



# **Socio-Cultural Analysis in IDB Projects: A Discussion Paper**

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**Inter-American  
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Environmental  
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This discussion paper was prepared under the direction of the Environmental and Social Safeguards Unit (VPS/ESG) of the Inter-American Development Bank (IDB). ESG works to promote the environmental and social sustainability of Bank operations. It collaborates with project teams to execute the IDB's commitment to ensure that each project is assessed, approved, and monitored with due regard to environmental, social, health, and safety aspects, and that all project-related impacts and risks are adequately mitigated or controlled. ESG also helps the Bank respond to emerging sustainability issues and opportunities.

This paper presents the principal issues related to socio-cultural analyses carried out in conjunction with IDB operations as a tool for maximizing project benefits to poor and excluded groups and for ensuring compliance with many of the Bank's safeguard policies. A companion manual to this paper contains checklists for applying socio-cultural analysis in specific project areas.

This paper was prepared under the general supervision of Janine Ferretti, chief of VPS/ESG, and Jonathan Renshaw, Social Development Lead Specialist. Its authors are William L. Partridge, Professor Emeritus of Anthropology and Human and Organizational Development at Vanderbilt University and former chief of Environment and Social Development for Latin America and the Caribbean at the World Bank; and María Clara Mejía, consultant and former social development and involuntary resettlement specialist at the World Bank.

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### **Acronyms**

ECLAC	Economic Commission for Latin America and the Caribbean
ESIA	Environmental and Social Impact Assessment
ESMP	Environmental and Social Management Plan
IDB	Inter-American Development Bank
UNHRC	United Nations High Commissioner for Refugees

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## **A. The Power of Knowledge**

The scenes of poverty one sees through a car window or on a movie screen are depressing and seemingly monotonous. They also don't begin to describe reality. Poor people in Latin America and the Caribbean are not merely poor; they are poor in many different ways, and these ways may vary even within a single neighborhood or rural area.

Some poor families are the product of many generations of poverty, and this has given them established survival strategies and social networks to help them through times of crisis. Other families, which lack such social stability, live precarious and unpredictable lives. They may have been recently impoverished as the result of natural disasters, violence, illness, accident, or loss of employment or land. Or they might be households headed by women, who are often victims of abuse and abandonment. Poor people often belong to groups that are excluded from the mainstream society, such as Afro-descendants, indigenous peoples, or residents of informal urban settlements. Others are physically isolated from population centers and the benefits of development investments.

Each person living in poverty has a story to tell. These stories matter to the IDB and how it conducts business.

The Bank's mission is to reduce poverty and exclusion, a task that requires not only institutional resolve and financial resources, but also a detailed understanding of poverty. This knowledge is critical to the success of Bank projects in the same way that a hydropower engineer must thoroughly know the geology and hydrology of a river basin, or in the way that an agronomist must understand the details of life zones, soils, and plant science.

Who are the project's beneficiaries and potential stakeholders? How do they earn their living? What are the social networks on which they rely for mutual support? How are communities organized? Who are their leaders? How are they constrained by indifferent or hostile institutions and power centers in the broader society?

Such detailed, fine-scale data on poverty are rare. This is not surprising, since poor people live largely outside the world of institutions charged with information gathering. In many cases, fieldwork to conduct socio-cultural analyses must be carried out under conditions that are difficult and that require special skills to overcome the suspicion, resistance, and sometimes initial hostility of people who have little trust in government, whose systems of leadership are

based on kinship and personal ties, and whose processes of decision-making are time-consuming and require a much greater level of consensus.

But despite the difficulty of obtaining information about the poor and excluded, this knowledge is essential to ensure that the IDB's projects succeed in achieving their broader objectives. For this reason, socio-cultural analysis is required throughout the Bank's operations, from planning at the country level to project identification, design, implementation, and monitoring. Without this detailed and accurate knowledge, the Bank could not fulfill its role as a development institution.

In addition to its accuracy and comprehensiveness, the information produced by socio-cultural analysis is purposeful. It doesn't merely describe, but also points to solutions and advocates for changing business-as-usual practices.

The socio-cultural analyses carried out in conjunction with IDB projects constitute a vast trove of new knowledge about the peoples and institutions of our region. By producing this knowledge and putting it to use, the Bank is taking a leadership role in demonstrating why knowledge and development finance must be mutually dependent and inseparable.

This publication sets forth a framework for socio-cultural analysis at the IDB. It is important that the Bank's operational staff read it, discuss the points it raises, and put it into practice. Much of the Bank's success in poverty reduction and social inclusion depends on its success in generating and applying knowledge gained from socio-cultural analysis.

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## **B. Introduction**

The Inter-American Development Bank (IDB) requires that its borrowers conduct socio-cultural analyses to produce the information needed to maximize the benefits of Bank-financed operations for poor and excluded groups, and to minimize the negative impacts. The knowledge produced by these analyses is essential to the Bank's ability to comply with many of its safeguards policies, including the IDB Environment and Safeguards Compliance Policy, the Operational Policy on Gender in Development, the Operational Policy on Indigenous Peoples, the Involuntary Resettlement Operational Policy, and the Access to Information Policy.

In addition, socio-cultural analysis provides analytical descriptions of beneficiaries and other stakeholders, their economic activities and survival strategies, their formal and information organizational structures and leadership, and other data necessary for identifying and carrying out IDB development projects. In most cases, this is information that has not previously been collected or analyzed.

Socio-cultural analysis examines the broader social context in which these beneficiaries and other stakeholder groups live. In particular, it reveals the centers of power that can often help or hinder their aspirations for a better life. Moreover, it analyzes the stakeholders' relationship with the executing agencies of IDB-financed projects, which are responsible for delivering project benefits and mitigating potential negative impacts.

Socio-cultural analysis also initiates the process of consultation and participation in beneficiary and stakeholder communities. Close involvement of community members is essential for defining development objectives and the means for achieving them. Consultation addresses the inevitable differences of opinion within target groups and promotes fair, transparent, and equitable decision-making. In later project phases, the consultation and participation process becomes the mechanism for enlisting the community's judgment, knowledge, and labor force. After the operation's conclusion, consultation and participation are critical for ensuring that the community takes ownership of the project, and by so doing ensures its continued operation and flow of benefits.

In gathering information and initiating community input, socio-cultural analysis plays a prescriptive as well as a descriptive role. It forms the basis for qualitative judgments and indicators needed to identify ways to reach excluded populations and reduce poverty.

Furthermore, it plays an advocacy role by identifying structural changes that key institutions and agencies must make to ensure a project's success. In this way, the production of new knowledge can lead to societal change.

Socio-cultural analysis is used throughout the lifespan of IDB projects, beginning with the Bank's country-level studies and programming exercises. More detailed data on sectors and geographical areas come into play during project identification, and then throughout analysis, monitoring, and evaluation.

The present document provides a framework for socio-cultural analysis for IDB staff and consultants. This document is accompanied by a manual and set of checklists that focus on important socio-cultural issues in major groups of IDB-financed projects. Although each project is unique – and it is precisely the job of socio-cultural analysis to document this uniqueness – issues encountered within each group of the sectors described will be more similar than not. The checklists are designed to guide the investigator towards generally useful areas of inquiry.

### **C. Socio-Cultural Dimensions of Development Projects**

Over the past three decades, the region's economic progress has generally failed to benefit poor and excluded populations. This failure has many causes, including constraints imposed by the society's dominant institutions and the ability of powerful stakeholders to capture benefits for their own use.

Another major cause of this failure has been a lack of systematic information on the social and cultural dynamics of poor and excluded populations. If development practitioners cannot accurately identify obstacles blocking access to project benefits, they cannot formulate effective strategies for overcoming these obstacles. Such information is also critical for designing measures to avoid or mitigate the potential negative impacts of development, such as major infrastructure projects.

The Inter-American Development Bank (IDB) requires the use of socio-cultural analysis for identifying, planning, implementing, and evaluating its operations in Latin America and the Caribbean. The Bank uses the information generated by these analyses to gain an understanding of the relationship between a population's position in the social order and its ability to participate in the development process. This information constitutes a knowledge base critical to the Bank's mission of reducing poverty.

In most cases, the information generated by the Bank's socio-cultural analyses is new knowledge. Poor and excluded groups rarely come into contact with institutions charged with data collection and analysis. These groups may be culturally isolated, physically remote, speak different languages, and have a high degree of diversity. Under such circumstances, systematic data collection is costly and beyond the technical capabilities generally available to national institutions. By making socio-cultural analysis an operational requirement, the IDB ensures the effectiveness of specific projects while adding to the storehouse of knowledge about the phenomena of poverty and exclusion.

Beyond its descriptive function of providing systematic and reliable data, socio-cultural analysis plays a prescriptive role by enabling development practitioners to design strategies or mechanisms to reach excluded populations and reduce poverty. Moreover, it advocates for the structural changes that key institutions and groups of stakeholders need in order to ensure that measures to reach the poor and excluded are effectively implemented. The ultimate aim is to generate societal change.

The sections that follow review the areas of inquiry of socio-cultural analysis. The purpose of this analysis is to document the opportunities and constraints that influence choices made by the poor and excluded groups that are stakeholders in IDB-financed projects.

#### **D. Who are the Stakeholders?**

Socio-cultural analysis begins with a stakeholder analysis. This data-gathering exercise identifies individuals or groups likely to affect or be affected by a proposed intervention. The initial analysis is not intended to be exhaustive; rather, its purpose is to determine which specific social groups will likely be the key actors in project operations.

Stakeholder analysis utilizes secondary data sources such as statistical records, government reports, or academic studies. Field-based investigations also gather data from focus group discussions and/or interviews of key participants.

The data gathered include the following:

- **A social diversity analysis** that identifies the age, ethnicity, gender, language, religion, class, or other social markers that characterize communities to be involved in, or affected by, the project. These markers, which are often reflected in distinctive settlement patterns, house types

and designs, and social organization, need to be taken into account in project planning and implementation.

- **An institutional analysis** that describes relationships between different social groups and major state and civil-society institutions, especially governance systems, civil rights and liberties, and power relationships, all of which will affect participation in the project and access to project benefits. Additional institutional stakeholders include religious, academic, and business groups.

### **D.1. What are the Specific Characteristics of the Stakeholders?**

A more detailed analysis of targeted beneficiary and other stakeholder groups is conducted to verify or update secondary information and to provide the needed level of detail. Its purpose is to provide exhaustive social information, but only in subject areas required for identifying and carrying out the operation.

**Basic social data** identify likely opportunities or positive project benefits for beneficiary groups, in addition to any potential negative consequences. This same information is critical in later stages of project implementation to enhance benefits or mitigate negative impacts.

Both quantitative and qualitative data are gathered using a combination of techniques; these include participatory rapid appraisal, participant observation, field surveys, focus-group discussions, household interviews, and interviews of key participants. Contacts are made with a significant sample (e.g. 20%) of targeted beneficiaries and/or other stakeholder groups affected.

The social data on targeted beneficiaries and other stakeholders include the following:

- **Household composition** by age, gender, schooling, etc. Project impacts can produce changes in membership, age at marriage, and fertility patterns, among other variables.
- **Ethnicity, religion, languages spoken**, etc. Project impacts will vary according to people's status in the social structure.
- **Migration patterns** are important because poor and excluded groups often use seasonal or long-term population movements as survival strategies. In some cases, community members may wish to remain in the area because of new opportunities, or to leave the area because opportunities disappear.
- **Corporate groups** such as families, lineages, clans, communities, businesses, labor unions, and voluntary associations. Such groups have a defined membership, organizational structure, and the capacity to take action as a unit by mobilizing human and nonhuman

resources (Non-corporate social categories such as social class, income strata, etc.; they are of little use in project design or implementation because they have no capacity for mobilizing human and nonhuman resources).

A second subject requiring detailed analysis is **basic cultural data** on values, knowledge, beliefs, and practices of the targeted groups and other stakeholders. Such factors are closely interrelated with concepts of identity, self-esteem, and the resilience or vulnerability of a social group.

Cultural information includes a vast number of subject areas, ranging from ancestral patrimony to contemporary technology, political ritual, and poetry. Cultural data of direct relevance to socio-cultural analysis are limited to values, knowledge, beliefs, and practices concerning the sector being addressed by the project. Examples of subject areas and relevant project sectors include the following:

- **Systems of kinship, land tenure, and inheritance**, including usufruct norms and restrictions concerning communal holdings. These criteria are relevant to land titling programs, rural development investments, and environmental management projects.
- **Vernacular architectural designs, materials, and technologies** are useful for minor infrastructure projects.
- **Customs of labor mobilization and organization** are needed for projects involving roads, irrigation systems, schools, forests, and the operation and maintenance of other common property.
- **Child rearing beliefs and practices** are important to understand for health and preschool education programs, women's and family development initiatives.
- **Concepts of reciprocal exchange of labor and tools** are key to construction projects, ranging from housing to public infrastructure.
- **Patron-client exchanges** are important for the management of the transhumant grazing of livestock, clearing agricultural land, provisioning small businesses, and retaining clients. This criterion impacts rural development projects as well as urban slum upgrading.

People's values, knowledge, beliefs, and practices influence the way they adapt to their environment, their socioeconomic activities, and their survival strategies. These interactions help to determine a people's cultural identity, self-esteem, and resilience or vulnerability.

In cases where a culture is under stress or weakened, livelihoods are apt to be miserable and precarious. People often mistrust projects simply because they are extremely vulnerable and their margin for error is slight. Strong cultures are also apt to reject projects that they believe will increase their vulnerability or threaten their cultural identity. Such is often the case with certain indigenous groups and rural communities that have a high degree of self-reliance, resilience, and a distinct identity.

## **D.2. What are the Target Groups' Economic Activities and Survival Strategies?**

Corporate groups such as families, communities, or businesses usually control and manage a resource base, such as agricultural land, a territory for hunting and gathering, a factory, or a butcher's shop.<sup>1</sup> Such economic data must be added to basic social data to produce a picture of how resources are distributed among targeted beneficiaries and other stakeholders that constitute a society, in relation to the beneficiaries' power and social status. This area of analysis is also an important tool for identifying risks stemming from projects that may alienate or otherwise negatively affect the resource base of a given social group.

The **first step** in gathering economic information is to determine how assets are distributed between and within social groups. Are ownership and the tenure system formal or informal? Does the community hold possessions individually or collectively? Which social groups preferentially control, utilize, and manage the resource? Socio-economic analysis has to identify those groups.

- **Who controls assets?** The analysis must determine which groups, among targeted beneficiaries and other stakeholders, control, use, and inherit agricultural fields, pastures, livestock, fishing boats, shops, business firms, warehouses, trucks, and other assets.

Special care must be taken to delve below surface impressions. For example, cattle ranchers throughout the tropics employ landless laborers to clear forest in exchange for the right to plant annual crops for one or two years. Casual observers often misidentify these laborers as colonists opening up small farms.

- **Who works for wages?** It is equally important to identify the social groups that do not possess these assets, but instead provide services to others in exchange for a wage or salary.

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<sup>1</sup> One must be careful to distinguish authentic corporate groups from paper organizations imposed by the state, as is the case in some indigenous communities.

Included are laborers, teachers, government officials, healthcare specialists, spiritual leaders, some artisans, etc.

Again, care must be taken to look below the surface. For example, urban residents such as physicians might not be expected to own livestock. But in parts of South and Central America, wealthy urbanites own cattle, which are cared for by their rural clients in exchange for retaining one of the season's newborn calves.

- **Who helps whom?** Reciprocal exchange and mutual assistance networks constitute the assets or resource base for the urban poor. These include patron-client and kin-based networks that provide access to informal sector jobs, credit, personal and property security, and childcare, as well as to religious leaders or private local organizations for assistance in dealing with government or private enterprises.

Efforts must be made to distinguish among different kinds of informal social safety nets. Although they may provide no more than a precarious survival for the working poor, social safety nets might be completely nonexistent for the most vulnerable people.

The **second step** in collecting economic data focuses on how the targeted beneficiaries and other stakeholders organize their production systems to generate income. These data identify and quantify how project activities, benefits, and risks impact production systems and income-generating activities. Following are a few examples:

- For **farming households**, data are needed on the division of labor by age, gender, and social relationship, and how these variables relate to the type of crop and the values of inputs, yields, and the resultant subsistence or market products. It is equally important to generate information on market and nonmarket exchanges through which labor, seed, fertilizer, credit, transportation, and marketing of products are obtained and their values are established.
- For **livestock operations**, information is needed on the division of labor by age, gender, and social relationship for each type of animal, pasture or fodder provisioning, veterinary services, and consumption and sales of products such as meat, milk, eggs, hides, etc. Also needed are recent records of livestock births, sales, prices, and income generated. Additional information is needed regarding exchange relationships through which labor, processing (such as milk chilling plants), transport, and marketing are obtained.
- For **sharecroppers and land renters**, socio-cultural analysis documents the division of labor by age, gender, and social relationship in terms of contractual arrangements with landowners,

type of crop, production inputs, yields per unit of land, and subsistence or market value of products retained by the sharecropper.

- For **informal business, service, or manufacturing enterprises**, information is needed on the division of labor by age, gender, and social relationship regarding products, material inputs, tools and machinery used, packaging, transportation, markets, sales, and resultant incomes. Additional information includes exchange relationships, how space is acquired, inventories maintained, and supplies are obtained.
- For **wage laborers** in both urban and rural sectors, information is required on the division of labor by gender, age, and social relationship, the nature of contractual relationships with employers, sources of tools and equipment utilized, the degree of job security, and income in cash and in kind (clothing, shelter, etc.).

Most all households mentioned above, in addition to their primary activity, have multiple other income streams derived from various productive activities that are contributed by various members through wage-earning seasonal migration, part-time fishing, rental of machinery or tools, street vending, garbage recycling, artisanal manufacturing, and sales of services such as childcare, midwifery, irrigation system maintenance, livestock care, security, and transport, among others.

### **D.3. Who Makes the Decisions?**

Socio-cultural analysis reveals the structures of authority, decision-making, and organizational hierarchies that impact targeted beneficiaries and other stakeholders. Development project designs that directly challenge these structures are likely to have limited results, or even to fail outright. The central questions are how leaders emerge, how followers are made accountable to leaders, and how leaders are held accountable by followers. These relationships vary across societies and cultures.

In some societies authority and power are vested in wealthy elites, such as large landowners, banking and finance officials, and managers of national or multinational enterprises. In these cases, the socio-economic data described earlier will help to clarify the structure of authority, decision-making, and organizational hierarchy in which targeted beneficiaries and other stakeholders are embedded. In such a setting, the formal governance system (elected mayor, appointed governor, etc.) may be less influential than the wealthy elite, who buy loyalty



through elaborate patronage networks. In these cases, the definition of development project objectives, components, beneficiaries, policies and procedures will be largely determined through negotiations with the clients of the wealthy.

In other communities, authority is embedded in kinship hierarchies in which the most respected and powerful persons are the elders of the kindred or lineage. Such old men and old women command the allegiance of scores of real and fictive (non-blood and marriage) kinsmen scattered over an area much wider than the settlement in which they happened to reside.

Here as well, formal governance systems matter little. When formal officials make

### **One Size did not Fit All in an Ecuadorian Cadastral Project**

An IDB-financed cadastral project in Ecuador illustrates the need to understand socio-cultural differences in authority structures, organizational norms, and public decision-making processes in Afro-descendent, indigenous, and mestizo communities.

In an evaluation of a pilot operation, it was found that data-gathering methods for a rural lands and information and management project worked well for mestizo people in the municipal capital. But they were not successful in the case of rural indigenous communities in the highlands, where authority to manage human and non-human resources is vested in *cabildos* operating under the guidance of elders. Nor did they work in Afro-descendent settlements on the coast, where this same authority rests with charismatic leaders of local non-governmental organizations.

Using these findings, the new full-scale project designed separate approaches for facilitating access to project benefits, one for Afro-descendants and one for the indigenous communities. Additional specific initiatives enabled the participation of minority organizations in the delivery of project benefits to their communities.

decisions, they will normally solicit the opinion of the elders. These same elders must give their blessing to a development project's objectives, components, beneficiaries, policies, and procedures.

This does not mean that a community's elders necessarily speak with the same voice. Sometimes there is a division between religious and secular authorities, where elders take different positions on a given issue or align themselves with different outside interests. In such cases, decision making can be a time-consuming process.

In still other communities, authority structures have emerged from democratic community traditions and norms. In these cases, community members periodically have the opportunity to hold leaders publically accountable for their performance in office through public elections that determine who will exercise authority, who will have decision-making

power, and who will manage the governance system. In such communities, proposed development projects may be effectively discussed and debated in public.

Local democratic processes can take different forms. At one extreme is the exercise of direct democracy, such as when all members of a community – typically all adult men and women – gather to openly discuss leadership performance and possible changes. In many such communities, the majority cannot impose its will on a reluctant minority, and deliberations can be quite lengthy. At the other extreme are the more stratified or representative democratic processes with requirements for literacy, formal and secret balloting by eligible adults, and the imposition of majority decisions on the minority.

Crosscutting these decision-making processes are actions taken by groups from outside the community, such as grassroots movements and nongovernmental organizations that articulate grievances and agendas on behalf of marginal populations. Such outside groups often make competing claims to authority based on demands for justice, equity, and human rights. Some of these groups are local, others are national, and still more are linked to international networks of activists with strong voices among multilateral and bilateral donors.

Many of these outside groups lack formal decision-making structures, which makes it difficult to engage them in dialogue. The task of socio-cultural analysis is to dig beneath the surface to determine the extent to which such outside groups have legitimacy in the eyes of target beneficiaries and other stakeholders, and if they are capable of playing a constructive role in planning and carrying out the project.

### **E. How can Consultation and Participation be Ensured?**

Socio-cultural analysis entails the process of consultation and participation with beneficiaries and stakeholders on development objectives and how to achieve them. Consensus cannot always be expected; communities are much too diverse for that. Instead, consultation recognizes differences of opinion and promotes fair, transparent, and equitable decision-making to ensure broad community support for project components aimed at reducing poverty.

Consultation is a learning process for both project officials and community members themselves. It helps project planners to identify the community's human resources, values, knowledge, and skills. Consultation provides opportunities for project beneficiaries to learn

about their options and opportunities and to articulate questions and suggestions, objections, or agreements.

Initial responses during socio-cultural analysis provide an early glimpse into how community members view benefits as well as risk factors and possible adverse consequences. As the project moves forward, the consultation process will deepen and become the foundation for enlisting the community's judgment, knowledge, and labor force. Moreover, consultation and participation are critical for ensuring that the community takes ownership of the project, and in so doing encourages its continued operation and flow of benefits.

State and civil society officials often regard community participation as a threat to their authority. In some cases, their fear of community participation can be met by highlighting the opportunities it provides for reducing costs and increasing efficiency. In the case of participation of poor people, however, cost issues become more complex. Poor people cannot afford to take time away from earning wages or tending livestock or meeting reciprocal obligations for childcare or food preparation unless they receive compensation.

The project's preparation and execution budget must cover costs of participation, which poor people may otherwise find to be unacceptably high. For example, providing childcare can encourage the participation of women. Similarly, paying community members for goods and services can help ensure the participation of both women and men. Altruism cannot be expected from the poor any more than from the rest of the population.

## **F. How can Risks and Opportunities be Managed?**

Information from consulting a proposed project's stakeholders helps to guide the design of project components that enhance opportunities for beneficiaries and manage risks.

**Projects with significant, negative social and environmental impacts**, such as large infrastructure projects, may present opportunities to local communities. But these same projects also have the potential to increase homelessness, unemployment, and health problems in the absence of adequate compensation and well-conceived involuntary resettlement operations. For such projects, the best risk management strategy is a sound compensation and resettlement plan, with an emphasis on developing investments in the new location, negotiated and agreed upon with the affected people, implemented by qualified and experienced professionals, and adequately financed by the project. Although such a strategy cannot prevent the severe

psychological trauma produced by expropriation of land and other capital assets, these plans can help affected people adjust to change and start a new life.

Indigenous peoples are often excluded from projects out of fears that change will put their cultures at risk. In reality, however, most indigenous peoples are as keen as other social groups to improve development opportunities for their people. Exceptions include indigenous groups that fear damage to their environments and social structure, as well as groups who elect voluntary isolation from the outside world, a decision that the IDB respects.

For most indigenous groups, the best risk management strategy is to design specific initiatives, instruments, and activities together with indigenous leaders and/or their representatives that strengthen the elements of their way of life that they wish to preserve, and which change those that they wish to improve. Such a dialogue with indigenous groups requires bi-lingual and bi-cultural members of the project team to participate in the identification design, implementation, and monitoring of the project to attempt to transform risks into opportunities. It should be emphasized that such people must be full-fledged project team members and not unpaid translators and informants. They must have full membership in the project team and receive the same salaries and benefits as anyone else.

Risk-management strategies for addressing negative impacts include the following:

- Finance the consultation and participation processes, particularly for beneficiaries in remote areas and indigenous and Afro-descendant groups that cannot afford travel and lodging costs.
- Contract bilingual staff to help ensure the participation of ethnic, linguistic, and cultural minorities in project preparation and implementation.
- Include local cultural knowledge and skills as job requirements for project staff, in addition to or instead of simply formal education.
- Insist upon community consent before proceeding with decisions of eligibility criteria, compensation measures, mitigation arrangements, representation, and participation.
- Budget for a specific social communications component for the project to be carried out by community members.
- Increase time available for planning to promote discussion and decision-making.
- Include training in conflict prevention and resolution and other negotiation mechanisms that are compatible with the existing authority and decision-making structure of beneficiary and other stakeholder groups.

- Include the services of third-party mediators and/or legal services professionals in project financing to handle the treatment of legal issues affecting the poor, such as land tenure, property titles, commerce licenses, the legal recognition of grassroots organizations, and the creation of non-profit organizations.
- Provide financing for community organization specialists to help affected people strengthen existing organizations or create new organizations that will deliver goods or and services for the project in a cost-effective manner.
- Enlist beneficiaries in quality control, monitoring, and evaluation of project deliverables to improve accountability and sustainability.

Another category of operations that often require risk management is **projects designed to reduce poverty in targeted groups**, such as Afro-descendant communities, displaced people and refugees, indigenous peoples, landless laborers, smallholders of the rural sector, and urban slum dwellers.

In these cases, a potential source of risks are the projects themselves, which may attempt to promote irrelevant, ineffective, and unsustainable development investments that emerge from the culture of development finance professionals rather than the culture of the beneficiaries. Such risks can be avoided by collaborating closely with leaders and/or representatives of targeted groups and by learning about the people's capabilities, aspirations, priorities, and decision-making processes, and how to tailor project components to their needs.

Examples of measures required in projects to reduce poverty and achieve the sustainable development of poor and excluded population groups include the following:

- Train key project officials and counterpart institutions in cultural sensitivity to better enable them to manage procurement, service delivery, communications, and conflict-resolution mechanisms.
- Recruit project team members able to speak the language of project beneficiaries to better ensure community consultation and participation in project design and implementation.
- Modify procurement rules to decentralize expenditure authorization and budgetary control to local informal organizations in remote areas and among excluded groups, which will provide benefits to small businesses and other entrepreneurs in the project area.

- Finance a social communications component – not a public-relations activity – to be carried out by members of the beneficiary community, and ensure adequate time for planning to promote discussion and decision-making.
- Recruit capable women project staff to design, manage, and execute components targeting families, women, and/or children.
- Design capacity building initiatives for the poorest and/or less organized beneficiaries to help ensure their participation in the project.
- Enlist beneficiaries to carry out quality control, monitoring, and evaluation of project deliverables as a means to enhance accountability and sustainability.

A third category comprises **projects designed to improve social, economic, and environmental conditions for broad swaths of a region or entire populations**, such as the provision of health and education services, or justice and security systems. In these cases, the key risk is a lack of access to women, ethnic and linguistic minorities, the poor, the homeless, and other excluded groups. Responses include the following measures:

- Tailor some project components to the specific conditions, capabilities, and aspirations of excluded groups.
- Involve representatives of socially excluded groups in the analysis of corrupt practices and other institutional and administrative constraints that prevent them from getting business licenses, identity papers, property titles, contracts, permits, and other requirements needed to gain access to project benefits.
- Design capacity-building initiatives for the poorest and/or less organized beneficiaries to prepare them for participating in the project.
- Earmark project funds for training key project officials and counterpart institutions in social sensitivity, focusing on culturally effective procurement procedures, service delivery mechanisms, communications style, conflict resolution mechanisms, etc.
- Recruit capable women project staff to design, manage, finance, and execute project components that target families, women, and/or children.
- Include third party mediators and/or legal services professionals in project financing to expedite legal issues affecting the poor, such as commercial licenses, legal recognition of grassroots organizations, and the creation of non-profit organizations.

- Align eligibility requirements with the social and cultural characteristics of the target population, and provide them with access to benefits by modifying administrative procedures, such as selection by elders, nomination by neighbors, election by the community, etc.
- Finance innovative initiatives through escrow accounts to ensure that traditional bureaucrats will not reallocate resources to influential beneficiaries and the usual contractors rather than to the excluded.
- Finance a social communications component that employs representatives of the excluded and the poor and increases the time available for its implementation to allow for discussion and decision making.
- Enlist beneficiaries in quality control, monitoring, and evaluation of project deliverables to improve accountability and sustainability.

#### **G. The Mirage of Poverty Reduction**

The defining goal of the IDB and its member countries is poverty reduction and the eradication of extreme poverty.<sup>2</sup> But success in meeting this goal remains elusive. The 2009 background paper to the Bank's Ninth Capital Increase states that, "Despite macroeconomic stability, on the whole the region has been unable to break the vicious circle of informality, low productivity, and poverty."<sup>3</sup>

Despite the many billions of dollars invested in poverty reduction and the dedicated efforts of many institutions and development practitioners, the percentage of poor and extremely poor people in Latin America and the Caribbean has remained stubbornly high. Moreover, the rate of poverty has not been permanently affected by periods of economic growth or decline, debt and financial crises, or changes in government, whether of the left, center, or right. This trend is reflected by the following snapshot of recent economic history:

- At the close of the 1980s debt-crisis decade, the poor increased to 49% of the regional population.

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<sup>2</sup> United Nations Development Program. 2000 *The Millennium Development Goals*.

<sup>3</sup> Inter-American Development Bank. 2009 *Review of the Need for a General Capital Increase of the Ordinary Capital and Replenishment of the Fund for Special Operations: Progress and Next Steps*. Washington, DC.

- Between 1990 and 1999, despite structural adjustment and pockets of renewed economic growth, the number of poor people in Latin American countries increased by 11.2 million, to a total of 211.4 million people – about the population of Brazil.
- From 2000 to 2011, despite relative prosperity, between 37% and 44% of the total population was categorized as poor, and between 17% and 18.5% as extremely poor.<sup>4</sup>

The fact that around 40% of the region's total population has lived in poverty over the past three decades, and that nearly 20% has lived in extreme poverty, underscores the ineffectiveness of poverty reduction efforts. Naturally, there were ups and downs during these 30 years, and some experts claimed to see trends, either for the better or for the worse. But these “trends” have not diminished the overall pattern of persistent poverty.

### **Latin America and the Caribbean Region**

#### **Percentage of People Living In Poverty and Extreme Poverty<sup>5</sup>**

Poverty Ranking	Countries	Percent Poor <\$2.00/day	Percent Extremely Poor <\$1.25/day	Percent Rural Sector Poor	Percent Rural Sector Extremely Poor
Low	Argentina*	8.6	2.8	n/a	n/a
	Chile	11.5	3.6	10.4	4.4
	Costa Rica	18.9	6.9	20.8	9.9
	Uruguay*	10.7	2.0	n/a	n/a
Medium	Brazil	24.9	7.0	39.3	15.2
	Mexico	34.8	11.2	42.9	21.3

<sup>4</sup> Economic Commission for Latin America and the Caribbean (ECLAC). 2001 *Social Panorama of Latin America*. Santiago, United Nations Publications. ECLAC. 2007 *Social Indicators and Statistics Database*. Santiago: United Nations Publications. ECLAC 2011 *Statistical Yearbook for Latin America and the Caribbean*. Santiago: United Nations Publications.

<sup>5</sup> Economic Commission for Latin America and the Caribbean (ECLAC). 2011 *Statistical Yearbook for Latin America and the Caribbean*. Santiago, Chile: United Nations Publications.



	Panama	26.4	11.1	44. 8	26.6
	Peru	34.8	11.5	54. 2	23.3
	Venezuela*	27.1	9.8	n/a	n/a
High	Bolivia	54.0	31.2	75. 8	59.0
	Colombia	44.3	16.5	62. 7	26,7
	Dom. Rep.	41.1	21.0	45. 2	26.5
	Ecuador	40.2	15.5	43. 2	20.8
	El Salvador	47.9	17.3	55, 8	23.5
	Guatemala	54.8	29.1	66. 5	42.2
	Honduras	65.7	41.8	76. 5	56.8
	Nicaragua	61.9	31.9	71. 5	46.1
	Paraguay	56.0	30.4	66. 6	46.8
Latin America and Caribbean Region		36.8	16.7	51. 7	30.0
*Data from Argentina, Uruguay and Venezuela are not disaggregated urban/rural.					

Source: Economic Commission for Latin America and the Caribbean (ECLAC).2011*Statistical Yearbook for Latin America and the Caribbean*. Santiago, Chile: United Nations Publications

### **G.1. How Extensive is Poverty in the Region?**

Rates of poverty in the region differ according to countries and regions within countries. In Argentina, Chile, Costa Rica, and Uruguay, poverty hovers at around 10% to 15% of the population, roughly the same as in the United States and Western Europe. In Brazil, Mexico, Panama, Peru, and Venezuela, around 30% of the people are poor, which is comparable to Bangladesh and Ukraine. But in the rest of Latin America, such as Bolivia, Colombia, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, and Paraguay, some 50% or more of the people live on less than \$2.00 per day, and between 20% and 40% barely survive on less than \$1.25 per day.<sup>6</sup>

Poverty is concentrated in rural sectors, which again varies across countries. In Chile and Costa Rica, between 10% and 20% of the rural population is poor. In Brazil, Mexico, and Panama, poverty afflicts around 45% of the rural sector, and extreme poverty, 15% to 30%. In the majority of the region's countries, between 62% and 76% of the rural population are poor and 23% to 60% of the rural sector lives in extreme poverty.<sup>7</sup>

While broad statistics describe the extent of poverty, they do not tell us anything about the dynamics of poverty. Much less do they provide useful information for those charged with designing strategies to reduce poverty. Such insights can emerge only from a detailed examination of the social, economic, and political structures of people living in poverty, as revealed by socio-economic analysis.

### **G.2. What Shaped Poverty in Our Region?**

The face of poverty in Latin America and the Caribbean has been shaped by the twin processes of industrialization and urbanization. After World War II, investors who were burned by the collapse of commodity markets became convinced of the need to industrialize. As a result, since 1950 the region's leadership has turned its back on the traditional peasant farming sector, instead channeling public and private investments into large-scale, industrial production systems. This policy change coincided with the growing demand for an urban workforce, which was largely met by an influx of displaced peasants to the cities.<sup>8</sup>

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<sup>6</sup> ECLAC 2011 *Statistical Yearbook for Latin America and the Caribbean*. Santiago: United Nations Publications.

<sup>7</sup> ECLAC 2011 *Statistical Yearbook for Latin America and the Caribbean*. Santiago: United Nations Publications.

<sup>8</sup> It has been known for some time that smallholder farming systems produce more employment per unit of land, more commodity value per unit of land, and more equitable income distribution per unit of land than large-scale plantation, ranching, or agribusiness entities. See International Labor Organization (ILO) 1971 *Towards Full*

In tandem with these pro-industrialization policies, governments and other investors

**Invisible yet Pervasive,**

**Necessary but Dangerous**

In the countries of Latin America and the Caribbean, the informal sector is enormous and pervasive. Yet it is invisible, at least to the eyes of the state and the legal system. The informal sector is neither regulated by policies and legal statutes, nor is it monitored, reported, or even counted in a country's Gross Domestic Product.<sup>1</sup>

The IDB estimates that well over 50% of the region's workforce is employed in the informal sector. Informal sector businesses may constitute 40% to 50% of all enterprises in a country. An even greater percentage of the population consumes the products and services that the informal sector provides.<sup>1</sup>

Of course, there is a darker side to the region's exuberant informality. Its presence encourages black markets, pervasive mafias, and flagrant disregard for the law – from relatively benign transgressions, such as illegal electricity connections, to the corruption of public officials, drug and human trafficking, and other activities.

promoted international trade agreements. Trade liberalization in agricultural products resulted in more imported grains and other foodstuffs produced by highly subsidized agribusiness enterprises in the industrial countries. Rising numbers of urban consumers eagerly bought this lower-cost imported food. But the good fortunes of city residents were at the expense of the region's unsubsidized small farmers, who became increasingly uncompetitive. The result was a positive feedback loop in which still more rural people were forced to move to urban areas, where they too became dependent on cheap foreign food imports.

As industrialization proceeded, a new view of development theory and practice emerged. Called the “modernization” school, its adherents maintained that traditional forms of work, production, and social organization would be replaced by modern industrial societies that would look much like the

countries of the Organisation for Economic Co-operation and Development. Their views held sway through the later part of the 20<sup>th</sup> century. Even today, some economists continue to hold these beliefs despite clear evidence that the original predictions failed to materialize.

In fact, there was no “modernizing” society waiting to welcome job seekers migrating to the cities in the 1960s, 1970s, and 1980s. Nor did these newcomers find houses to rent or to buy at any price. Nor were they provided with public services. They had no property titles, no sewers,

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*Employment.* Geneva: International Labor Office and World Bank (IRBD) 1980 *World Development Report 1980*. Washington, DC: World Bank. Despite this fact, the governments of Latin America and the Caribbean have continually promoted large-scale production systems.

no water, no electricity, no schools, no transportation, and no police. They only had what they could create by themselves. And create they did: settling on unoccupied lands, they built Latin America's famous squatter settlements—slums, *tugurios*, *favelas*, or *pueblos jóvenes*—that sprang up almost overnight in concentric circles around the overwhelmed cities. One such squatter settlement on the outskirts of Mexico City became the second most populous urban area in the country in a mere two decades.<sup>9</sup>

While some slum residents found jobs as maids and factory workers, others became the entrepreneurs of the informal sector. The challenges of constructing the new settlements were met with an unprecedented explosion of entrepreneurial energy and ingenuity on the part of poor. The people created millions of tiny business enterprises – brick kilns, carpentry shops, electric and plumbing workshops, construction companies, manufacturing firms, cement plants, materials suppliers, parts distributors, truckers and transporters, grocery stores, butcher shops and bakeries, water vendors, bicycle and motorcycle repair and service shops, retail shops, restaurants, billiard halls, bars, brothels, hotels, and more.

The slum residents themselves created this informal economy because none of these things were provided by the formal economy, that is, the state-regulated, state-supported, state-subsidized, and statistically monitored and measured sector of modern public and corporate institutions.

Over time, the poor replaced the scrap lumber of shanties with bricks and mortar. Residents organized to press for public services, and former slums were transformed into ordinary working class neighborhoods.

The informal sector's general organizing principle is reciprocal exchange among members who are proven to be trustworthy. Such trust-based exchanges necessarily require face-to-face social relationships, which limits the extent to which they can grow. The exchanges unite patrons and clients, kin and fictive kin, and small businesses and their customers. Patrons provide not only wages, but also school supplies for clients' children, short-term loans for emergencies, and a degree of job security. In exchange, clients provide labor and loyalty expressed in unpaid overtime work, acceptance of less than the minimum wage, and being continuously on call.

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<sup>9</sup> Lomnitz, Larissa. 1979. *Networks and Marginality: Life in a Mexican Shantytown*. New York: Academic Press.

Along the networks of kin and fictive kin flow exchanges of labor, tools, and equipment, prepared food in times of illness or temporary incapacity, childcare, vigilance and protection of person and property, support for the elderly, and small loans for emergencies, ranging from job loss to paying bribes to authorities. Small businesses in the informal sector operate according to similar principles of loyal reciprocity – that is, credit guaranteed by relationships of custom and trust.

The result is a complex socioeconomic reality that belies the casual impressions of a casual observer. The stereotypical street vendor hawking chewing gum or pirated videos at a busy traffic intersection represents only a tiny minority of informal sector entrepreneurs. Not so readily observed are the millions upon millions of small businesses, manufacturing, and services enterprises of all kinds, working hard to survive in an environment of exclusion from the formal economic sector.

### **G.3. Barriers for Entry into the Formal Sector**

In the informal sector, entrepreneurs do business without the benefit of support systems that their counterparts in the formal system take for granted. Informal entrepreneurs do not receive technical assistance, property or personal security, protection from licenses or regulatory frameworks, financial capital, or other government assistance. They have no institutions that enforce contract law, provide training and technology adoption opportunities, access to capital markets, or insurance against risks such as health problems or disability. For informal workers, there is no social security or pensions to draw upon in old age.

The obvious solution to persistent poverty would be to expand the formal sector to create job opportunities for people in the informal sector. In fact, this has been the approach tried over the past three decades. But it has produced very limited results: growth in the formal sector has not “trickled down” to provide significant opportunities for the poor and socially excluded.

As described in the IDB’s background paper for the Ninth Capital Increase, failure to absorb the poor and excluded in the formal sector is due in large part to resistance from formal sector firms and households with entrenched economic positions.<sup>10</sup> The influence of powerful interests on key sectors of government results in legal and policy restrictions that shield formal sector firms and households from competition.

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<sup>10</sup> Inter-American Development Bank. 2009. *Review of the Need for a General Capital Increase of the Ordinary Capital and Replenishment of the Fund for Special Operations: Progress and Next Steps*. Washington, DC. P. 12

As such, the issue is not whether state institutions function well or poorly. The important question is whom they serve. Most often, they exist to serve the privileged elites. It is not surprising, therefore, that state-run programs are often ineffectual – or even counterproductive – in extending development opportunities to the socially excluded and the poor.

For this reason, initiatives to target development benefits cannot depend on institutions of the state, as they presently function. For example, Peruvian economist Hernando De Soto documents the hurdles that entrepreneurs – poor or otherwise – must overcome in establishing a formal business, including a business license, property title, contract, construction permit, identity document, status as a corporate entity, financial statement, and other requisites of participation in the formal sector.<sup>11</sup> The poor entrepreneur is simply unable to afford the lawyers, the bribes, or the hundreds of days off from work required to wait in line in multiple government offices.

Another reason that poor people have failed to join the formal sector is because they have chosen not to, based on their own rational assessment of chances for success versus risks. Weighing the costs of overcoming obstacles to entering the formal sector against the opportunity cost, many conclude that their current livelihoods are too fragile and their security is too precarious to step outside the informal sector's tightly knit networks of reciprocal exchange.

#### **G.4. Beyond the Informal Sector: Other Faces of Poverty**

By no means all people in the informal sector live in cities. In rural areas, the poor who were present before the post-War surge of industrialization and urbanization continue to lead parallel lives in poverty.

The rural poor include sizable numbers of indigenous peoples, Afro-descendant populations, and remnant smallholder rural communities. They too live outside the formal state-regulated, state-supported, state-subsidized, and statistically measured formal sector of modern public and corporate institutions. But they are different in many ways, making it impossible to fully capture the social and cultural dynamics of their exclusion or their particular development opportunities and aspirations through the analytical framework of the urban informal sector. Identifying these many differences is another job for socio-cultural analysis.

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<sup>11</sup> De Soto, Hernando 2000. *The Mystery of Capital*. New York: Basic Books.

Despite the region's rapid urbanization, a significant proportion of the population of many countries still lives in rural areas. This is particularly true for the poorest countries, such as Haiti, Guatemala, Jamaica, and Honduras. Many of these rural poor are members of indigenous groups, such as in Mexico, Bolivia, Peru, Ecuador, and Guatemala. In other countries, such as Brazil, Paraguay, and Colombia, the majority of the rural poor are not indigenous.

Social movements carried out by indigenous groups in recent decades have demanded recognition of their right to “development with identity” – that is, the freedom to choose development paths compatible with their own lifestyles, values, knowledge, and beliefs. Similar social movements of other excluded groups, such as Afro-descendants, non-indigenous rural peasants, and landless rural wage laborers, have demanded that development respect their social and cultural values. Indigenous or not, these rural poor make up a significant part of their countries' poor populations, and their insistence on preserving their identities and lifestyles deserves serious attention.

## **H. Why Have Multilateral Development Agencies Failed to Reduce Poverty?**

Whether in the urban informal sector or in rural areas, multilateral development agencies have for the most part failed to develop a successful model for reducing poverty. To a large degree, this failure has resulted from a lack of knowledge about beneficiary populations and how population groups differ from one to another. Specific development initiatives must be tailored to the characteristics, needs, and aspirations of each beneficiary group.

**In urban areas**, socio-cultural analysis must distinguish among different kinds of poverty, not just in terms of levels of income, but also in degrees of income stability, resilience in the face of crises, and other factors. Seen in this light, the urban poor can be categorized as follows:

- The **working poor** are often long-time city residents who are relatively well established in informal sector business, service, and manufacturing enterprises. While they are poor, their circumstances are relatively stable, and their membership in stable social support networks provides them with a degree of resilience in the face of crises.
- **Recent migrants** to the city, who often live in the more peripheral slums, generally are less well integrated. Their lives are much less stable than the working poor, moving from site to

site in response to shifting job opportunities, family breakups, exposure to violence, or victimization by gangs.

- In some countries, for example Mexico, Colombia, Guatemala, Peru, and El Salvador, numbers of rural farmers and small town residents migrate to cities after having been dispossessed of their lands, houses, and belongings as a result of armed conflict among illegal gangs and the authorities. These so-called **internally displaced people** move to urban areas, where their circumstances should be subject to the application of guidelines developed by the United Nations High Commissioner for Refugees.<sup>12</sup>
- The **“new” poor** are people who have lost houses or jobs due to catastrophic illness, accidents, disability, decline in salaries, or other crises. They move to a slum or acquire a cheap building plot in a remote neighborhood in an attempt to restart their lives. As with recent migrants, they lack social support networks.
- In **households managed by women** who are single, separated, or divorced, the mothers often have offspring from several different domestic partners and are frequently victims of domestic violence. They earn even lower incomes than men, but manage to survive due to mutual support networks of kin and other single mothers as they strive to provide opportunities for their children, particularly education.
- The **extremely poor** live chaotic, unpredictable lives characterized by chronic unemployment and temporary employment. They often send their children to the streets to beg. Lacking education or skills, and burdened by a legacy of extreme poverty repeated over generations, most have given up hope of improving their situation.

Women in both rural and urban areas, and particularly those of African or indigenous descent, are especially disadvantaged. Gender inequalities exacerbate ethnic discrimination, isolation, and invisibility. The notion that development benefits flowing to men will somehow trickle across to women is as naive as the notion that formal sector economic growth will trickle down to the poor.

In **rural areas**, the failure of multilateral development agencies to reduce poverty generally, or address the special needs of indigenous and other ethnic minority communities specifically, has resulted from a number of interrelated factors. They include the following:

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<sup>12</sup> United Nations High Commissioner for Refugees (UNHCR). 1999 *Guiding Principles for Internal Population Displacements*. Geneva: UNHCR.



- The treatment that minority groups receive from dominant interests often ranges from **neglect to overt discrimination and violent repression**. Motivated by ethnic prejudice and racist attitudes, dominant groups assume that the traditional modes of production practiced by minorities will disappear because they cannot achieve the productivity levels of agro-industrial enterprises. They overlook the significant contribution rural producers make to their nations' food security.
- Rural poverty is **spatially remote** from the rest of society, existing in isolated areas lacking infrastructure, and institutions of the state where security hazards and transaction costs are enormous.
- The rural poor are **socially invisible**, lacking political influence, social presence, and an effective voice in the major institutions of society. As such, they are easily ignored by a country's development investment planners.

All of these factors, both in urban slums and poverty-stricken rural areas, have seriously constrained the ability of multilateral development agencies to reduce poverty. These constraints are only exacerbated by a lack of solid empirical information about the region's many faces of poverty. Socio-cultural analysis therefore becomes critical to our ability to gain a real understanding of the problems and potentialities of the poor, whether they are rural peasants, members of indigenous communities and Afro-descendant communities, or the different groups making up the informal sector of urban areas.

Although the poor have many faces, all aspire to healthy, productive, and rewarding lives. The next section will show how these same aspirations are shared and articulated by the Inter-American Development Bank (IDB) and how socio-economic analysis is an integral part of the way the Bank does business.

## **I. How the IDB Uses Socio-Cultural Analysis**

Article 1 of the **UN Declaration on the Right to Development** (1986) states the following:

*"The right to development is an inalienable human right by virtue of which every human person and all peoples are entitled to participate in, contribute to, and enjoy economic, social, cultural, and political development, in which all human rights and fundamental freedoms can be fully realized."*<sup>13</sup>

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<sup>13</sup> United Nations General Assembly. 4 December 1986. *Declaration on the Right to Development*. New York.

Poverty and social exclusion deny a person the freedom to choose among opportunities for realizing his or her human potential. As such, poverty is not merely synonymous with low income; it also prevents people from participating in the development process due to their exclusion from educational opportunities, systems of justice, security of person and property, health services, financial institutions, and basic human rights. The result is poor health, functional illiteracy, lack of technical knowledge and marketable skills, and absence of political representation.<sup>14</sup>

This reality is summed up in the 2009 background paper for the IDB's Ninth Capital Increase as follows: "Unequal access to education, health services, justice, and housing, among others, reproduces structural conditions that are the determinants of social exclusion."<sup>15</sup>

The IDB seeks to provide access to the benefits of development by changing structural conditions affecting the poor and excluded. An important group of Bank policies set forth detailed requirements in this regard, and each of these policies specifies the use of socio-cultural analysis.

Socio-cultural analysis is required by the **IDB Environmental Safeguards Compliance Policy** as an input in the Environment and Social Impact Assessment (ESIA) and the Environmental and Social Management Plan (ESMP). Both the ESIA and the ESMP must be applied for all Bank-financed projects that are likely to cause significant social and environmental impacts (Category A projects) and projects with a high risk for causing short-term negative social and environmental impacts (high-risk Category B projects).

IDB socio-cultural analysis identifies social groups that will be affected by, or involved in, a project. It initiates consultations and participation that help to ensure a two-way communications process in which operational staff inform people about the aims and scope of the project being planned, and the affected people provide their suggestions and perceptions of opportunities and risks. As such, socio-cultural analysis adds critical value to the biophysical measurements in the ESIA and ESMP in the following three respects:

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<sup>14</sup> Sen, Amartya. 2000 *Development as Freedom*. New York: Basic Books.

<sup>15</sup> Inter-American Development Bank. 2009 *Review of the Need for a General Capital Increase of the Ordinary Capital and Replenishment of the Fund for Special Operations: Progress and Next Steps*. Washington, DC.

- It transmits **qualitative judgments** of the beneficiaries and other stakeholders on the social organizations, authority structures, and institutions that will be involved in the proposed development project.
- Since the local people are likely to express diverse judgments, the analysis **documents the diversity of perceptions**, values, and belief systems among stakeholders and how these correlate with age, gender, ethnic, religious, class, location, and other social distinctions meaningful to the people themselves.
- It **promotes negotiations** with and among diverse stakeholders regarding project design, operation, benefits, and risks and secures community support.

The Bank's **Operational Policy on Indigenous Peoples** also requires the use of socio-cultural analysis for identifying socio-culturally appropriate development objectives and project components. The analysis further supports the policy's requirement that such projects be carried out in consultation with legitimate local authorities to help ensure effective and sustainable benefits and secure broad community support and participation in the project.

One set of policy directives is aimed at promoting specific initiatives or complementary activities to ensure that indigenous peoples have access to project benefits. A second set is directed at mitigating and managing the socio-cultural risks stemming from potential negative consequences of development investments that benefit non-indigenous groups.

For both sets of directives, socio-cultural analysis informs the Bank, project owners, and executing agencies about the social organizations, capabilities, values, and aspirations of indigenous populations and indicates how to maximize development opportunities and minimize risks.

Socio-cultural analysis is also required in carrying out the IDB's **Operational Policy on Involuntary Resettlement**, which stipulates that wherever possible, population displacements must be avoided or at least minimized. Where this is not possible, a resettlement plan must be designed that will improve or at least restore the livelihoods of the affected people.

An essential initial step in the preparation of a resettlement plan is a socio-cultural analysis of the people to be affected by the project, as well as of the broader population. The analysis informs the IDB, project sponsors, and executing agencies about the social organizations, properties, production systems, shelters, infrastructure, and public services that

must be replaced in the new resettlement sites so as to provide affected people the opportunity to rebuild their lives.

**The IDB's Operational Policy on Gender Equality** explicitly requires that analytical work be carried out in the early stages of project preparation to identify adverse impacts on gender equality and to ensure gender equity in project benefits. Socio-cultural analysis provides an opportunity to identify and assess gender imbalance, the specific needs of male and female individuals, women's ownership rights, gender differences in the use of time for domestic chores and economic activities, and women's decision-making capacity, participation, and exercise of power.

With the help of socio-cultural analysis, these factors can be included in project design to expand the rights and capacities of women to make decisions and act independently in social, economic, and political spheres.

The IDB's **Access to Information Policy** requires that project information be provided to the public in places, formats, and languages that enable affected stakeholders to be consulted as part of the environmental assessment process. By providing multiethnic and pluri-cultural information, socio-cultural analysis helps to overcome barriers to information access and fosters participation and consultation.

## **J. Socio-Cultural Analysis in the IDB Project Cycle**

Socio-cultural analysis is critical in those IDB operations that produce significant impacts on the poor and excluded or are designed to provide benefits to these sectors of the population. The broad categories of projects are as follows:

- **Major infrastructure works**, where socio-cultural analysis is the initial step for designing components to avoid, mitigate, and manage potential negative consequences. Such projects often include involuntary resettlement of people, and measures to help them reestablish their production, housing, education, and livelihoods in a new location. Projects to exploit natural resources often threaten the survival of indigenous peoples by opening up ancestral territories to newcomers.
- **Projects aimed at reducing poverty** among targeted groups such as indigenous peoples, Afro-descendant communities, displaced people and refugees, laborers and smallholders in the rural sector, or urban slum dwellers. In these operations social-cultural analysis clarifies

development objectives, value systems, and social organizational capacities specific to each social group to guide project design and implementation.

- **Projects intended to improve broad social, economic, or environmental conditions**, such as health services or educational opportunities, or justice and security systems. Here, socio-cultural analysis provides information needed to create instruments and complementary activities to facilitate access of women, linguistic minorities, the illiterate, the disabled, the landless, the homeless, and others who may be socially excluded.

Socio-cultural analysis is used in the Bank's country-level studies and programming and throughout project identification, analysis, monitoring, and evaluation, as described below.

### **J.1. Preparation of Country and Programming Documents**

A country's social development priorities are identified in country papers, sector reviews, and national or regional-level poverty studies. Socio-cultural analysis of indigenous people, ethnic minorities, and the rural sector – and especially women – is particularly useful in situations where poverty is most serious. The Bank's indigenous peoples policy provides useful directives that can be applied more broadly to analyses of all excluded groups.

Such studies should use participatory methodologies, such as workshops or working committees with representatives of indigenous peoples or other excluded groups. These are more fruitful if held in the communities where people live, rather than in government offices or meeting facilities in cities.

At this early level of planning, the IDB often organizes dialogues among key sectors of the dominant society and poor or marginal groups. These may range from exploratory encounters on specific themes to ambitious attempts to define a country's social agenda.

Analyses and consultations require sufficient time and resources. Results of the studies should be discussed with representatives of the groups that have been consulted as well as with the borrower and client to clarify social issues. In the frequent cases where poor and marginal groups lack formal representation, special mechanisms must be established to ensure their inclusion. A consultative committee that includes representatives selected by the groups themselves is more useful than one made up solely of non-governmental organizations, church groups, or other spokespersons, who may have their own agendas.

## **J.2. Project Identification**

The basic concept of approaches to reduce poverty should emerge from studies and consultations that have been carried out during the country programming process. Now, projects are identified with specific geographical sector focuses as well as reasonable estimates of the target population, urban/rural distribution, economic activities, land tenure and livelihood, and the population's social, ethnic, or historical characteristics. This information is used to prepare the terms of reference and estimates of the time and resources needed to carry out more detailed studies and consultations.

Also at this stage, potential negative impacts are identified and questions are posed about the project's social feasibility. If it becomes evident that there is a lack of resources and/or lack of political will and institutional capacity to mitigate these negative impacts, the project should be eliminated to avoid wasting time and resources and incurring reputational risks for the Bank. If, on the other hand, it appears that negative impacts can be mitigated, then sufficient time, resources, and technical expertise must be allocated for preparing mitigation programs.

## **J.3. Project Preparation and Evaluation**

A socio-cultural analysis is required as part of the ESIA for all projects that have major social and/or environmental issues and risks. These include all Category A projects, which entail large-scale resettlement and all projects that affect indigenous groups; and all Category B projects that involve or impact poor and excluded communities and other vulnerable populations.

Before projects with significant impacts go to the IDB's Board of Executive Directors for approval, the Bank requires executing agencies and involved communities to carry out special initiatives to identify and address these issues. Subjects typically include the following:

- Impacts and/or benefits, number of people affected or involved, and the eligibility criteria to be applied for project benefits or mitigation measures.
- Technical description of project components intended to deliver benefits or mitigation measures, and judgments as to their effectiveness.
- Policy and legal frameworks that will govern and regulate project execution and quality control, and provide accountability for timely project performance within budget.

- Institutional responsibilities for project operations, including management and staff assigned, beneficiary participation, future staffing plans, technical assistance plans, training and capacity-building components, etc.
- Cost estimates and financing plan.
- Legal agreements needed to protect the Bank from reputational risks and to guarantee the affected population and the executing agency that the IDB will supervise and support project performance.

Where executing agencies have a proven track record of carrying out successful poverty reduction programs, the analysis and preparation of sub-projects may take place after the project has been approved by the Board. In so doing, the operation can provide the agency with an opportunity to strengthen its socio-cultural analysis capacity, and thereby add to the value of the investment. In practice, governments change and reliance on a particular minister may not guarantee success, thus requiring additional IDB financial and technical support during implementation.

In some types of operations, such as multiple works and sector loans, deliverables are not identified prior to approval. Therefore, negative impacts or specific initiatives for reaching the poor and socially excluded cannot be identified before the operation's approval. Once again, these kinds of projects require additional Bank financial and technical support during project implementation to ensure that mitigation or enhancement measures are designed and carried out.

Legal agreements with the borrower/client must reflect understandings reached during project evaluation, particularly regarding special or complementary activities design to benefit the excluded. The borrower/client and executing agencies frequently have difficulty in making changes in their normal practices, since that could subject them to criticism from rival functionaries within domestic bureaucracies. Tradition-bound bureaucrats too often eliminate creative and innovative initiatives during implementation. Legal agreements can provide a measure of protection for creative and visionary officials and protect critical innovations. In general, if an activity is not contained in the legal agreement, it does not exist.

#### **J.4. Monitoring and Evaluation<sup>16</sup>**

The project monitoring system systematically documents the delivery of works, goods, and services according to an agreed-upon timetable. This information enables management to take corrective measures and reward good performance. The original socio-cultural analysis provides a benchmark against which progress is measured.

After the project is concluded, the evaluation focuses on outcomes and provides lessons for improving the design of future projects. Did the project achieve its objectives? Did it reach the social groups that were targeted? Were the human and nonhuman resources effectively applied? The main indicators of project performance should match those that were used during project preparation as part of the socio-cultural analysis.

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<sup>16</sup> Economic Commission for Latin America and the Caribbean (ECLAC).2011*Statistical Yearbook for Latin America and the Caribbean*. Santiago, Chile: United Nations Publications