil's *Bolsa Família* program and, in 2005, US\$700 million in support for Argentina's *Plan Familias*. The conditional cash subsidies provided under the latter program will help some 500,000 poor families keep their children in school and access basic health services.

The Bank has processes and instruments, such as the *Action Plans for Combating Social Exclusion Due to Race or Ethnic Background*, to guide activities to strengthen capacity to address the challenges of social inclusion, expansion of research and data collection efforts as the basis for operation programming and design, and enlargement of the social inclusion and investment project portfolio. That portfolio includes projects targeted at better integration of excluded populations (e.g., in education, health, basic infrastructure, and regional development) and at supporting the development of antidiscrimination legislation, among other aspects. For example, the portfolio promotes diversity of education in Brazil, regional development of indigenous communities and communities of African descent (Chile, Panama, Honduras), and adaptation of urban transport in different countries to the needs of persons with disabilities.

The Bank promotes interagency coordination in the inclusion policies area: it is a founding member of the *Inter-agency Consultation on Race and Poverty in Latin America and the Caribbean* and the *Inter-agency Working Group on Indigenous Issues*, both of which bring together the main multilateral and regional agencies.

To implement and expand its social inclusion activities, in 2004, the Bank created a specific fund to promote the inclusion of indigenous groups, persons of African descent, persons affected by HIV/AIDS, persons with disabilities, and poor women. The *Social Inclusion Fund* has the support of the Norwegian government, its founder, which recently agreed to increase its support in view of the results thus far obtained. The fund's donor configuration has included the U.K. Department for International Development (DFID) and now includes Canada. (In parallel, DFID has contributed resources through the *Fondo Enlace* to support the social inclusion agenda in Central America.) The Social Inclusion Fund supports the preparation of new projects and knowledge management.<sup>19</sup> It has prepared and has in execution over 25 technical cooperation programs: a strategy to raise public awareness of discrimination-related topics (which includes videos transmitted over networks such as CNN and MTV); the design of a method for participation by ethnic groups in Nicaragua's 2005 national census; collection and analysis of data on disabilities in 12 countries of the region; input for the design of affirmative action policies for Colombians of African descent; and the creation of an observatory to gather, organize, and disseminate information on Brazilians of African descent, among other aspects.

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<sup>19</sup> A database on disability (which affects 10–15 percent of the region's population) has recently been developed and is available at [http://www.iadb.org/sds/soc/site\\_6190\\_e.htm](http://www.iadb.org/sds/soc/site_6190_e.htm). The incidence of poverty and exclusion is higher among persons with disabilities than in the rest of the population.

In late 2005, creation of the multidonor *Gender Mainstreaming Trust Fund* was approved, with an initial contribution from the Norwegian government. The fund supports the financing of technical resources targeted at the incorporation of gender elements into loan projects financed by the Bank. In this area, since 1987, the IDB has had a *Women in Development* policy, which commits the Bank to support member countries in their efforts to achieve greater integration of women at all stages of the development process and to improve their economic situation.

In recent years, there has been sustained progress in mainstreaming women's and gender issues in programs and projects. In 2004 and 2005, institutional measures were adopted to strengthen the gender perspective and the Bank's contribution to gender equality: the first IDB *Gender Mainstreaming Action Plan*, for the 2003–2005 period, was adopted; the Women in Development Unit changed its name to the Gender Equality in Development Unit; and preparation was begun of a *Strategic Framework on Gender*, which will guide Bank action to strengthen its contribution to gender equality in Latin America and the Caribbean. In 2004 and 2005, the *Program for the Support of Women's Leadership and Representation* (PROLEAD) approved US\$1.63 million in activities to support women's greater effectiveness in and access to political decision-making positions. Activities carried out included the establishment of networks of women in executive branches, training of young women, and financing of projects targeted at indigenous leaders and at greater participation by women in political parties.

As this summary of activities demonstrates, the IDB is *expanding the scale of investment, technical cooperation, and stakeholder consultation* in the area of inequality. Loans in priority sectors have been diversified to include a series of innovative areas with the aim of broadening successful interventions. Approaches in health and education, for example, have changed in the past 10 years from concentration principally on infrastructure to assigning priority to institution building, expansion of coverage, and enhancement of the quality of services provided to low-income groups. The technical cooperation portfolio and partnerships with donor countries and entities have also diversified. The EUROsocial program is one example. It was established by the EU and IDB as a result of agreements concluded in Guadalajara. The program began with a budget of 30 million euros, with the aim of contributing to the exchange of experiences and good practices between the EU and the LAC countries. Five priority sectors were established (health, education, justice, taxation, and employment). Projects are executed by consortia of EU public entities and LAC partners. The IDB supports program development, contributing experience and analytical capacity in identifying good practices in the areas of health, education, justice, and taxation.

## Basic Economic and Social Infrastructure

The IDB is targeting its action in the urban and basic infrastructure sector to *reduction of barriers to access to services and sources of employment*. Operations carried out in recent

years have taken a “territorial” or spatial approach, meaning that investment is channeled towards areas of cities where poor districts are concentrated and service deficits are greatest. This implies a need for a multisectoral approach to problems to create synergies among complementary components and achieve effectiveness of the responses provided to the population. The Bank seeks to implement this approach in sector action in the basic infrastructure area, which includes sanitation (water and sewerage), urban transport, housing, and neighborhood improvement. The IDB’s lending activity in these sectors (approvals) reached US\$751 million in 2004 and 2005.

Concentration of population in precarious settlements, generally located at urban peripheries, with problems of access to centers of employment and basic urban services is a palpable manifestation of social fragmentation. To promote better housing conditions for poor population segments, the IDB is actively supporting efforts being made by countries of the region to provide effective solutions. Such support is based on a concept of the role of government as a housing market facilitator that promotes the construction and financing of housing affordable at all income levels. Bank operations supporting the *facilitation approach* are more complex than those surrounding their predecessor, the housing loan, which focused on housing construction or producing lots with services for low-income families. More recent programs, which include components such as finance mechanisms and regularization of land ownership, require a well-coordinated implementation process and involve a variety of executing and regulatory agencies.

Investment in public transport to promote the accessibility of poor neighborhoods is an essential element of an employment promotion strategy. In addition, services facilitating access by the poor to job centers—particularly public transport—are vital in enabling the poor to access opportunities for work, education, and other services, reduce travel time, and increase their productivity and income.

## Employment

Labor market policies and programs may serve to complement and support private investment and the business climate in promoting employment generation. Programs that help to match workers more effectively with potential employment and increase their productivity are key elements of the IDB’s contributions to making labor markets more flexible and generating employment.

In the past 10 years, the IDB’s lending support for labor market policies and programs has risen to US\$5 billion (including national counterpart). In keeping with its labor policy agenda, the IDB’s support in 2004 and 2005 was targeted at creating pilot programs to test new approaches to labor market programs, including better tailoring to private sector demand, strengthening of labor ministries, and testing of models adapted to excluded groups (such as youth, women, and persons with disabilities) who have specific difficulties in the job market. The IDB and governments of the region pioneered the use of the youth training model to help large groups of disadvantaged youth incorporate themselves into



the labor market. The model combines attendance-based training with company internships. Impact evaluations of corresponding programs in Chile and Argentina show that participating youth (especially women) have had higher rates of job insertion than those of a control group (Giordano, Torres, and Colina, 2005).

The IDB also supports loans executed by labor ministries to improve policies and programs in the labor market. Such loans simultaneously support new competitive training programs, intermediation system reform and/or modernization, information streamlining, labor market analysis, and regulatory oversight. In a program in Mexico, the IDB supports adult job training, training of unemployed workers, the national employment service, strengthening of the labor ministry, and creation of an observatory to monitor key labor market trends. Other operations taking this or similar approaches have been approved for the Dominican Republic, Peru, and Panama.

A series of smaller new operations are being targeted at strengthening links among the labor market, education, and the antipoverty and social dimension. A project in The Bahamas combines training and education and includes a school-to-work transition program. Projects in other countries promote basic and vocational education for youth and adults or include in broader social programs components for better labor market operation.

With regard to technical cooperation and nonfinancial operations, the IDB granted support subsidies for new labor market programs and pilot methodologies which, when tested, may contribute to implementing broader national programs as well as lessons and potential applications for other countries of the region. In that connection, work has been done on skill certification standards and labor intermediation, child labor, sector training, and training for women. Such pilot efforts seek to experiment with job programs specifically adapted to the region, whose main characteristic is its large supply of low-skilled workers, usually operating outside the formal system. Incorporation of such workers into a continuing training and education system is essential for the future competitiveness of the region's economies and to make progress in reducing poverty.

## Governance

A notable IDB activity was publication of the book *Democracies in Development: Politics and Reform in Latin America*, and in 2005, *The Politics of Policies*, a study that takes a detailed look at the institutional arrangements and political systems in Latin America as they shape the roles and incentives of different actors. At the same time, together with the Organization of American States (OAS), the United Nations Development Programme, the International Institute for Democracy and Electoral Assistance, and other organizations, the Bank is supporting different activities to strengthen the political party system. In addition, in 2004 and 2005, the IDB organized numerous regional meetings with civil society organizations and adopted a *Strategy to Promote Citizen Participation* in IDB activities.



**TABLE 4**

**Reform and Modernization of the State Loans, 2004–2005 (US\$ millions)**

	2005	%	2004	%
Reform and public sector support	99.50	9.41	663.7	75.2
Financial sector reform	835.2	79.02	125	14.2
Fiscal reform	47.9	4.53	43	4.9
Decentralization policies	51.6	4.88	30.4	3.4
Modernization and administration of justice	4.9	0.46	3	0.3
Planning and state reform	0	0.00	0	0.0
Parliamentary modernization	3.9	0.37	4.8	0.5
Civil society	0	0.00	0	0.0
Trade policy support	13.9	1.32	0	0.0
E-government	0	0.00	13.2	1.5
Total	1,056.90	100.00	883.1	100.0

The Bank is strengthening its lending and technical activity in the governance area and has continued to promote policy dialogue to identify promising lines of institutional reform. In the past two years, the main lines of activity supported were government reform and modernization, including financial sector reform and reform of government fiscal capacity; judicial system reform and strengthening; modernization and institutional and technical strengthening of legislatures; strengthening of electoral institutions and political party systems; institutional and technical strengthening of decentralization processes; institutional and technical strengthening of supervisory, regulatory, and oversight agencies; and promotion of a democratic culture and citizen participation in public policy formulation. Table 4 shows the distribution of approved loans.

Since Guadalajara, the IDB has approved over 100 national and regional nonreimbursable technical cooperation projects for modernization of the state, totaling over US\$20 million. The objective of such projects is to introduce innovative concepts and operations based on the four areas of the *Modernization of the State Strategy*: democratic governance; rule of law; public management; and the state, market and society. These technical assistance projects address issues such as citizen security, civil society participation, electronic government, tax administration, and fiscal policy through a variety of activities, such as project-financed workshops, seminars, training sessions, and publications designed to build consensus among all stakeholders.

To improve development effectiveness, in 2004 and 2005, activities were stepped up to strengthen the capacity of the public sector of borrowing member countries through the introduction of management-for-results techniques in executing agencies of Bank-financed projects. In that connection, the *Governance Web Interactive Tool (GWIT)*<sup>20</sup> provides a user-friendly interface for accessing most public-domain governance-related indicators.

<sup>20</sup> Under construction.

## Financing

The Guadalajara Declaration refers to financing for development, and in this respect it is noted that the IDB is the region's main source of multilateral financing, especially for the smaller countries, which, in response to government demand, has enabled the Bank to expand the scale of innovative programs in social-cohesion-related areas of intervention. In 2004 and 2005, the IDB continued to develop specific lending instruments under its *New Lending Framework*, which was designed to provide greater flexibility and effectiveness in lending activity. Such instruments include the Institutional Development Sector Facility, performance-driven loans (investment loans disbursed when development outcomes or outcomes of the particular program are achieved), the Trade Finance Facilitation Program, the Emergency Reconstruction Facility, and use of the sector-wide approach (SWAp) in loans. Very recently, in March 2006, two funds were created with great potential to catalyze poverty reduction benefits: the *Disaster Prevention Fund*, whose objective is to facilitate development of disaster risk management techniques, policies, and programs, and the *Infrastructure Project Preparation Fund*, whose objective is to promote preinvestment activities supporting increased infrastructure investment. In April 2006, a proposal was approved to expand (from 5 to 10 percent) *the scope of the Bank's financing without sovereign guarantees*. This innovation will increase the Bank's capacity to work with a broad spectrum of clients, sectors, and projects, including purely private entities, public-private partnerships, and activities in the public sector that are not covered by a sovereign guarantee.

It is reasonable to suppose that expanding the scope of the Bank's financial instruments and making them more flexible will promote the scale of its lending activity in all sectors, including those related to social cohesion.

The activity summary provided in this section demonstrates that the Bank has a strong presence in areas directly related to the promotion of social cohesion. The Bank has supported *comprehensive efforts* to promote equity and reduce poverty and has devoted much of its efforts to consultation of stakeholders, coordination, and building consensus about how to increase social cohesion efficiently and effectively.

The analysis presented in this document makes it evident that the region still faces major challenges, particularly in the areas of inequality, poverty, exclusion of certain groups, informal employment, and escalation and effectiveness of expenditure. Accordingly, the Bank is emphasizing more heavily the importance of measuring development effectiveness, which has meant an increasing proportion of evaluated loans in social-cohesion-related sectors. Investments made in indicators and data required for evaluation are showing results. A notable example of results of evaluation exercises is the documented successful impact of conditional cash transfers in terms of poverty and inequality reduction.

Of course, the Bank is only one of many actors and forces, and outcomes are the result of many factors beyond its scope. However, the circumstance that much of the Bank's portfolio is concentrated in sectors related to poverty reduction, inequality, and exclusion, improvement of the quality of and access to services, and institutional strengthening is

itself an indication of the impact of efforts made in the region to work to increase social cohesion. Unquestionably, the region is making progress, thereby arousing the interest of other developing regions, which are following developments closely as examples possibly to be followed.

## Final Considerations

The concept of social cohesion appears with increasing frequency in the debate over how to promote equitable and sustainable growth and build inclusive societies that are resistant to shocks. In the European Community and the Council of Europe, social cohesion is an explicit objective of development policy. In LAC, the IDB is supporting a large investment program, technical cooperation and coordination activities with sectorial objectives directly linked to social cohesion. Recently, the IDB and the EC decided to collaborate more closely in this area, designating social cohesion as a priority issue in their strategic alliance.

In spite of this growing attention, the notion of social cohesion has lacked an operational definition to distinguish it from the concepts of poverty, inequality, and exclusion and to ensure that it is not simply interpreted as a subproduct of these. A specific definition and measurement of social cohesion should make it possible to monitor progress according to observable indicators, which is why this document has sought to reflect on the concept and make an initial attempt to set forth an index that allows an examination of the linkages between levels of social cohesion and certain development outcomes.<sup>21</sup>

The results of this exercise have been discussed in the preceding pages. Using the definition set forth, the objective of operationalizing and examining the concept has been achieved at least to some extent, with the results effectively indicating linkages between the conditions shaping the degree of cohesion and a number of other capacities: the potential of a society to achieve economic growth and competitiveness, to adapt to change and flexibly respond to ever more pressing market demands, to innovate and incorporate new technologies, and to consolidate an effective democracy. In what follows some of the implications for public policymaking, as well as the opportunities for future collaboration with the EC, are explored.

It is worthwhile first to consider the role of the state in these processes. It can be argued that whereas the state has a key role to play in the first dimension of social cohesion (concerning the distribution of opportunities, i.e., the provision of public goods like security, education, and basic services and the implementation of redistributive policies

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<sup>21</sup> In the future, efforts should be made toward the perfection and consolidation of the index.

and programs), its role in the second dimension (i.e., social capital) is more limited, and its main function is best visualized as that of a facilitator. It is civil society, as suggested above, that has a key role in strengthening social capital.

This document concludes that countries must come up with concrete measures to enhance social cohesion if sustained and accelerated growth rates and progress in respect to a broad notion of human development are to be maintained. This requires that priorities be set; in other words, that factors that can set in motion virtuous cycles of growth and development be identified.

Given Latin America's uniqueness as the region in the world with the highest levels of inequality, one of the most urgent priorities it faces is to readjust the distributional structure of opportunities among individuals. High levels of inequality and social fragmentation are the result of (and impetus for) a labor market and an educational system that suffer from underinvestment where resources are most needed. Latin America must invest in human capital, particularly concentrating on the groups with the largest gaps in access. It must also create conditions that will provide social protection to the poorest—to those who do not work, or who work in the informal sector. Investment in more competitive educational systems will facilitate opportunities for participation and social mobility, especially for the young, which will likely dampen rates of conflict and violence.

Latin America needs to make its labor markets more flexible and promote job creation as part of a strategy to improve its responsiveness to an ever-evolving market. Major differences in domestic capacity for innovation and change have been seen in the developed and developing economies throughout the world. Southeast Asian countries, which have invested in human capital systematically, have achieved significant comparative advantages for adapting to new markets and designing sustainable areas of production and trade. Latin America, by contrast, has paid relatively little attention to developing human capital and the demands of a strategy of job creation and increased labor mobility. The relative lack of action is reflected in the region's limited capacity for making policy adjustments. Few countries have made sufficient progress in modernizing labor markets in a way that would place them on a resilient future footing. When the region has grown, the "employment content" has been low, which has contributed to maintaining inequality.

Promoting social cohesion entails a renewal of educational and employment systems and institutions, regulatory frameworks that combine reliability with flexibility to stimulate the growth of firms and the labor market, efficient social policies to build a workforce which is both skilled and protected, and finally systems that provide ongoing incentives for innovation and learning. These objectives require improvements in the efficiency and in many cases also the legitimacy of the institutions responsible for devising and implementing public policy in order for them to offer quality services and effectively establish partnerships with other actors in the private sector and civil society.

The report *Facing the Challenge: The Lisbon Strategy for Growth and Employment* (European Communities, 2004) calls attention to insufficient commitment and political will as principal obstacles to achieving the objective, established by the European Union in the Lisbon Strategy, of attaining dynamic, competitive, more knowledge-based economies

capable of ensuring sustainable growth through the creation of more and better jobs and higher levels of social cohesion.

In order to better withstand shocks and adapt to change, Latin America needs to make a commitment to building societies that are more cohesive. In institutional terms, the countries' political support for the goal of social cohesion means creating mechanisms that consistently guide the relationship between means and ends; realigning policies to match the established objectives; and bringing together different actors—from the private sector, civil society, and the citizenry in general—to cooperate on the common project. This supposes that changes in priorities will be reflected consistently in the structure of public budgets. Strengthening capacities for innovation and change in order to bring about greater economic competitiveness and growth requires substantial budgetary commitments to research, infrastructure, education, and training.

Political will needs to be made explicit in national investment strategies. The European experience demonstrates that statements of intent require budget allocations consistent with the goals sought. The European Union is conscious that success in integration depends on the maintenance of economic and social cohesion among its member states. This concept can also be applied within states. A country's level of integration and consequent capacity to participate actively in the global economy depend largely on the linkages created among its constituent parts. The development of this capacity should be a priority for the countries of the region. It is worth noting that the EC's efforts to build up interregional cohesion include the investment of more than one-third of its overall budget in what are termed structural funds.

The integration of a nation requires solid, efficient institutions endowed with the resources needed to generate consensus among key public actors and between them and the citizenry.

Public policies that are effective in promoting social cohesion need to be devised with a comprehensive focus, taking account of the relationships among actors, whether they are political, economic, or social in nature. Proposed public policy changes will always entail potential winners and losers. Because of this, social cohesion is necessary to generate the confidence and patience that the implementation of policy reforms requires. Fellow citizens must believe in one another and the "system" and that they are part of the same collective undertaking, and trust in public institutions is needed in order for people to accept potential short-term losses from reforms.

Hence, there is a need for work on building synergies between the state and citizens, pursuing complementarity between public and private sectors, and strengthening the ties between citizens and public institutions. As linkages of cooperation between individuals develop, positive externalities from social capital will increase, leading to higher levels of cohesion, which in turn will become manifest in greater development potential.

Because, as already noted, levels and patterns of inequality vary substantially in the countries of Latin America, public policies, strategies, and actions will also be different in each case. Countries will have to prioritize their actions in social, labor, infrastructure, and fiscal areas, as well as in strengthening political processes and institutions in order to take

best advantage of their development potential through the attainment of a more equitable distribution of opportunities and social capital, that is, greater social cohesion.

Finally, this discussion can serve to identify areas in which the strategic partnership between the IDB and the EC can find fertile ground for cooperative actions that can have positive effects on development in the region. First, more efforts are needed in respect to thinking in relation to the concept of social cohesion. One of the key objectives is the improvement of the indicators and the measures of cohesion which permit better monitoring of advances and potential weaknesses within the countries. The EC has built up valuable experience in the construction of Europe, in which economic and social cohesion have been the driving forces. The IDB, for its part, possesses the experience of working in, with, and for the region and has been gradually placing the themes discussed here among its priorities.

Furthermore, in terms of concrete action, both institutions have roles to perform in respect to assisting governments in improving structures for the distribution of opportunities and in strengthening civil society, which is key for the generation of the positive externalities of social capital. Thus, joint, or at least coordinated, activities can be envisaged and would be helpful for assuring consistency in the programs supported in the region and individual countries.



## APPENDIX 1

### **Methodology Used in the Construction of the Social Cohesion Index**

The social cohesion index proposed in this document is composed of two components and four subcomponents. The two components are “distribution of opportunities” and “social capital”; the subcomponents of the former are “socioeconomic structure” and “political structure,” and the subcomponents of the latter are “positive externalities” and “negative externalities.” Each of the subcomponents and their associated subindices are comprised of several intermediate variables, following the structure of the social cohesion index set forth in the main body of the text.

The distribution of opportunities component of the index is intended to capture the skewed pattern of opportunities that may exist among individuals. The social capital component concerns relationships among individuals and assumes that the opportunities a society offers each of its members are affected by the types of relationships they have among themselves.

Societies with high levels of inequality are more likely to generate noncooperative relationships between those individuals who have access to resources and those whose access is blocked. For example, social inequality has been empirically associated with conflict, social malaise, and political instability (Alesina and Perotti, 1996; Perotti, 1996). Income inequality also appears to be correlated with higher crime rates (Fajnzylber, Lederman, and Loayza, 2000). There appears to be a correlation between the degree of ethno-linguistic fragmentation and polarization, conflict, and the inability to cooperate in the production of public goods, all of which are concepts related to the second component of social cohesion. It can also be assumed that individuals who build up feelings of interpersonal or intergroup distrust become more resentful toward a society and a state that deprives them of real opportunities for personal development.

The first subcomponent of the “distribution of opportunities”—the “socioeconomic structure”—contains five indicators: the incidence of poverty, the Gini coefficient, the size of the middle class, the Gini coefficient for education, and intergenerational mobility.

For this subcomponent an effort was made to also capture the inequities in opportunities and the distrust among societal groups that can result from ethnic and linguistic divisions. However, the available indicators have the fault of being out of date and also of not adequately capturing the range of possible divisions that can contribute to distrust, conflict, and unequal opportunities across groups. For these reasons it was decided not to include an indicator for ethno-linguistic fragmentation.



“Political structure,” the second subcomponent under “distribution of opportunities,” includes two indicators: equality under the law and biases in political participation.

The first component under “social capital,” “positive externalities,” includes five indicators: activity in organizations, interpersonal trust, confidence in public institutions, confidence in politicians, and fiscal capability. The second subcomponent, “negative externalities,” contains three indicators: conflict in employer-worker relations, crime victimization, and the murder rate (per hundred thousand persons).

In calculating the social cohesion index, once the raw values were obtained from their sources (see Appendix 2), the intermediate variables were standardized on a scale of 0 to 1, based on the minimum and maximum theoretical values of each variable ( $x - \min/\max - \min$ ). After the variables were standardized, in those instances in which higher values of the variables signified less rather than more social cohesion, the normalized values were inverted ( $1 - x$ ).

After the variables were standardized, the values for each of the four subindices were calculated, taking the average of the combined values for the variables. Finally, the social cohesion index was calculated as the average of the combined values of the constituent subindices. The hypothetical value of the social cohesion index and of each of its four subindex components ranges between 0 and 1 points (null and maximum social cohesion).

This effort complements other work that has been undertaken at the IDB to study and operationalize the concept of social cohesion. Jarque, Mejía, and Luengas (2005) developed an index based on four components: poverty, equality of opportunities, exclusion, and solidarity. These components and their underlying indicators share much in common with the index proposed in this document. A central criterion in the development of the index in the latter paper was the ability to study the evolution of the index over time and thus to be able to create it for the previous decade and in subsequent periods. It concentrates, therefore, on the use of objective and “hard” data that are available for multiple points in time and that will continue to be available in the future. The present document sets forth a more explicit definition of social cohesion whose underlying conceptual dimensions, including the positive externalities of social capital and the distribution of political opportunities, are difficult to capture fully using available objective indicators. Thus, the present index makes significant use of perception data from surveys of public opinion and surveys of business executives to approximate the measurement of these concepts. Despite the differences in the specification of the index components and in respect to some of the indicators used, the correlation between the two indices is remarkably high (.87), the ordering of the countries according to the index is similar, though not identical, and the correlations with the development indicators are comparable.

The structure of this index is consistent with the definition for social cohesion that has been presented here. Indicators for measuring each one of the subcomponents were selected for conceptual reasons, as developed previously, and also for their availability and comparability among the 18 countries of the region included in the

study.<sup>22</sup> The most recent observations or multiyear averages have been used for the years 2001–2005. It was decided, consistent with the definition, that the same weight would be attributed to each of the index subcomponents. Thus, the individual indicators were indirectly weighted, because the greater the number of variables in a given subcomponent, the less weight each of the variables carries in the final index.

After the index was constructed, sensitivity analyses were performed. An alternative to assigning the same value to each of the four subcomponents (i.e., socioeconomic structure and political structure, and the positive and negative externalities of social capital) was to assign the same weight to each indicator. Thus, one type of sensitivity test was to recalculate the social cohesion index by taking the average of each of the indicators. Another sensitivity test was to recalculate the index, eliminating one indicator at a time. Correlations were calculated between the values obtained in the final specification of the index used in this study and the other specifications. The correlation coefficients ranged between .97 and .99, which shows that the index is extremely robust; that is, it reflects low sensitivity to changes in its specification. Thus, the position of the countries is not significantly affected by changes in particular indicators.<sup>23</sup> From this exercise, it can be concluded that the selected social cohesion indicators are consistent among themselves and that they accurately quantify dimensions of the concept that appear to make up a system in which a more equitable distribution of opportunities among individuals will have a positive impact on the externalities produced in respect to social cohesion.

The political and institutional indicators used in the social cohesion index are conceptually independent of the indicators used to measure democratic governance.

Future efforts in building an index of social cohesion should be oriented in three directions: (i) reflection at the conceptual level in respect to the structure and weighting of the subdimensions and indicators, (ii) the development of conceptually valid and reliable indicators that permit a more precise measurement of each one of the dimensions, and (iii) the validation of the index by extending the sample of countries to other regions of the world and producing the index for multiple points in time.

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<sup>22</sup> Caribbean island nations were not included because opinion polls comparable to the Latinobarometer have not been conducted there.

<sup>23</sup> The sole exception was the exclusion of homicide rates, but this was due to the absence of these data for Bolivia and Peru.



## APPENDIX 2

### Definition of the Variables and Sources of Information

#### Social Cohesion Index

##### **Incidence of poverty**

Incidence of poverty is used in accordance with the poverty line for each country, as calculated by ECLAC. *Source:* The data on the incidence of poverty are taken from Jarque, Mejía, and Luengas (2005). The sources used in this study are ECLAC (2004b) and ECLAC (2002).

##### **Gini coefficient**

The Gini coefficient, as calculated in ECLAC (2003), is used; it refers to the inequality in equivalent income among individuals in a given country. *Source:* The data for the Gini coefficients are taken from Jarque, Mejía, and Luengas (2005).

##### **Size of the middle class**

The measurement of the size of the middle class comes from adding the total percentage of income earned in deciles 3, 4, 5, 6, and 7 of the population. *Source:* Socioeconomic Database for Latin America and the Caribbean (CEDLAS and World Bank, 2006).

##### **Educational Gini coefficient**

This indicator is calculated from the distribution of the level of schooling attained by the population over 15 years of age. *Source:* Jarque, Mejía, and Luengas (2005).

##### **Intergenerational mobility**

This indicator is based on information from household surveys. It compares some characteristics of parents and their children, focusing on adolescents between 16 and 20 years of age. *Source:* Behrman, Gaviria, and Székely (2001).

##### **Equality under the law**

This index is based on the following question from the 2003 and 2005 Latinobarometer: "Would you say that the [nationals] are equal under the law?" Responses to this question are (1) Very much, (2) Quite a bit, (3) Little, or (4) Not at all. The average was calculated for each country and standardized on a scale of 0 to 1, based on the range of possible

responses to the question. Then the standardized values were inverted so that higher values would indicate more equality under the law. Finally, the average was calculated for results from 2003 and 2005. (This question was not included in the 2004 survey.) *Source:* Corporación Latinobarómetro (2003, 2005).

### **Biases in political participation**

The index of biases in political participation is based on responses to several questions in the 2005 Latinobarometer. Two subindices were calculated, and then the average of the two was determined. The first subindex is formed from a question about the participation of those interviewed in the most recent presidential elections in their country: “Tell me, did you vote in the last presidential elections or not?” The first subindex is the proportion of affirmative responses to this question. The second subindex is drawn from responses to four questions about more informal modes of political participation: (1) “Do you talk about politics with your friends?” (2) “Do you try to convince anyone about what you think politically?” (3) “Do you work for a party or candidate?” (4) “Do you work on a topic that directly affects you or your community?” The possible answers to these questions are Very frequently, Frequently, Hardly ever, Never. The subindex score is calculated as the average of the means of the responses, standardized on a scale of 0 to 1. The index for political participation is the average of the two subindices. *Source:* Corporación Latinobarómetro (2005).

### **Activity in organizations**

The index for activity in organizations is based on the question in the 2005 Latinobarometer on the type of social organizations in which survey respondents took part: “In which organizations do you participate actively or do volunteer work?” The index represents the average of the number of types of organizations in which those surveyed take part in each country. *Source:* Corporación Latinobarómetro (2005).

### **Interpersonal trust**

This indicator is based on the following question in the Latinobarometer: “Generally speaking, would you say that you can trust the majority of people or that one can never be too careful in dealing with others?” For 2003, 2004, and 2005, the proportion of all those surveyed who answered that “you can trust the majority of people” was calculated. The index is the average for the three years. *Source:* Corporación Latinobarómetro (2003, 2004, 2005).

### **Trust in institutions**

This index averages the responses to the Latinobarometer question about the trust that those surveyed have in a number of state institutions. “Please, look at this card and tell me, for each of the groups, institutions or persons mentioned in the list, how much trust you have in each: A lot, some, little, or none.” The index on trust in institutions incorpo-

rated responses for the following institutions: congress, the government, political parties, the armed forces, the judiciary, and the police. For 2003, 2004, and 2005 the average of answers for each institution in each country is calculated, standardized on a scale of 0 to 1, and inverted so that higher values reflect greater trust. The final index is the average for the three years. *Source:* Corporación Latinobarómetro (2003, 2004, 2005).

### **Trust in politicians**

This indicator is based on the following question from the 2005 Latinobarometer: “In general, can the people who run the country be trusted to do things properly?” The average of the responses in each country is standardized on a scale of 0 to 1, based on the minimum and maximum ranges for the indicator. Then the inverse is calculated so that larger values signify greater trust. This index used data only from the 2005 Latinobarometer, given that the question was not included in the 2003 and 2004 surveys. *Source:* Corporación Latinobarómetro (2005).

### **Index of fiscal capability**

This index is the average of two indicators. The first is the difference between the real level of tax revenues as a percentage of GDP and the level of tax revenues as a percentage of GDP which would be predicted given the country’s level of development (as measured by per capita GDP). The values are standardized on a scale of 0 to 1. *Source:* The level of tax revenues, obtained on the basis of reports from statistics agencies in each country, is from Lora (2006). GDP per capita is taken from the *World Development Indicators* (World Bank, 2006).

The second indicator is based on the following question from the *Global Competitiveness Report* (Executive Opinion Survey) of the World Economic Forum: “The tax system in your country is: 1 = highly complex and distortive of business decisions, 7 = simple and transparent.” This indicator is included under the assumption that a lesser degree of social cohesion is required to raise tax revenues when the structure of the tax system is inefficient. The indicator was calculated using the average value of responses for each country, standardized from 0 to 1. *Source:* World Economic Forum (2006).

### **Labor conflict**

This is based on the following question from the *Global Competitiveness Report* (Executive Opinion Survey) of the World Economic Forum: “Relations between workers and employees in your country are: 1 = generally confrontational, 7 = generally cooperative.” The average of responses in each country was standardized from 0 to 1 based on minimum and maximum ratings for the indicator. *Source:* World Economic Forum (2006).

Labor conflict can also be measured through objective data, such as the numbers of days lost through strikes as a proportion of the economically active population. However, such data are not available for the majority of the countries, particularly in recent years.

### **Crime victimization**

Based on the following question from the Latinobarometer: “Have you or anyone in your family been assaulted, attacked, or become the victim of a crime in the last twelve months?” The index is the proportion of all those who answered yes. This proportion is calculated from the average of the results of the 2003, 2004, and 2005 surveys. The results were inverted so that higher values indicate lower levels of crime victimization. *Source:* Corporación Latinobarómetro (2003, 2004, 2005).

### **Murder rate**

The death rate from homicide per 100,000 inhabitants. For each country, the year with the most recent available data was used. Results were standardized on a scale of 0 to 1, based on a minimum of 0 and a maximum of 62, which is the highest level in the world. *Source:* World Health Organization (2003); the homicide rate for Guatemala comes from the UNDP Guatemala; the rate for Honduras comes from U.S. Department of State (2003).

## **Development Indicators**

### ***Economic growth***

Average annual per capita GDP growth in the period 1990–2003. *Source:* *World Development Indicators* (World Bank, 2006).

### ***Competitiveness***

Global Competitiveness Index. The index is made up of three separate indices: the technology index, the public institutions index, and the macroeconomic environment index. These coefficients are made up of other subindices composed of a combination of responses to the Executive Opinion Survey and from “hard data” from a variety of sources. *Source:* World Economic Forum (2006).

### ***Technology index***

This indicator combines two to three subindices, depending on whether the country is considered a leader in technological innovation. For countries that are not, the technology index is comprised of subindices for innovation, capacity to absorb technology transfers, and information and communications technologies. The weighting for the first of these is 1/8, the second 3/8, and the third 1/2. These subindices are constructed from a combination of responses to questions in the Executive Opinion Survey and from “hard data” from a number of sources. *Source:* World Economic Forum (2006).

## ***Efficiency of policy formulation***

This index is based on three indicators.

### **Government effectiveness index**

This measurement is a composite index of many of the available indicators for government effectiveness, including cabinet stability, bureaucratic quality (including the extent of red tape), and the level of waste in government spending. This aggregation of indicators from a variety of sources was created using a statistical technique known as unobserved-components analysis. Some of the indicators are survey based, others based on expert assessments. *Source:* World Bank Institute (<http://www.worldbank.org/wbi/governance/data.html>) and Kraay, Mastruzzi, and Kaufmann (2003).

### **Efficiency of public policy**

This indicator calculates the extent to which policy reflects a socially and economically productive use of scarce resources, based on two components. The first, “Waste in Government Spending,” is based on a question from the Executive Opinion Survey of the *Global Competitiveness Report* of the World Economic Forum. The second measures whether resources are focused on where they are most effective and comes from the State Capabilities Survey carried out by the IDB. *Source:* Stein et al. (2005).

### **Functioning of public institutions**

This indicator is based on the average of all answers to the following question in the Latinobarómetro: “Generally speaking, what would you say your opinion is of the way public institutions operate? Would you say that they work very well, well, all right, badly or very badly?” The indicator is calculated on the average values of the answers for each country, standardized on a scale of 0 to 1, considering a possible rating of answers from 1 to 5; the standardized score is then inverted so that higher numbers reflect more favorable opinions on the operations of public institutions. *Source:* Corporación Latinobarómetro (2005).

## ***Quality of development policies***

This index is made up of four indicators.

### **Government efficacy in reducing poverty and inequality**

Based on the following question in the *Global Competitiveness Report*, 2005–2006: “In your country, the efforts of the government to reduce poverty and deal with income inequality are: 1 = ineffective, 7 = effective?” The indicator was calculated taking the average value of the responses for each country, standardized on a scale of 0 to 1. *Source:* World Economic Forum (2006).



### **Confidence that tax revenues are being well spent**

Based on a question from the 2005 Latinobarometer: “With regard to taxation in general, do you trust that the money raised by taxation is well spent by the state? Yes or no?” The indicator is the proportion of people who answered yes. *Source:* Corporación Latinobarómetro (2005).

### **Control of corruption**

This is a composite index of many of the available indicators dealing with the control of corruption. Derived from a variety of sources, it was calculated using a statistical technique known as unobserved-components analysis. Some indicators are based on survey material, others on expert opinions. The World Bank indicator is standardized on a scale of 0 to 1, based on the minimum and maximum values found in the global sample of countries. *Source:* World Bank Institute (<http://www.worldbank.org/wbi/governance/data.html>). For a description of the indicator, see Kraay, Mastruzzi, and Kaufmann (2003).

### **Corruption among public officials**

Based on the following question from the 2005 Latinobarometer: “Imagine that the number of public officials in (your country) was 100, and you had to say how many of these 100 are corrupt. How many would you say were corrupt?” The indicator is calculated through the average proportion of public officials whom those surveyed considered to be corrupt, standardized on a scale of 0 to 1. *Source:* Corporación Latinobarómetro (2005).

### ***Safeguard capacity to withstand political shocks***

The index is made up of four indicators.

### **Political stability and the absence of violence**

This measurement combines indicators based on survey material and expert opinions. The World Bank indicator is standardized on a scale of 0 to 1, based on the minimum and maximum values found in the global sample of countries. *Source:* World Bank Institute (<http://www.worldbank.org/wbi/governance/data.html>) and Kraay, Mastruzzi, and Kaufmann (2003).

### **Stability in public policy**

This indicator measures the extent to which public policy is consistent over time. It is based on six indicators. The first is the standard deviation of the Fraser Index of Economic Freedom for the country in question. The next two indicators are taken from questions posed in the Executive Opinion Survey of the *Global Competitiveness Report* of the World Economic Forum. The first of these reflects the extent to which political or legal changes interfere with the planning capacity of businesses. The second reflects the extent to which new governments fulfill the promises and contractual obligations of their predecessors.

The last three indicators are formulated from questions from the State Capabilities Survey conducted by IDB. The first question from this survey concerns the capability of the state to establish and maintain priorities among conflicting objectives. The second question concerns the extent to which governments ensure policy stability. The third question is on the ability of the state to establish and honor international agreements. In the IDB report, the six components are standardized on a scale of 1 to 4, and the index reflects the average of the six. Here the index is standardized on a scale of 0 to 1 for consistency with the other indicators used. *Source:* Stein et al. (2005).

### **Scale of democratic development**

Based on the following question from the 2005 Latinobarometer: “On the following scale of 1 to 10, we ask you to evaluate how democratic (your country) is. ‘1’ means that (your country) is undemocratic and ‘10’ means that it is totally democratic. Where would you rank (your country)?” The indicator is calculated from averages for each country, standardized on a scale of 0 to 1. *Source:* Corporación Latinobarómetro (2005).

### **Democracy is the best system of government**

Based on the following question from the 2005 Latinobarometer: “Are you (1) very much in agreement, (2) in agreement, (3) in disagreement, or (4) very much in disagreement with the following statement? Democracy may have its problems, but it is the best system of government.” The indicator is calculated using the averages for each country, standardized on a scale of 0 to 1, and inverted so that higher values imply a greater trust in democracy. *Source:* Corporación Latinobarómetro (2005).



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