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# The equity gap: A second assessment

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The preparation of this document was coordinated by José Antonio Ocampo, Executive Secretary of ECLAC, in cooperation with Rolando Franco, Director of the Social Development Division. The individual chapters are the product of a collaborative effort on the part of Rolando Franco, Arturo León, Martin Hopenhayn and Ernesto Espíndola. Their contents were formulated and discussed by Irma Arriagada, Ernesto Cohen, Rodrigo Contreras, Carlos Daroch, Beatriz David, Mauricio Dias David, María Gimena De León, John Durston, Juan Carlos Feres, Pascual Gerstenfeld, Soledad Parada, Juan Carlos Ramírez, Ana Sojo and Raquel Szalachman.

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## Introduction

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The World Summit for Social Development was held from 6 to 12 March 1995 in Copenhagen, Denmark. The participants in that meeting, who included numerous Heads of State and Government and representatives of all the States Members of the United Nations, issued the Copenhagen Declaration on Social Development and adopted a programme of action. These two documents —the first being political in nature, while the second is designed to serve as a practical tool— reflect commitments made at the national, regional and international levels.

Two years later, in 1997, representatives of the member States of ECLAC gathered at the First Regional Conference in Follow-up to the World Summit for Social Development, held in Sao Paulo, Brazil, in order to assess the steps being taken to achieve the objectives of the Copenhagen Summit.<sup>1</sup> At the second meeting (Santiago, Chile, May 2000) held to evaluate the progress made in implementing the recommendations formulated at the Summit, the States members of ECLAC are also preparing themselves to play an active part in the special session to be held by the General Assembly to review the progress made towards implementing the outcome of the World Summit for Social Development (Geneva, 26-30 June 2000).

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<sup>1</sup> Paragraph No. 95, subparagraph (h) of the Programme of Action of the World Summit for Social Development.

The secretariat of the Commission has prepared a document for the Second Regional Conference which focuses on three areas: first, an examination, from a Latin American and Caribbean perspective, of the current situation with regard to poverty, employment and social integration, which were the main themes of the Summit; second, a review of major policy trends relating to the fulfilment of the above-mentioned commitments; and, third, the formulation of a series of guidelines regarding the content and scope of policies for facilitating efforts to honour those commitments. Its aim is to help focus the debate among the Governments and civil society of Latin America and the Caribbean concerning the themes of the Copenhagen Summit and the commitments assumed there.

### THE 16 COMMITMENTS CONTAINED IN THE CONSENSUS OF SÃO PAULO

1. Prioritize the issues on the social agenda;
2. Ensure the full operation of democratic institutions;
3. Guarantee that social development is a State priority;
4. Ensure integrated approaches to the economic, social and environmental dimensions of development;
5. Enhance the complementarity of growth and human development and further the quest for higher levels of social equity and integration;
6. Explore the potential synergies between programmes for environmental protection and improvement and social development programmes;
7. Utilize, *inter alia*, regional mechanisms for cooperation and consensus-building to exchange experiences and evaluate the progress made in implementing the agreements reached at the World Summit for Social Development;
8. Move forward with the establishment of a regional database on successful experiences in the field of social policy;
9. Ensure the incorporation of a greater social equity component into social security systems, and extend social security coverage to include the informal sector;
10. Create a regional intergovernmental information network on successful experiences with productive job creation and job training programmes and with policies designed to combat poverty and social exclusion;
11. Examine institutional structures for planning, implementing and monitoring social development policies and programmes with a view to strengthening them and ensuring the use of a participatory approach;
12. Continue to pay attention to the status of vulnerable groups;
13. Continue the search for and development of lasting solutions to the problem of refugees, repatriates and internally displaced persons;
14. Encourage civil society and international aid organizations to take steps to help apply a gender perspective as an integral part of the design, implementation, management and evaluation of social policies and programmes;
15. Continue to make efforts to find external resources for development and channel them appropriately;
16. Ensure that, in the implementation of social development policies, consideration is given to the agreements reached at United Nations world conferences.



## Summary and conclusions

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The courses of action recommended at the World Summit for Social Development coincide with the general thrust of the action taken by the Governments of the region in the economic and social spheres during the 1990s. The objective of this document is to weigh the positive and negative aspects of the situation in Latin America and the Caribbean with regard to poverty reduction, productive job creation and social integration within the wider context of economic changes and social policy reforms and to develop action-oriented proposals for the fulfilment of the commitments assumed by the Governments of the region in Copenhagen.

### **The context for economic reform**

- 1.** The Latin American and Caribbean region is undergoing a period of rapid change involving notable advances in terms of democratic pluralism and governance and a thorough-going economic reform process.
- 2.** At the same time, however, recent economic trends have revealed some major shortcomings. First of all, with few exceptions GDP growth has been somewhat subdued (3.2% per year between 1990 and 1999) and well below both the levels traditionally seen in the region (5.5% annually for the period 1945-1980) and those that ECLAC has estimated to be necessary in order to make any meaningful progress in closing the existing technological and social gaps (6% per year). Second, most of the region's economies remain vulnerable, since in many cases their macroeconomic stability has been overly reliant on high current account deficits; furthermore, on a

number of occasions, these deficits have been financed with volatile capital, and the relevant economies have consequently tended to undergo stop-go growth cycles as a result of the behaviour of these capital flows. In various instances, this situation has been compounded by the fragility of these economies' financial systems and by international crises that have taken a heavy toll in terms of the high cost of public finance. Third, the region's savings rates and, in particular, investment rates plunged as a result of the crisis of the 1980s and were slow to recover during the 1990s; in fact, in most of the countries these indicators have yet to regain their pre-crisis levels.

**3.** In addition, the intense economic restructuring process that has taken place in the region has created new winners and new losers. The structural heterogeneity typical of the region's production structures has been heightened by the differences between the productivity levels attained by the large firms at the forefront of the modernization process and those of the wide and varied spectrum of less modern production units that provide most of the available jobs. This not only provides a material basis for sharper social inequality by widening internal productivity and income gaps, but also impairs growth capacity, since it constrains the formation of linkages among different production sectors, retards the diffusion of technical progress and dampens the momentum that can be generated by export activity.

**4.** The most glaring shortcomings associated with the above-mentioned factors are found precisely in those areas focused upon at the World Summit for Social Development. It has taken a long time to whittle away at the backlog of unmet social needs that built up over time (and which was increased further by the crisis of the 1980s), especially in three interrelated areas: employment, poverty and social exclusion.

## Poverty and social integration

**5.** Poverty trends in the region have varied greatly from one country to the next, both in terms of levels and recent patterns. On average, the incidence of poverty declined from 41% to 36% of all households between 1990 and 1997, which was enough to counteract the increase seen in the 1980s (from 35% to 41%). The worsening situation in some countries in 1998-1999 offset the downward trend in poverty rates recorded during the 1990s, however, and in some cases the rates actually rose. As a result, the actual number of persons in Latin America and the Caribbean who are living in poverty—224 million—is now higher than ever.

**6.** Nevertheless, some definite advances have also been made recently, thanks to the sustainable economic recoveries taking place in a number of cases. In fact, between 1990 and 1997 poverty was reduced in 11 out of 14 countries. This gradual improvement was interrupted in some cases in 1995, however, and again—in an even larger number of countries—in 1997 by the crisis that erupted in Asia, which hurt various Latin American and Caribbean economies as well.

**7.** The pace of economic growth and the elimination of hyperinflation are the most important factors in reducing poverty; the next is a sustained effort to boost social spending and an increasing concern on the part of Governments with the need to allocate those funds efficiently. Indeed, the countries that have made the greatest progress in reducing poverty are those that have managed to combine fairly high rates of growth over a number of years with declining unemployment levels and an increase in the number of employed persons within the poorest households. Declining inflation rates have also translated into a real increase in labour income (and, in some instances, in pensions) and have facilitated the continuity of the investment process, which has had a positive impact on the labour market.

**8.** Macroeconomic equilibria and the mechanisms used to achieve them are both critical factors in attaining a rapid and more equitable form of growth. In addition to reducing inflation and reinforcing a balanced fiscal position, it is also necessary to ensure that current account deficits are held to sustainable levels, achieve a sufficient domestic savings rate to bolster the investment process, have an appropriate real exchange rate and make certain that domestic spending levels are in keeping with sustainable uses of production capacity. Growth does not, in and of itself, guarantee a better distribution of income, however. The *quality* of growth—i.e., its staying power and its effectiveness in creating productive jobs and raising wages—is a key factor, along with the efficiency and impact of social policy.

## **Employment, wages and productivity**

**9.** As noted earlier, the region's failure to make more rapid progress in reducing poverty continues to be associated with insufficient growth, the weak impact that economic growth has had on the labour market and the virtual stagnation of average labour productivity. This last factor will have to be addressed if the region hopes to become more competitive in the international economy and to attain higher growth rates on a sustained basis.

**10.** During the 1990s, a majority of the new jobs that were created were in the informal sector (according to ECLAC estimates, 69 out of every 100 new jobs created between 1990 and 1997), and this sector now employs 47% of the working population in the region's urban areas. This is the main reason why average labour productivity is at a standstill, although the mean figure does mask major differences across countries.

**11.** This is also why wages are below their 1980 levels in a number of countries and why occupational wage differentials are increasing in most of them. In almost all instances average real wages did rise during the 1990s (although sharp differences were observed across countries), but for the most part they still remained below the 1980 figures.

**12.** The recovery of wage levels stalled in many cases in 1996, even though wages continued to rise in some countries. This was due to the fact that the income effect on real wages of the reduction in inflation diminishes as inflation rates reach increasingly lower levels and that the lower growth rates were associated with longer periods between wage adjustments. Moreover, on a more general level, the competitive retooling being undertaken by modern firms is setting the stage for increases in labour productivity and flexibility, together with a sharp decrease in the rate of job creation per unit of output.

**13.** The slow growth of average real wages is the net effect of rapid rates of increase in pay levels for skilled jobs in the more dynamic, modern sectors of the economy and much smaller increases or actual decreases in wages levels for the rest of the economy. In 1998, the real minimum wage was lower than it had been in 1980 in 13 out of 18 countries. The mean wage received by workers in the informal sector is, on average, just half as much as what manual and non-manual workers earn in modern business enterprises and, generally speaking, informal-sector workers' wages have risen more slowly, which has contributed to the growing inequality of labour income.

**14.** The differential between the incomes of professionals and technicians and those of wage earners in low-productivity sectors swelled by 28%, on average, between 1990 and 1997. The continuation or further increase in the labour income gap as a result of sharp productivity differentials across sectors and firms is an important factor in understanding the rigidity of income

distribution associated with recent economic growth, even in those countries whose economies are growing the fastest.

**15.** In order to boost the productivity of the sectors that are lagging behind in this respect and enhance the effects of macroeconomic policy, a number of specific steps need to be taken; these steps include the creation of lending, marketing and technical assistance programmes in conjunction with large-scale investments in training and skills development. Technological modernization is a crucial element, not only because of the demands of international competitiveness but also because of the need to improve job quality and wages, but it has not been placed high up enough on most of the countries' national agendas, and the resources and institutional networks needed to meet this challenge have not been made available.

**16.** Economic reforms have had differing impacts on the individual countries' labour markets, mainly because of major differences in the intensiveness and timing of their reform programmes. The countries' diversity in terms of their production and technological bases, the institutional structures of the labour market and their demographic and social conditions are other factors that help to account for these dissimilar outcomes.

**17.** At this stage in its development, the region's economic growth is closely linked to the buoyancy of natural resource-related activities. Thus, in order to augment the impact that growth has on employment levels, steps should be taken to strengthen the linkages between these production activities and other sectors. In addition to creating demand for intermediate goods, services and labour, these linkages also foster improvements in quality and the diffusion of technical progress, business practices and management techniques. These effects are generated through the promotion of quality standards, the creation of technical training institutes and modern business services organizations, instructional activities and the provision of technical, credit and organizational support for micro-, small and medium-sized enterprises.

**18.** In the 1990s a number of countries amended their labour laws, and particularly statutes relating to employment contracts, dismissals and collective bargaining. These reforms have moved in various directions, and no uniform trend can therefore be discerned, although most recent amendments have tended to introduce a greater degree of flexibility into contractual arrangements and dismissal procedures. In other cases, the new laws are aimed at improving working conditions and raising minimum wages, protecting certain sectors of the workforce (temporary workers, wage earners employed by small or medium-sized enterprises, people who work out of their homes), prevent discrimination against women, put an end to child labour and regulate the employment of minors.

**19.** Another innovative area of reform has been the work being done to ensure that labour laws address the issues of unemployment insurance and income-protection schemes for unemployed workers. A variety of options have been examined in an effort to find the most appropriate way of meeting the needs of such workers for a specified period of time while averting major administrative problems and avoiding the microeconomic and budgetary inefficiencies that have arisen in other countries.

**20.** The aim in this regard is to reconcile increased flexibility with a basic minimum of social protection for workers based on the idea that the main emphasis should be on safeguarding their incomes rather than their jobs. In order for this approach (which clearly promotes labour mobility) to be successful, these measures must be accompanied by the reinforcement of training and retraining programmes.

## Social integration

**21.** The slow pace of progress in reducing poverty during the 1990s, the increase in poverty registered during the last two years of the decade, and the deterioration or lack of improvement in income distribution have coincided with a striking increase in access to communications media in the region which has led to an upward leveling of consumer aspirations. More than any other group, urban youth are exposed to stimuli and information about a wide variety of new products and services that come to be seen as symbols of social mobility and that are beyond the reach of the majority of those young people.

**22.** The consolidation of hard-core poverty, ethnic discrimination, segregated housing and increasing violence in the cities all undermine social integration. In order to strengthen democratic systems of governance, steps also need to be taken, where appropriate, to reform the courts by making judicial procedures more transparent, fairer and more effective as a way of restoring the people's trust in the systems designed to ensure justice and their protection and safety. The countries will also have to work to establish more pluralistic, participatory political systems that will be capable of sorting out differences and helping the various parties to reach agreement at the national level as to the course which the development process should take.

**23.** The possibilities of arriving at such agreements would be enhanced if greater provision were made for the establishment of a social safety net, since this would lower the costs of the current economic transition and make it possible to plan ahead for the retooling and retraining needs of large sectors of the population. One of the mechanisms needed to create such a safety net would be vocational training programmes for urban youths who have little formal education and who do not belong to social networks that could help them find productive employment. Other initiatives that foster greater social integration include aid programmes for low-income households headed by women, programmes aimed at sheltering children, adolescents and women at risk of domestic violence, and anti-drug programmes. Personal and community development programmes contribute to the same ends, as do low-cost housing projects designed to alter the existing habitat by providing communities with the necessary infrastructure and opportunities to undertake cultural and recreational activities.

## Social reforms

**24.** In contrast to the situation in the 1980s, when social spending was cut considerably as governments found themselves faced with substantial financial constraints, in the 1990s government allocations for social items of expenditure rose in most of the countries of the region. This attests to the political will of the region's Governments to address these unmet social needs and points to the existence of a more favourable environment for social policy reforms. In 12 out of 17 countries for which the relevant data are available, per capita social expenditure for 1996-1997 exceeded the figures registered for the early 1980s. Moreover, between 1990-1991 and 1996-1997 public social expenditure climbed by an average of 2.3 points of GDP and increased even in countries that registered a decrease in public spending coefficients.

**25.** Education and social security are the two sectors in which social expenditure rose the most during this period. Real per capita spending on education increased in 13 out of 15 countries, expenditure on health care and nutrition rose in 11 out of 14, and spending on social security was higher in 13 countries for which information is available. Spending on education was up not only because coverage was expanded but also because of a series of reforms that have figured as central

issues in nationwide debates. The increase in expenditure on social security is mainly accounted for by readjustments in retirement and other pensions, the amortization of retirement obligations and wider coverage.

**26.** The educational reforms now being implemented differ slightly from country to country, but their main objectives are to overcome the shortcomings of the region's educational systems in terms of quality, equity and curricular relevance. Some of these reforms involve measures aimed at modernizing outdated curricula and teaching methods, eliminating social segmentation in access to education and reversing the decline observed in the teaching profession. Others are designed to alter educational funding and resource allocation systems by making greater provision for private resource inputs, decentralize administration, train teachers and raise the quality of education while gradually bringing it more closely into line with the requirements of the labour market.

**27.** It has become clear that new types of relationships need to be established among education, society and production. In order to accomplish this, qualitative changes will have to be made on the basis of ongoing performance evaluations and closer links with businesses and the labour market. A suitable system of incentives would contribute to this effort. Such a system might include national scholastic achievement examinations, support for innovative initiatives in the schools, contests in which the entries would deal with ways to improve the quality of education and financial incentives for teachers and schools that succeed in raising their students' academic performance.

**28.** For the region as a whole, ECLAC has estimated the additional cost of implementing a strategy for improving the quality of education in the schools (including preschools) to be 3.9% of GDP. Since this figure is more than the countries' budgets will bear, government spending on education should be concentrated in those areas that will have the greatest social and economic impact, and incentives need to be found to encourage inputs of private funds while, at the same time, taking care to safeguard educational equity.

**29.** Technological change in the field of education entails modifications in both behaviour and infrastructure. In the first case, this involves the adjustment of teaching methods to incorporate new learning technologies. In the second, it calls for the creation of large-scale networks for the manufacture of educational materials and equipment using the most advanced technologies and the establishment of institutions that will promote their application and adapt them to local conditions. All of this will require changes in school infrastructure, individual and institutional investments in equipment and instruments, and advanced training and retraining for teachers. Private inputs can play an important role in these areas.

**30.** The extent of health care coverage varies widely in the region, but the figures on coverage provide no more than a very basic yardstick, since they may mask significant differences in terms of the quality, efficiency and cost of health care services. The region's agenda for health care reform—bearing in mind the relevant differences across countries—includes attaining greater equity in relation to access, improving the efficiency and quality of care, and raising the sector's productivity through management reforms, the promotion of potential synergies between public and private health care systems, efforts to bring escalating costs under control and the regulation of private medicine. Some reforms have been designed on a more integral basis and seek to encompass funding, cross-sectoral competition, regulation and management. Despite the diversity of reform initiatives, there are certain areas of convergence; these include the promotion of health campaigns, the reinforcement of primary health care services, the decentralization of local health care systems and services, and initiatives for eliminating inequalities in access either through systems providing basic care for all or by means of targeted measures.



**31.** It is important for reforms of the health care system to provide for modifications in the system's institutional framework in order to permit improvements in the efficiency, coverage and quality of health care, more accurate targeting of subsidies and a strengthening of the system's regulatory and supervisory capacity. In the public health care system, various functions need to be more clearly differentiated (e.g., regulatory functions, financial services and purchasing, the provision and production of services). In view of the coordination effort that this will require, it may be necessary to employ a system of commitments whereby the resources, quality and type of service to be provided will be specified and to establish indicators for use in assessing performance. In this last case, experience has demonstrated the importance of ensuring that all parties involved in the public health system reach agreement at the outset regarding which performance indicators are to be used and how they will be interpreted. Steps should also be taken to promote new wage arrangements that include a measure of flexibility and provide for incentives linked to performance and the quality of care provided.

**32.** Private health care inputs can increase the efficiency of the sector, provided that regulatory systems are in place that will augment the transparency of hiring practices, increase the subsystem's access to subsidies, ensure cost control (through the integration of service providers and insurance companies), improve the way in which catastrophic illnesses and conditions associated with old age are dealt with, and ensure the inclusion of solidarity or redistributive mechanisms in health insurance schemes.

**33.** The demand for housing construction has diminished marginally because of the tendency for population pressures to ease up somewhat in recent years. However, residential construction has also had to adapt to a more varied range of household structures which have generated new requirements and standards.

**34.** Policies have gradually been adapted to fit these new conditions, and public expenditure on housing has rebounded during the 1990s. In order to deal with the housing shortage, the countries of the region have sought both to bring in funds from the private sector and to modify their programmes in order to boost their efficiency and target the available resources more accurately. A number of countries are making a transition from the traditional system of specialized mortgage banking, which operates as a separate segment removed from the rest of the financial system, towards more open-ended financing systems. Supply-side subsidies provided through tax exemptions or preferential housing construction loans are being replaced by demand-side subsidies that take the form of direct transfers to households; so long as the application and assignment systems are suitable, this approach will make more accurate targeting possible. Since social housing policies necessarily concentrate construction activities on low-cost land, however, care must also be taken to ensure that they do not lead to greater urban segmentation.

**35.** Pension systems in the region typically have low coverage rates and include a large number of pension funds that pay out different benefits. This system militates against equity, both among the members of these funds and between them and non-members. In many cases, costs are excessive and funds are poorly managed, all of which leads to large actuarial or cash deficits. In these cases, the reform process is faced with the challenge of expanding coverage, managing the funds more efficiently so that benefits can be improved and devising a solidarity mechanism (along with the means of financing it) to aid those who are unable to save up for their retirement. The reforms now being introduced in this area are aimed at managing pensions funds efficiently without undermining a country's macroeconomic stability, differentiating among risks, adjusting the system of financial management in order to prepare for likely contingencies and expanding the private sector's role in fund management and service provision.

**36.** In view of the current trend towards the use of privately managed, fully funded pension systems, the fiscal cost of such changes should be examined, as should the way they are to be financed and how the funds that have been built up through financial intermediation should be used. By way of example, two types of policies capable of promoting equity may be mentioned: those designed to make fiscal and pension resource transfers more progressive and those aimed at using pension funds to stimulate productive investment and help eliminate obstacles to the achievement of high, stable growth rates. An analysis of the pension system reforms being implemented in the region shows that they differ in two ways: (i) the design of the solidarity component; and (ii) the institutional structure developed to ensure that workers' financial savings contribute to the economy's efficiency and dynamism.

**37.** Recent social policy reforms have placed special importance on making resource management more efficient. They therefore need to be coupled with changes in the institutional structure aimed at promoting better service for users, proper targeting and greater decentralization and to ensure that funding is linked to performance and quality of service. The current fragmentation of State social services is conducive to a scattering of resources and duplication of work, and steps must therefore be taken to overcome it. The supervision of social programmes could be upgraded and uniform standards for their evaluation could be adopted; in addition, redundant programmes could be eliminated and other initiatives aimed at dealing with hard-core poverty, especially in remote areas, could be undertaken. Links between social programmes and production promotion activities (e.g., training, technology diffusion and support activities for micro-, small and medium-sized enterprises) should also be created or reinforced.

## **An overall view**

**38.** In order to make more rapid progress towards fulfilling the commitments assumed at the World Summit for Social Development, an integrated economic and social policy approach is needed that will ensure the complementarity of measures for promoting competitiveness and measures designed to foster social cohesion. Although in the short run conflicts may arise between the two, an effort should be made to take advantage of the many complementarities that do exist between these types of measures. Investment in human resources and the promotion of production are highly effective ways of making progress in these areas. By the same token, the modernization of the agricultural sector can help to combat rural poverty, provided that public policies on access to land and the regularization of land titles are in place and steps are taken to upgrade production infrastructure and forge a closer link between agroindustry and small-scale producers.

## **Part One**

### **Issues addressed at the Summit and equity**

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## Chapter I

# Poverty and income distribution

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## 1. Poverty trends in the 1990s

Among the countries of Latin America and the Caribbean, poverty differs markedly in extent and nature.<sup>2</sup> In some countries it affects one in six households; in others, four in six. In only 2 of 17 countries analysed by ECLAC are fewer than 15% of households poor (Argentina and Uruguay). Another four (Brazil, Chile, Costa Rica, and Panama) are in a middle range, with 15% to 30% of households living in poverty. Seven countries (Colombia, El Salvador, Mexico, Paraguay, Peru, the Dominican Republic, and Venezuela) are in the upper range, with between 31% and 50% of households in poverty. Finally, there is a very high level of poverty in Bolivia, Ecuador, Honduras, and Nicaragua, where 50% or more of households are poor<sup>3</sup> (see table I.1).

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<sup>2</sup> The estimates of poverty in this chapter are based on the “income method” (see boxes I.1 and I.2).

<sup>3</sup> Almost all the other countries of the region are categorized as having high or very high poverty levels.

**Table I.1**  
**POVERTY AND INDIGENCE**  
*(Percentages)*

Country	Year	Households below the poverty line <sup>a</sup>					Households below the indigence line				
		Country total	Urban areas			Rural areas	Country total	Urban areas			Rural areas
			Total	Metro-politan area	Other urban			Total	Metro-politan area	Other urban	
Argentina	1980	9	7	5	9	16	2	2	1	2	4
	1990	-	-	16	-	-	-	-	4	-	-
	1994	-	12	10	16	-	-	2	2	3	-
	1997	-	-	13	-	-	-	-	3	-	-
Bolivia	1989	-	49	-	-	-	-	22	-	-	-
	1994	-	46	-	-	-	-	17	-	-	-
	1997	-	47	-	-	-	-	19	-	-	-
Brazil <sup>b</sup>	1979	39	30	21 <sup>b</sup>	34	62	17	10	6 <sup>b</sup>	12	35
	1990	41	36	-	-	64	18	13	-	-	38
	1993	37	33	-	-	53	15	12	-	-	30
	1996	29	25	-	-	46	11	8	-	-	23
Chile <sup>c</sup>	1987	39	38	33	41	45	14	14	11	15	17
	1990	33	33	28	37	34	11	10	8	11	12
	1994	23	23	17	26	26	6	6	4	7	8
	1996	20	19	12	22	26	5	4	2	5	8
	1998	18	17	12	19	23	5	4	3	5	7
Colombia	1991	50	47	39	50	55	23	17	14	18	31
	1994	47	41	35	43	57	25	16	12	18	38
	1997	45	39	30	43	54	20	15	10	16	29
Costa Rica	1981	22	16	15	17	28	6	5	5	6	8
	1990	24	22	20	25	25	10	7	5	9	12
	1994	21	18	16	21	23	8	6	4	7	10
	1997	20	17	16	18	23	7	5	5	5	9
Ecuador	1990	-	56	-	-	-	-	23	-	-	-
	1994	-	52	-	-	-	-	22	-	-	-
	1997	-	50	-	-	-	-	19	-	-	-
El Salvador	1995	48	40	30	50	58	18	12	7	17	27
	1997	48	39	26	50	62	19	12	6	18	28
Guatemala	1980	65	41	26	52	79	33	13	5	19	44
	1986	68	54	45	59	75	43	28	20	31	53
	1990	-	-	-	-	72	-	-	-	-	45
Honduras	1986	71	53	-	-	81	51	28	-	-	64
	1990	75	65	-	-	84	54	38	-	-	66
	1994	73	70	-	-	76	49	41	-	-	55
	1997	74	67	-	-	80	48	35	-	-	59
Mexico	1984	34	28	- <sup>d</sup>	- <sup>d</sup>	45	11	7	- <sup>d</sup>	- <sup>d</sup>	20
	1989	39	34	-	-	49	14	9	-	-	23
	1994	36	29	-	-	47	12	6	-	-	20
	1996	43	38	-	-	53	16	10	-	-	25
Nicaragua	1997	-	66	-	-	-	-	36	-	-	-

Table I.1 (concl.)

Country	Year	Households below the poverty line <sup>a</sup>					Households below the indigence line				
		Country total	Urban areas			Rural areas	Country total	Urban areas			Rural areas
			Total	Metro-politan area	Other urban			Total	Metro-politan area	Other urban	
Panama	1979	36	31	27	42	45	19	14	12	19	27
	1991	36	34	32	40	43	16	14	14	15	21
	1994	30	25	23	35	41	12	9	8	13	20
	1997	27	25	24	29	34	10	9	8	10	14
Paraguay	1986	-	-	46	-	-	-	-	16	-	-
	1990	-	-	37	-	-	-	-	10	-	-
	1994	-	42	35	51	-	-	15	10	21	-
	1996	-	40	34	48	-	-	13	8	20	-
Peru	1979	46	35	29	41	65	21	12	9	15	37
	1986	52	45	37	53	64	25	16	11	22	39
	1995 <sup>e</sup>	41	33	-	-	56	18	10	-	-	35
	1997 <sup>e</sup>	37	25	-	-	61	18	7	-	-	41
Dominican Republic	1997	32	32	-	-	34	13	11	-	-	15
Uruguay	1981	11	9	6	13	21	3	2	1	3	7
	1990	-	12	7	17	-	-	2	1	3	-
	1994	-	6	4	7	-	-	1	1	1	-
	1997	-	6	5	6	-	-	1	1	1	-
Venezuela	1981	22	18	12	20	35	7	5	3	6	15
	1990	34	33	25	36	38	12	11	7	12	17
	1994	42	41	21	46	48	15	14	4	16	23
	1997	42	-	-	-	-	17	-	-	-	-
Latin America <sup>f</sup>	1980	35	25	-	-	54	15	9	-	-	28
	1990	41	35	-	-	58	18	12	-	-	34
	1994	38	32	-	-	56	16	11	-	-	34
	1997	36	30	-	-	54	15	10	-	-	31

Source: ECLAC, on the basis of special tabulations of household survey data from the countries concerned.

<sup>a</sup> Includes households below the indigence line or in extreme poverty.

<sup>b</sup> Average of the figures for Rio de Janeiro and São Paulo.

<sup>c</sup> Calculations based on national socio-economic surveys (CASEN) from 1987, 1990, 1992, 1994 and 1996. The estimates are consistent with the new figures on household income and spending accounts provided by the Ministry of Planning and Cooperation.

<sup>d</sup> The sample is too small to make estimates for the Federal District.

<sup>e</sup> Figures provided by the National Institute of Statistics and Informatics (INEI), based on the National Household Survey (ENAHO) for the fourth quarter of 1995 and 1997.

<sup>f</sup> Estimate for 19 countries of the region.

### (a) Trends in poverty in the 1990s

Economic growth trends played a central role in the reduction, stagnation or growth of poverty in the 1990s, especially when growth levels were very high or when countries went into recession. In most of them, the resumption of growth allowed poverty to be reduced between 1990 and 1997. Poverty declined from 41% to 36% in 19 countries for which information is available (see table I.2). The trend for indigence was similar to that for poverty: the number of indigent households fell by three percentage points (from 18% to 15%).

Table I.2  
**LATIN AMERICA: POVERTY AND INDIGENCE,<sup>a</sup> 1980-1997**

	Percentage of households					
	Poor <sup>b</sup>			Indigent <sup>c</sup>		
	Total	Urban	Rural	Total	Urban	Rural
1980	35	25	54	15	9	28
1990	41	35	58	18	12	34
1994	38	32	56	16	11	34
1997	36	30	54	15	10	31

**Source:** ECLAC, *Social Panorama of Latin America, 1998* (LC/G.2050-P), chapter I, p. 18, Santiago, Chile, 1999. United Nations publication, Sales No. E.99.II.G.4.

<sup>a</sup> Estimate for 19 countries of the region.

<sup>b</sup> Percentage of households with incomes below the poverty line. Includes indigent households.

<sup>c</sup> Percentage of households with incomes below the indigence line.

Table I.3  
**POOR AND INDIGENT POPULATION,<sup>a</sup> 1980-1997**  
*(In thousands)*

	Poor <sup>b</sup>			Indigent <sup>c</sup>		
	Total	Urban	Rural	Total	Urban	Rural
1980	135 900	62 900	73 000	62 400	22 500	39 900
1990	200 200	121 700	78 500	93 400	45 000	48 400
1994	201 500	125 900	75 600	91 600	44 300	47 400
1997	204 000	125 800	78 200	89 800	42 700	47 000

**Source:** ECLAC, *Social Panorama of Latin America, 1998* (LC/G.2050-P), chapter I, p. 18, Santiago, Chile, 1999. United Nations publication, Sales No. E.99.II.G.4.

<sup>a</sup> Estimate for 19 countries of the region.

<sup>b</sup> People in poor households. Includes those in indigent households.

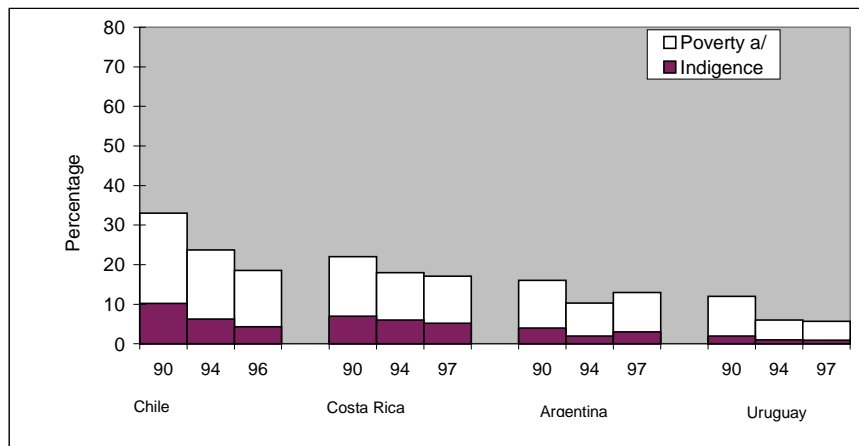
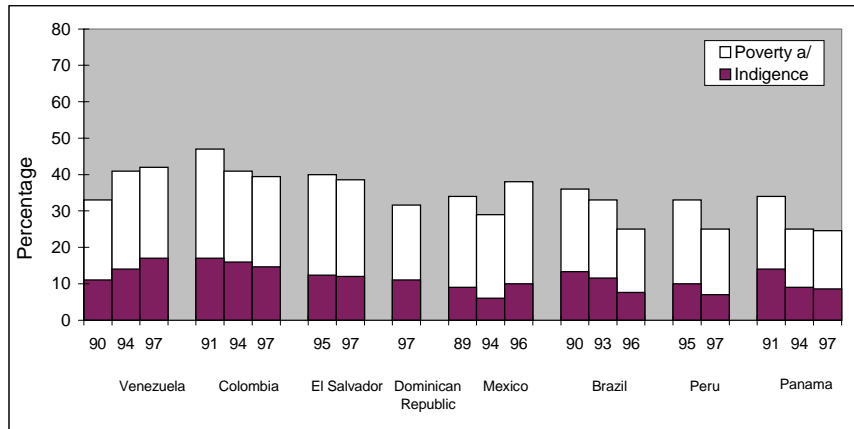
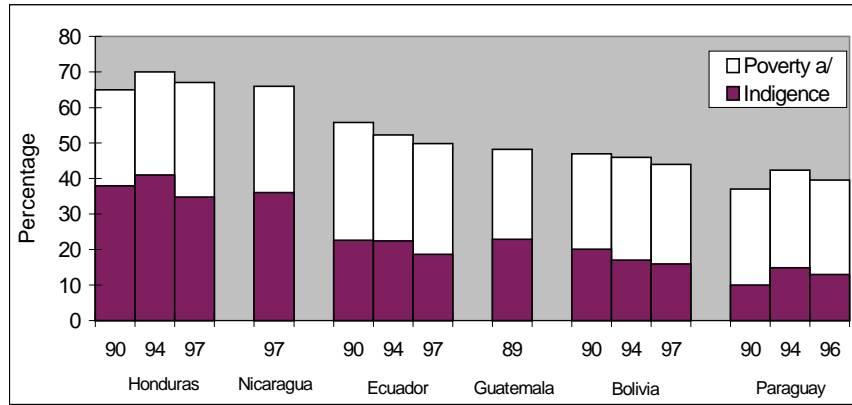
<sup>c</sup> People in indigent households.

Developments between 1990 and 1997 also suggest that while it is difficult to further and consolidate poverty reduction, significant improvements can be made in relatively short periods. Chile and Uruguay, for example, while differing in the extent to which the lower strata shared in national income growth, reduced urban poverty by about five percentage points in four years: in Chile it fell from 23% to 18% between 1994 and 1998, and in Uruguay from 12% to 6% between 1990 and 1994. In Chile's case the success stemmed from faster economic growth, but with no great changes in income distribution. In Uruguay it was accompanied by improvements in equity, although with a lower growth rate.

Panama and Peru also made significant progress in reducing poverty, although over longer periods. In Panama, poverty fell by nine points (from 36% to 27%) between 1991 and 1997, while in Peru there was a substantial decline between 1986 and 1997 (from 52% to 37%). The latter is largely explained by a reduction in urban poverty, since in rural areas over 60% of all households remained poor (see table I.1).



**Figure I.1**  
**CHANGES IN URBAN POVERTY, 1990-1997**  
*(Percentage of households)*



**Source:** ECLAC, on the basis of special tabulations of data from household surveys in the countries concerned.

<sup>a</sup> Includes indigent households.

In the biennium 1998-1999, one group of Latin American countries evaded the consequences of the Asian and Russian crises with positive growth rates. This reflected their reaction capacity and the greater strength of their mechanisms for productive transformation and expansion. Another group of mainly South American countries was seriously affected, revealing greater weaknesses than expected (see table I.4).

This latter group experienced economic stagnation or contraction, especially in 1999, and open unemployment increased. Inflation nevertheless remained under control in most cases and public spending could somewhat offset the effects of recession. It seems clear in these circumstances that the trend towards poverty reduction evident in those countries during the 1990s was interrupted. All the indications are that in countries where the recession was particularly intense, the percentage of poor households increased. In a little less than two years, therefore, the gains made in the three years prior to the onset of the crisis were lost.

A longer term view of the regional panorama is even less encouraging, particularly in comparison to 1980. Progress in the region has been slow in the last two decades. This is despite the recovery that followed the crisis of the early 1980s and satisfactory economic growth in several countries (especially during the first half of the 1990s), and despite the greater share of total government revenue devoted to social expenditures and basic social services (see chapter VIII). Hence the incidence of poverty was higher in 1997 than in 1980 in four countries (Argentina, Colombia, Mexico and Venezuela). In two (Costa Rica and Honduras) poverty levels were practically the same in both years. At the beginning of 2000, therefore, poverty affects over 36% of Latin American households. This is similar to the 1994 figure and is above the 35% recorded in 1980, while the total number of indigent households in 2000 was slightly higher than in 1980.

The absolute figures on poverty and indigence illustrate the persistence of the phenomena and how they are affected by the population growth rate. Despite the almost five-point reduction in the percentage of poor households, and the slightly less than three-point decline in the percentage of indigent households during the 1990s, the number of those affected grew by about 24 million and 5 million people respectively between 1997 and 1999. In that period, Latin America's population grew by almost 15 million, and the population living in poverty increased by about 22 million. Income decline, a result of the financial crisis of the last two years of the decade, increased the number of people living in poverty by seven million in net terms.

Three factors explain these figures:

- (i) the relatively high vegetative growth rate of the population, especially in those countries with a greater incidence of poverty, which are precisely those that are in less advanced stages of the demographic transition;
- (ii) the less favourable evolution of poverty in those countries during the 1990s; and
- (iii) some decline in urban household income during the 1998-1999 recession, at a time when the urban population was growing faster than the rural population.

Table I.4  
**SELECTED MACROECONOMIC INDICATORS**  
*(Percentages)*

Country	Annual per capita GDP growth rate		Urban open unemployment			Variations in consumer price index <sup>a</sup>		
	1998	1999 <sup>b</sup>	1997	1998	1999 <sup>b</sup>	1997	1998	1999 <sup>b</sup>
Argentina	2.6	-4.5	14.9	12.9	14.5	0.3	0.7	-1.7
Bolivia	2.1	-1.3	4.4	4.1	4.5	6.7	4.4	2.4
Brazil	-1.4	-0.9	5.7	7.6	7.7	4.3	2.5	8.0
Chile	1.7	-2.7	6.1	6.4	10.1	6.0	4.7	2.6
Colombia	-1.2	-6.9	12.4	15.3	19.8	17.7	16.7	9.7
Costa Rica	3.0	5.0	5.9	5.4	6.2	11.2	12.4	9.4
Ecuador	-0.9	-9.0	9.3	11.5	15.1	30.6	43.4	53.5
El Salvador	1.1	0.3	7.5	7.6	7.8	1.9	4.2	-0.6
Honduras	1.1	-4.5	5.8	5.2	5.4	12.7	15.6	10.6
Mexico	3.2	1.8	3.7	3.2	2.6	15.7	18.6	13.9
Nicaragua	1.4	3.2	14.3	13.2	10.5	7.3	18.5	7.7
Panama	2.7	1.2	15.5	15.2	14	-0.5	1.4	0.8
Paraguay	-3.2	-2.5	6.9	7.2	...	6.2	14.6	4.6
Peru	-1.6	1.0	9.2	8.4	9.2	6.5	6.0	4.8
Dominican Republic	4.2	5.3	15.9	14.3	...	8.4	7.6	6.6
Uruguay	3.8	-3.2	11.5	10.1	11.2	15.2	8.6	3.4
Venezuela	-2.2	-8.8	11.4	11.3	15.4	37.6	29.9	20.2

**Source:** ECLAC, on the basis of data provided by official institutions of the countries.

<sup>a</sup> Price variations over the preceding 12 months.

<sup>b</sup> Preliminary figures.

In sum, poverty declined in the region as a whole between 1990 and 1997 but this improvement was insufficient to reduce it to the 1980 level and the absolute numbers of poor and indigent grew, particularly in urban areas. Between 1980 and 1999 the poor urban population grew from a total of about 63 million to over 130 million. The increase was much less in rural areas: from 73 million to a little over 80 million. This highlights the decline in the quality of life in many Latin American cities in the last two decades, and shows that although the incidence and severity of poverty remain greater in rural areas, today it mostly affects the region's urban population.

**METHOD USED TO MEASURE POVERTY**

For the purposes of this document, the extent of poverty was measured using the “income method”, based on the calculation of poverty lines. These represent the level of income that allows a household to satisfy the essential needs of its members. The poverty line of each country and geographical area was estimated on the basis of the cost of a basic basket of foodstuffs that covers individuals’ nutritional needs, taking into account their consumption habits, the real availability of foodstuffs and their relative prices. To the value of this basket was added an estimate of the resources that households require to meet all basic non-food needs.<sup>a</sup>

The “indigence line” corresponds to the cost of the basket of food; the indigent (in extreme poverty) are considered to be those who live in households whose income is so low that, even if it were wholly spent on food, it would be unable to meet the nutritional needs of all household members adequately. The value of the “poverty line” in urban areas was estimated as double the value of the indigence line, while in rural areas it was about 75% higher than the respective basic food budget.<sup>b</sup> In calculating the latter, account was taken of differences in food prices between metropolitan areas and other urban and rural areas. In general, the basic basket of food in other urban centres was estimated to be 5% cheaper than in metropolitan urban areas, and in rural areas it was calculated as 25% cheaper. The values of the indigence and poverty lines are presented in table I.5.

The information on family income is from household surveys conducted by each country. As is normal, the absence of a response to some questions about income values was corrected (in the case of wage earners, independent workers and pensioners), as was probable bias in understating incomes. This latter was effected by contrasting the survey’s section on income with those on estimated household income and spending accounts from the System of National Accounts, drawn up on the basis of official information. The concept of income used to make a comparison with the value of the indigence and poverty lines was that of incomes from waged labour (monetary and in kind), independent work (including self-supply and the consumption value of the goods produced by the household), property income, allowances and pensions, and other monetary transfers received by households. Household income also includes a value or charge for the lease of the home when this is inhabited by its owners.

The percentages of poor and indigent households and individuals were calculated by comparing the monthly per capita value of the respective lines with the total income of each household, also expressed in per capita terms. In turn, national indices of poverty and indigence were calculated as a weighted average of the indices for each geographical area. They therefore depend not only on the incidence of poverty in each area but also on the percentage that each represents in the total population of each country.

<sup>a</sup> The information on the structure of household consumption, both of foods and of other goods and services, is derived from the surveys on family budgets that are conducted in the various countries. When data from a recent survey of this type was unavailable, other pertinent information on family consumption was used.

<sup>b</sup> The exception to this general criterion is Peru, where poverty was estimated by the National Institute of Statistics and Informatics (INEI).

Table I.5  
**POVERTY LINES (PL) AND INDIGENCE LINES (IL), 1997**  
*(Monthly budgets per person)*

Country	Area	In the local currency of each country at current prices <sup>a</sup>		In US dollars <sup>b</sup>	
		PL	IL	PL	IL
Argentina	Urban	147.9	74.0	148.0	74.0
Bolivia	Urban	314.8	157.4	59.9	30.0
Brazil	Urban	108.3	46.1	100.4	42.8
	Rural	79.3	39.4	73.5	36.5
Chile	Urban	35 513.8	17 756.9	84.7	42.3
	Rural	23 944.2	13 682.4	57.1	32.6
Colombia	Urban	105 216.6	52 608.3	92.2	46.1
	Rural	75 977.0	43 415.4	66.6	38.1
Costa Rica	Urban	17 229.1	8 614.5	74.1	37.0
	Rural	11 876.7	6 786.7	51.1	29.2
Ecuador	Urban	263 637.0	131 818.5	65.9	33.0
El Salvador	Urban	579.6	289.8	66.2	33.1
	Rural	374.4	187.2	42.8	21.4
Honduras	Urban	938.0	469.0	72.1	36.1
	Rural	577.8	330.2	44.4	25.4
Mexico	Urban	952.5	476.2	120.4	60.2
	Rural	617.4	352.8	78.0	44.6
Nicaragua	Urban	486.7	243.3	51.5	25.8
Panama	Urban	81.0	40.5	81.0	40.5
	Rural	54.8	31.3	54.8	31.3
Paraguay	Urban	216 312.0	108 156.0	98.7	49.4
Peru	Urban	183.5	96.0	68.9	36.0
	Rural	115.4	77.1	43.3	28.9
Dominican Republic	Urban	1 223.5	611.7	85.8	42.9
	Rural	802.9	458.8	56.3	32.2
Uruguay	Urban	1 056.2	528.1	111.9	55.9
Venezuela	Urban	58 851.7	29 756.9	120.4	60.9
	Rural	42 103.5	24 059.2	86.2	49.2

**Source:** ECLAC, Statistics and Economic Projections Division.

<sup>a</sup> Expressed in average 1997 prices.

<sup>b</sup> According to the average 1997 exchange rate, "rf" series published by the International Monetary Fund (IMF) (*International Financial Statistics*, November 1998).

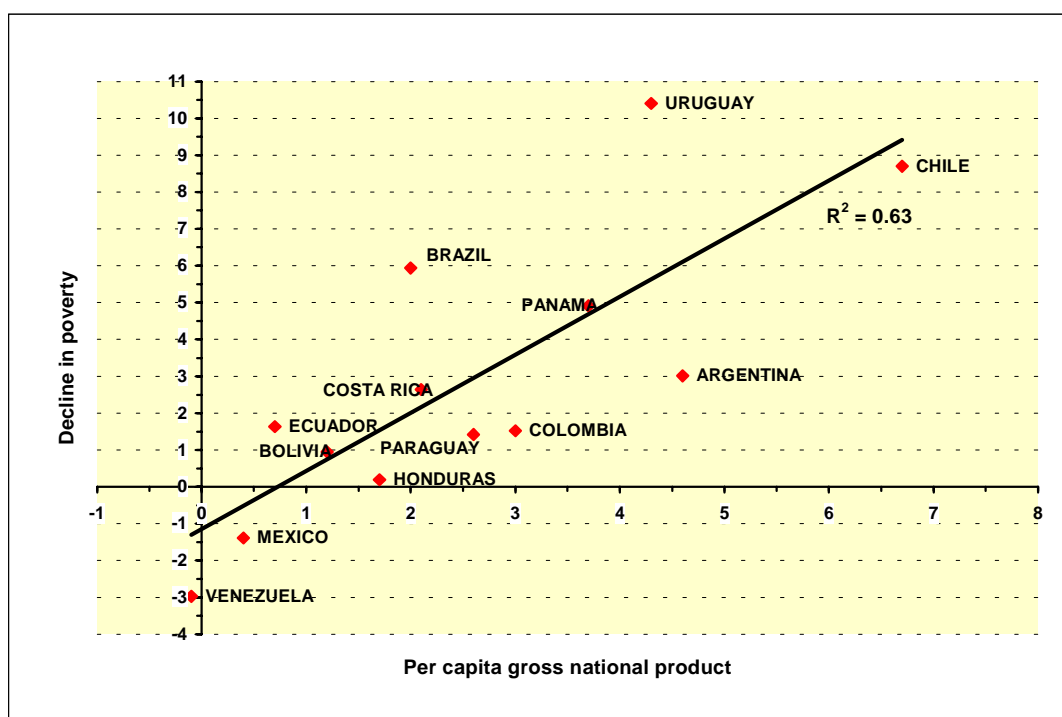
## (b) Factors related to poverty reduction

The aggregate figures on poverty in the region mask substantial differences in terms of its extent and evolution, both between urban and rural areas and between countries. The changes evident throughout the 1990s, moreover, do not respond to a single set of factors. It is nevertheless possible to demonstrate the role of some of those factors in the discernible trends, and to show their relative importance.

- (i) **Economic growth.** Although a series of economic and social factors explain the trend in poverty, economic growth was undoubtedly the most important one during the decade. In the 1990s there was a clear correlation between the growth of per capita income and variations in the incidence of poverty. This link is clearer in those countries where growth was high, like Chile, or stagnant, like Venezuela. As figure I.2 shows, higher per capita income growth is linked to relatively greater reductions in the incidence of poverty.

Figure I.2

**DECLINE IN POVERTY AND REAL GROSS NATIONAL PER CAPITA INCOME, 1990-1997**  
(Average annual rate of variation, in percentages)



**Source:** ECLAC, on the basis of official data from the countries and of special tabulations of data from household surveys in the countries concerned.

However, while there is indeed a link between economic growth and changes in the extent of poverty, one growth rate can have very different effects depending on how growth operates, especially in terms of its impact on the labour market. In Chile, for example, the 52% increase in per capita gross domestic product between 1990 and 1998 translated into a 46% decline in poverty (15 percentage points). In Uruguay, a much smaller increase in per capita output (26%) gave rise in a similar period to a somewhat larger relative fall in poverty than in Chile (50%), a decline of 6 percentage points. Per capita GDP growth was very similar in Bolivia and Panama (an accumulated 16%, approximately, over the period) but the two countries experienced very different reductions in urban poverty: 4% in Bolivia and 25% in Panama. Brazil's 10% increase in per capita GDP between 1990 and 1996 translated into a 29% decline in the incidence of poverty (see table I.1). Many of the differences in poverty reduction rates are explained by the unequal degree to which the low income strata shared in GDP growth, which in turn depends on the factors outlined below.

- (ii) **Increased employment and the reduction of open unemployment.** Economic growth reduces poverty more significantly if accompanied by a significant expansion of employment that entails an increase in the number of employed people per household members (employment density) and a growth in their income. The effect of the increase in employment will naturally be greater if it is matched by a decline in the open unemployment rate, and greater still if it is accompanied by improvements in productivity and in workers' incomes. Similar growth rates reduce poverty to varying degrees, depending on relative labour costs. Changes in the structure of employment and unemployment rates in the 1990s, however, suggest that most of the decline in poverty stemmed from the entry of new household members into the workforce, although in most cases the informal sector's share of non-agricultural employment grew and relatively high rates of open unemployment persisted (see chapter II).

Trends in unemployment affected poverty reduction less directly because most countries faced greater difficulties in lessening urban unemployment even when they achieved relatively high and sustained growth rates. In Bolivia, Chile and Costa Rica the reduction of open unemployment up to 1997 gave rise to a slightly greater decline in urban poverty than in other countries. In these three countries, there was an increase in the number of employed people in lower income households and a decline in open unemployment among workers in the poorest quintile, especially in urban areas in Bolivia and Costa Rica.

- (iii) **Fall in inflation.** The decline in the inflation rate was also related to poverty reduction, particularly when inflation quickly fell from very high levels as in Argentina, Brazil, Peru and, to a lesser degree, Chile, Mexico and Uruguay. Greater consumer price stability in those countries attenuated or obviated the erosion of real average wages, especially among the lowest paid, who lose their purchasing power fastest during periods of hyperinflation. The decline in the inflation rate also facilitated increases in the real minimum wage in those cases where it had lost its nominal value.
- (iv) **Changes in relative prices.** Another contributory factor in the decline in poverty was trends in the relative prices of goods and services that made the basic shopping basket cheaper for the low-income sectors. For various reasons (such as changes in the productive and trading structure, trade liberalization processes, the characteristics of the agricultural sector), in some countries there were appreciable differences between the average variation of retail prices used to estimate inflation and that of the products in the basic basket of goods consumed by the poor. In general, the prices of mass consumption products (especially foodstuffs) have grown at a lower rate in recent years than those of other domestically consumed goods and services, which induced growth in the purchasing power of the low income strata.<sup>4</sup>

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<sup>4</sup> In some countries, the favourable effect of this trend was partially offset by a significant increase in the rates of basic services (water, electricity, urban transport), which outpaced the average of the respective consumer price indices. This circumstance was related to the privatization of those services.

Evidence for this emerges from a comparison of the behaviour of food prices (which have greater relative weight in the budgets of low-income households) with the prices of the other goods in the countries' consumer price indices (CPIs). Table I.6 shows that in 6 of 13 countries (Argentina, Colombia, Paraguay, the Dominican Republic, Uruguay and Venezuela), food prices rose more slowly than those of other goods. This was also the case, although to a lesser degree, in Chile and Ecuador. Only in Bolivia, Honduras and Panama did food prices grow faster than the prices of other goods.

- (v) **Higher transfers.** Public and private transfers, particularly pensions and allowances, were undoubtedly important in reducing poverty during the decade. Their relative importance in household income varied substantially among the countries of the region, as did the degree to which they were targeted on poor homes. In some cases, transfers surpassed 20% of total urban household income (Argentina, Costa Rica, Panama and Uruguay), while in others (Brazil, Chile, Colombia, Ecuador, Mexico and Venezuela) their value fluctuated around 10%. A noteworthy development of recent years occurred in Brazil, where a policy of massive transfers to the urban and rural low income sectors, particularly during the 1990-1993 period, made a significant contribution to poverty reduction. Uruguay, which has the lowest poverty level in the region, saw a further reduction in poverty in the 1990s, partly because of a consistently high rate of transfers and sharp growth in unemployment benefits in the early years of the decade. In Chile, albeit to a lesser degree, a growth in state transfers via monetary (supplementary pensions and the Consolidated Household Subsidy) and non-monetary subsidies to lower income households helped reduce poverty and indigence after 1990.

In sum, analysis of the extent of poverty and its causes in the 1990s confirms the need, in the medium and long term, to create many more high productivity jobs as a necessary precondition to persistent poverty reduction. In many countries it is essential to boost the productivity of small and microenterprises to offset slow employment growth in high productivity sectors. Such expansion must accompany swift and sustained economic growth that also facilitates an increase in wages and transfers, thus further helping to reduce poverty. However, the Latin American experience shows that macroeconomic policies have generally been unable to translate rapid economic growth into enough high-productivity job creation (see chapter II). In these circumstances, other mechanisms have been shown to be effective in mitigating poverty over the medium term, especially when initial conditions are particularly unfavourable. For example, public transfers and their targeting, a decline in very high inflation rates or the reduction of relative prices that negatively affect the low income strata are factors that, while not directly linked to economic growth, have a substantial impact on poverty levels.



Table I.6  
**RELATIVE VARIATION IN CONSUMER PRICES (CPI) OF FOOD  
 RELATIVE TO OTHER GOODS AND SERVICES, 1990-1997**

Country	Reference date <sup>a</sup>	Food CPI	CPI for rest of goods and services	Food CPI/CPI for rest of goods and services
Argentina	Sep. 1990	100.0	100.0	1.00
	Sep. 1997	280.8	303.0	0.93
Bolivia	Aug. 1990	100.0	100.0	1.00
	Sep. 1997	217.4	198.2	1.10
Colombia	Aug. 1990	100.0	100.0	1.00
	Aug. 1997	373.0	447.8	0.83
Costa Rica	Jun. 1990	100.0	100.0	1.00
	Jun. 1997	324.1	324.6	1.00
Chile	Nov. 1990	100.0	100.0	1.00
	Nov. 1996	186.4	189.7	0.98
Ecuador	Oct. 1990	100.0	100.0	1.00
	Oct. 1997	800.0	828.0	0.97
Honduras	Aug. 1990	100.0	100.0	1.00
	Aug. 1997	420.0	346.2	1.21
Mexico	3d quarter 1990	100.0	100.0	1.00
	3d quarter 1996	302.9	309.0	0.98
Panama	Aug. 1989	100.0	100.0	1.00
	Aug. 1997	113.9	108.9	1.05
Paraguay	Jun.-Aug. 1990	100.0	100.0	1.00
	Jul.-Nov. 1996	229.0	271.7	0.84
Dominican Republic	Mar. 1990	100.0	100.0	1.00
	Mar. 1997	256.7	282.6	0.91
Uruguay	2d half 1990	100.0	100.0	1.00
	1997	1067.9	1554.4	0.69
Venezuela	2d half 1990	100.0	100.0	1.00
	2d half 1997	1668.4	1995.5	0.84

**Source:** ECLAC, Statistics and Economic Projections Division.

<sup>a</sup> Corresponds to the reference month for income measurement in the household surveys used to estimate poverty rates in each country.

#### Box I.2

#### DIFFICULTIES AND ADVANCES IN MEASURING POVERTY IN THE CARIBBEAN

The major anti-poverty programmes in the Caribbean include general food price subsidies, food stamps, food commodities, school feeding, social investment funds and credit to micro-enterprises. These programmes have been monitored and evaluated with active participation from the Government and the collaboration of stakeholders, including non-governmental organizations. However, it may be premature to assess their impact, since most of them were not started until after the World Summit for Social Development held in Copenhagen in 1995.

The criteria for evaluating programmes for poverty alleviation vary from one country to the other. Some of the basic prerequisites are to institutionalize objectives and methods for the management of funds for combating poverty; establishing mechanisms to reduce the inconsistency between the increasingly high social expenditure and the poor results observed in this area; and the need to measure progress in terms of established objectives. With respect to the latter, the systematic, on-going surveys and evaluations of poverty levels are fundamental. They do, however, demand a significant effort by countries. Indeed, in order to collect and analyse the information, statistical offices must have the capacity to carry out surveys on a regular basis, ideally every year, as is done in Jamaica, or at least once every five years.

**Box I.2 (concl.)**

Nevertheless, the essential activities of measuring and evaluating can be improved if the resources available to various organizations are shared. There are successful models of this type of joint endeavour: the Caribbean Development Bank (CDB) and the Pan-American Health Organization have produced a joint analysis of information on poverty and health in the subregion, collected in household surveys conducted in the Caribbean. In 1999, CDB collaborated with the Institute for Social and Economic Research of the University of the West Indies (Barbados) on a sectoral analysis of poverty in the Caribbean. This has contributed to the establishment of a viable data base on social surveys in the subregion.

In addition, the United Nations Development Programme has collaborated with the Government of Barbados on a series of meetings with community participation to identify the key features of poverty. This process served as the basis for the Social Investment Fund Programme for poverty eradication adopted by the Government through the recently established Ministry of Social Transformation.

Some technical problems persist, however, in collecting information. For example, failure to elicit a high number of responses to surveys for poverty evaluation in Belize, Saint Lucia and Saint Vincent and the Grenadines have hampered proper data classification. In some cases, the non-representative nature of the sample and the poor estimate of the adult consumption patterns for the preparation of the basket of staples can distort the poverty line calculated.

Another important problem is that of countries which have no surveys to help them to identify the sources and impact of poverty on various social groups. In cases where information is scarce and where no household surveys are conducted, it would be better to give priority to the most crucial issues—the nutritional status of children, level of schooling in some urban and rural localities, the rate of unemployment among young men—as one way of defining and providing a rough measurement of poverty.

One positive measure taken by some countries in the Organization of Eastern Caribbean States (OECS) has been to supplement the use of household surveys with contacts with focal points in selected communities with a high poverty level.

Major efforts were made to improve international technical assistance in this area: the Programme for the Improvement of Surveys and the Measurement of Living Conditions in Latin America and the Caribbean (MECOVI) is now underway thanks to a joint effort with the Inter-American Development Bank (IDB), the International Bank for Reconstruction and Development and the United Nations Economic Commission for Latin America and the Caribbean (ECLAC). This programme was started in 1997 and seeks to support countries in the establishment of widely accessible information bases which allow them to estimate social and poverty indicators, facilitate the use of the results of surveys for the diagnostic analysis of the social situation and contribute to the formulation, follow-up and impact assessment of policies and programmes for overcoming social lags.

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**Source:** Edward Greene "Poverty in the Caribbean", document prepared for the Caribbean subregional Review of WSSD +5 and the Status of the Older Person (Port-of-Spain, 2-3 September 1999), Pan-American Health Organization/World Health Organization, Washington, D.C.; National Institute of Statistics, Geography and Information (INEGI) and the Economic Commission for Latin America and the Caribbean (ECLAC), "MECOVI: first regional workshop on the planning and development of household surveys for measuring living conditions", Aguascalientes, Mexico, 1-3 April 1998.

## 2. Urban poverty levels and determinants

### (a) Characteristics of urban poverty

An examination of the characteristics of poverty reveals that seven of every 10 poor urban households are poor because of low wages, two because some members of the household are unemployed, and one almost exclusively because the household has a large number of minors relative to the number of working-age adults<sup>5</sup> (see table I.7). The relative weight of these characteristics in the region as a whole was practically unchanged between 1990 and 1997, a reflection of the enduring impact of factors related to the inadequacy of poor household income.

Hence it can be argued that policies geared to increasing productivity and wages (policies on salaries, training and retraining, and support to microenterprises) would significantly help to alleviate the situation of about 70% of poor urban households. Policies geared to job creation would help about 16% of poor households and, in countries with a high level of unemployment, 20% or more.

Some 40% poor urban households having a high dependency rate would benefit from policies geared towards increasing the quantity and quality of education because of its positive effects on future wages and, indirectly, its impact on fertility decline.

Figures for the region reveal a similar pattern, evidencing no extreme variations between countries with very different poverty levels. Some peculiarities should nonetheless be stressed. In countries with lower levels of urban poverty, one in every four poor households are distinguished by low wages and the limited education of the head of the household or the main breadwinner. Such attributes figure in at least two of every five poor households in countries with higher levels of poverty. As regards unemployment, Argentina is the clearest exception in that a third of the country's poor households have at least one jobless member. This is double the regional average, and stems from the fact that poverty in Argentina is very likely to be caused by open unemployment. Such is also the case, although to a lesser degree, in Costa Rica, Panama and Uruguay (see table I.7).

Similar public policies on poverty reduction cannot therefore be assured to be similarly effective. The instruments applied must be adapted to the specific conditions of each situation. For example, in countries that have similar proportions of urban poverty because of low wages, but that differ significantly in the labour market's degree of formality, different priorities and combinations of instruments should be adopted. When informality is low, wage policies, training and mechanisms such as unemployment insurance will undoubtedly have greater impact.

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<sup>5</sup> To appreciate more fully the significance of this latter factor, it should be noted that in three out of seven poor households whose main breadwinner is on a low income, the situation is exacerbated by the fact that they simultaneously have a high number of dependents.

Table I.7

**PERCENTAGE DISTRIBUTION OF URBAN HOUSEHOLDS LIVING IN POVERTY,  
CLASSIFIED BY THE DETERMINANTS OF POVERTY**

Country	Year	Low wages and limited educational capital			Joblessness of one or more household members	High proportion of minors to adults in the household	Other factors and combinations	TOTAL
		Total	Alone	Combined with high charges				
Argentina	1990	49	24	26	45	3	2	100
(Greater Buenos Aires)	1997	42	19	23	33	21	4	100
Contribution to poverty in percentage points <sup>a</sup>		5	2	3	4	3	1	13
Bolivia	1989	60	27	32	18	14	9	100
Contribution to poverty in percentage points	1997	72	40	32	8	11	9	100
		34	19	15	4	5	4	47
Brazil	1990	67	31	36	15	12	6	100
	1996	69	44	25	16	7	8	100
Contribution to poverty in percentage points		17	11	6	4	2	2	25
Chile	1990	58	38	20	21	10	11	100
	1996	58	38	21	18	11	13	100
Contribution to poverty in percentage points		11	7	4	3	2	2	19
Colombia	1990	79	37	43	13	5	4	100
(Santafé de Bogotá)	1997	68	40	28	15	10	7	100
Contribution to poverty in percentage points		20	12	8	5	3	2	30
Costa Rica	1990	53	26	27	18	22	7	100
Contribution to poverty in percentage points		8	4	4	4	4	1	17
Ecuador	1990	76	41	36	8	8	7	100
	1997	70	39	30	12	10	9	100
Contribution to poverty in percentage points		35	20	15	6	5	4	50
Honduras	1990	74	36	38	11	11	5	100
	1997	74	42	32	9	11	6	100
Contribution to poverty in percentage points		50	28	22	6	7	4	67
Mexico	1989	81	45	36	7	8	4	100
	1996	83	51	31	7	8	2	100
Contribution to poverty in percentage points		31	20	12	3	3	1	38
Panama	1989	59	28	31	27	9	6	100
	1997	57	26	31	25	13	6	100
Contribution to poverty in percentage points		14	7	8	6	3	1	25
Paraguay	1990	67	37	30	11	14	7	100
(Metropolitan area)	1996	71	35	36	10	10	9	100
Contribution to poverty in percentage points		24	12	12	3	4	3	34
Uruguay	1990	64	44	20	5	27	3	100
	1997	67	28	40	20	9	4	100
Contribution to poverty in percentage points		4	2	2	1	1	0	6
Venezuela	1990	74	54	20	12	9	6	100
	1997 <sup>b</sup>	68	34	34	17	10	6	100
Contribution to poverty in percentage points		28	14	14	7	4	3	42
Simple average <sup>c</sup>	1990	66	36	30	16	12	6	100
	1997	65	35	30	16	12	7	100

**Source:** ECLAC, on the basis of special tabulations of data from household surveys in the countries concerned.

<sup>a</sup> Corresponds to each factor's contribution to poverty in the final year. <sup>b</sup> Corresponds to the national total.

<sup>c</sup> Simple average for 13 countries.

In light of the foregoing, it can be surmised that with sustained per capita output growth of about 5% a year for at least five years, in conjunction with annual wage growth of about 3%, urban poverty levels could decline by between 20% and 30%. This would be achieved by reducing unemployment in poor households with at least one jobless member, and mainly by increasing wages.<sup>6</sup> In the longer term, moreover, poverty might also be attenuated by a decline in the number of dependents per household, the result of women's growing involvement in the labour market.

**Box I.3****INDICATORS USED TO DESCRIBE URBAN POVERTY**

In the examination of the characteristics of urban poverty in the mid-1990s, the results of which are summarized in table I.7, three factors were considered: demographic conditions, unemployment and low incomes related to limited human capital. The analysis was based on a threshold that allows households to be classified in relation to each factor.

**Demographic conditions:** refers to a correlation between the number of children and adolescents in the home and all the adults of working age. High burden households are considered to be those where the number of minors, aged 0 to 17, divided by the number of people aged 18 to 59, is equal to or more than two.

**Unemployment:** refers only to open unemployment and takes account of the presence in the home of at least one unemployed person, be this the head of the household or another member.

**Low incomes and limited education:** this is addressed on the basis of wage levels and the number of years of schooling of the head of the household or main breadwinner. The threshold of low labour income is 2.5 times the value of the per capita poverty line in each country, while those with less than 10 years of approved schooling were considered to be of limited education.

**Source:** ECLAC, *Social Panorama of Latin America, 1996* (LC/G.1946-P), Santiago, Chile, 1997, chapter I. United Nations publication, Sales No. E.97.II.G.4.

## (b) Poverty and integration in the labour market

A very high proportion of a household's income comes from the wages of its economically active members.<sup>7</sup> It is therefore important to examine the extent to which poverty is determined by various forms of integration in the labour market. This is closely linked to employment in lower productivity jobs, but is also very common among public employees and formal sector wage earners in medium and large enterprises. In 9 out of 16 countries analyzed, between 30% and 60% of private sector wage earners live in poor households. There are, however, significant differences between countries, since the percentage fluctuates between less than 10% in Argentina and Uruguay to over 50% in Ecuador, Honduras and Nicaragua. In Chile, Costa Rica and Panama it stands at between 10% and 20%, while in Bolivia, Brazil, Colombia, El Salvador, Mexico, Paraguay and Venezuela it varies between 30% and 50%<sup>8</sup> (see table I.8).

<sup>6</sup> This assertion is supported by developments in Chile. In the 1990-1996 period, average annual per capita GDP growth of 7% was accompanied by an increase in wages of about 5% a year. In the same period, urban poverty declined from 33% to 19%, a fall of 42%.

<sup>7</sup> About 70% of urban household income in the various strata derives from the labour market. In their turn, two thirds of family income from work comes from salaries and wages (see chapter IV).

<sup>8</sup> This study of the link between employment and poverty does not consider groups whose incidence of poverty is greater than that of those in employment. The former comprise those not working who receive income (pensioners and recipients of other allowances) and the unemployed. This explains why the percentage of poverty among the employed is smaller than in the population as a whole.

Table I.8

**PERCENTAGE OF EMPLOYED, BY OCCUPATION, AND PERCENTAGE DISTRIBUTION OF TOTAL POOR,<sup>a b</sup> URBAN AREAS, 1997**  
(In percentages)

Countries	Total employed <sup>c</sup>	Public-sector wage earners <sup>d</sup>	Non-professional, non-technical private-sector wage earners			Independent non-professional non-technical workers
			In establishments:		Domestic workers	
			Employing more than five persons	Employing up to five persons		
Argentina	8	-	8	12	18	7
(Greater Buenos Aires)	100	-	49	23	11	17
Bolivia	43	30	42	50	35	50
	75	7	14	13	3	46
Brazil	22	14	22	27	35	24
	79	8	31	12	13	22
Chile	13	-	14	21	19	8
	96	-	56	18	10	12
Colombia	33	15	37	-	34	44
	91	4	46	-	5	40
Costa Rica	10	4	10	17	23	19
	88	7	30	18	8	31
Ecuador	45	28	46	62	53	55
	80	9	24	15	6	35
El Salvador	35	13	33	48	40	45
	82	5	22	18	5	38
Honduras	64	44	69	83	52	76
	81	7	30	14	4	33
Mexico	38	19	41	59	63	43
	87	7	36	23	6	22
Nicaragua	63	57	58	74	68	70
	82	13	19	17	7	39
Panama	18	6	17	27	26	27
	75	8	29	9	10	27
Paraguay (Asunción)	29	13	27	40	33	39
	88	5	22	19	11	36
Dominican Republic	21	21	18	25	26	23
	76	12	27	10	6	32
Uruguay	6	2	5	9	12	9
	90	7	27	17	15	31
Venezuela	35	34	44	50	52	27
	73	17	32	15	7	20

**Source:** ECLAC, *Social Panorama of Latin America, 1998* (LC/G.2050-P), Santiago, Chile, 1999. United Nations publication, Sales No. E.99.II.G.4.

<sup>a</sup> The upper line shows the percentage of employed persons in each occupational category who live in households with incomes below the poverty line.

<sup>b</sup> The shaded lower line shows the percentage of poor employed persons in each category relative to the total working poor.

<sup>c</sup> The total does not add up to 100 because employers, professionals and technical workers have been excluded.

<sup>d</sup> In Argentina and Chile, public sector wage earners are included in wage earners in businesses employing more than five people. In Colombia, wage earners in microenterprises are also included in that category.

The percentage of poor among non-professional, non-technical, private sector wage earners in medium and large enterprises does not differ greatly from the percentage among unskilled, independent workers who typically operate in the informal sector. In some countries (Argentina, Chile and Venezuela) the percentage of poor among wage earners is even higher than among unskilled independent workers.

The foregoing is explained by the high proportion of all the working poor that is paid formal sector wages. In Argentina and Chile these surpass 40%; in Brazil, Costa Rica, Honduras, Mexico and Venezuela, wage earners in medium and large enterprises account for between 30% and 40% of all the working poor.

The incidence of poverty among public employees is also high, although less so than among private sector workers, despite the wage increases effected in most countries during the 1990s. In Ecuador, Nicaragua and the Dominican Republic they account for between 9% and 13% of all the working urban poor, and in Venezuela they represent one in every six workers.

In the low productivity strata, insufficient income is more common among wage earners in microenterprises. These, together with domestic service workers, record the highest incidences of urban poverty. In most countries they account for between 20% and 35% of all the working poor. This is also the case, although to a lesser degree, in countries with a high proportion of self-employed workers, such as Bolivia, El Salvador, Honduras, Nicaragua and Paraguay, where some 40% of the urban poor are independent, low-skilled workers (see table I.8).

This poverty profile among urban workers is closely linked to their low wages. In 1997, non-professional, non-technical wage earners in businesses with more than five workers received an average income equivalent to 3.5 times the value of the per capita poverty line. This was 19% lower than the working population's average income (4.3 times the poverty line), and only 13% higher than the income of self-employed, low-skilled workers (ECLAC, 1999a).

Microenterprise workers received a monthly income equivalent to just 2.3 times the poverty line, which is below the minimum threshold of 2.5 lines required to offer a high probability of remaining non-poor. The average income of domestic employees, who accounted for 5% of urban employment, was equivalent to 1.2 poverty lines. About 10% of all poor workers were in domestic service.

It can thus be inferred that a significant proportion of private sector wage earners are precariously integrated in the labour market and hence cannot guarantee that they will remain above the poverty threshold, even if they work in medium and large enterprises. Since public employees receive low salaries, moreover, a substantial portion of them is affected by poverty, which hampers the reform and modernization of the State. In Bolivia, Ecuador, Honduras, the Dominican Republic and Venezuela, between 20% and 40% of public officials are below the poverty threshold; the figure is about 15% in Brazil, Colombia, Ecuador, El Salvador, Mexico and Paraguay. In Argentina, Chile, Costa Rica, Panama and Uruguay about 5% of public sector workers were from poor households.

### 3. Characteristics of rural poverty

#### (a) Extent of rural poverty and recent trends

Despite the fact that most of the region's poor live in urban areas, the incidence of poverty remains higher in rural areas. In Brazil, Colombia, Mexico and Venezuela about half of the rural population is poor, while in Honduras the figure rises to almost 80%.

Poverty is still predominantly rural in several countries (Bolivia, Costa Rica, Ecuador, El Salvador, Honduras, Nicaragua, Paraguay and Peru). In others, such as Colombia, Mexico and the Dominican Republic, about 45% of all the poor currently live in rural areas (see table I.8). It continues to be a fact that, in the region, indigence—which signifies the most extreme situations among the poor—is concentrated in the region's rural areas, while non-indigent poverty continues to be proportionally higher among the countries' urban population.<sup>9</sup>

Additionally, in countries where poverty is mainly urban, and in those that have recently made progress in reducing such poverty, rural poverty continues to pose a major challenge for the new millennium because of the particular difficulties involved in overcoming it. This is clear from the fact that in most countries rural poverty either declined very slightly, held steady or even increased, although in some (Brazil, Chile and Panama) significant progress was made. Hence the structural character of rural poverty, its greater severity than urban poverty, and its less direct link with economic growth.<sup>10</sup> Poverty's structural nature is related not only to the low productivity of agricultural workers but also to the rural population's high growth rate. Indeed, countries with higher levels of rural poverty are less advanced in the demographic transition and rural dwellers account for a higher proportion of their population.

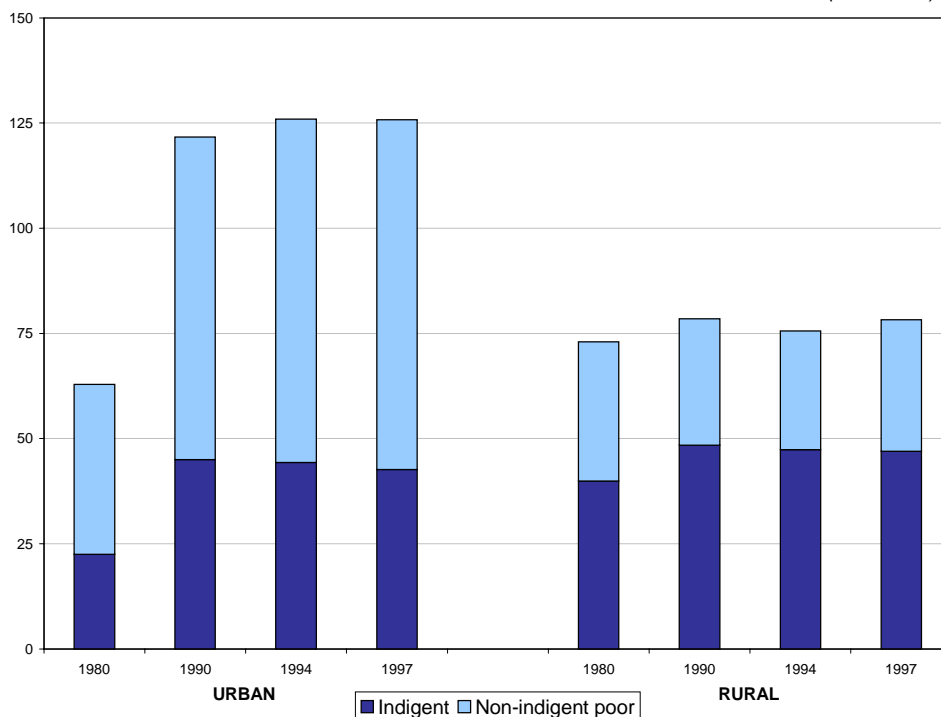
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<sup>9</sup> In those countries of the region that record lower per capita output, and where indigence is more widespread, the rate of rural indigence is more than double the urban indigence rate (see table I.1).

<sup>10</sup> In the first half of the 1990s, per capita GDP growth was more closely linked to the reduction of urban poverty than rural poverty. The latter, of course, also fluctuates in response to economic cycles, natural phenomena, public policies on agricultural prices, and transfers, etc.



**Figure I.3**  
**LATIN AMERICA: NUMBER OF POOR AND INDIGENT PEOPLE, 1980-1997**  
*(In millions)*



**Source:** ECLAC, on the basis of special tabulations of data from household surveys in the countries concerned.

**Table I.9**  
**LEVEL AND PERCENTAGE OF RURAL POVERTY**  
*(Around 1999)*

Percentage of rural households under the poverty line	Poor rural households as a percentage of all poor households		
	Less than 35%	Between 35% and 49%	50% and above
Over 65%			Guatemala Honduras Nicaragua
Between 51% and 65%		Colombia Ecuador Mexico	Bolivia El Salvador Paraguay Peru
Between 31% and 50%	Brazil Panama Venezuela	Dominican Republic	
Up to 30%	Argentina Chile Uruguay		Costa Rica

**Source:** Compiled on the basis of ECLAC, *Social Panorama of Latin America, 1998* (LC/G.2050-P), Statistical appendix, table 16, Santiago, Chile, May 1999. United Nations publication, Sales No. E.99.II.G.4.

Overall, in the last decade rural poverty declined to some degree in six of the eight countries for which information is available. Changes in the extent of rural poverty during the 1990s in the countries where it decreased (Brazil, Chile, Colombia, Costa Rica, Honduras and Panama) show that, together with increased income in households that passed beyond the poverty threshold, there was also income growth among indigent households, such that some of these moved to the non-indigent stratum. This confirms that better incomes also benefited the hardest core of poverty, and hence that there was some relief for the neediest (see table I.10).

The increase in rural income thus benefited all income strata (although to varying degrees), the result of a general increase in agricultural output and of income from non-agricultural rural activities (trade and services). In all the countries examined except Brazil, the decline in indigence and poverty was accompanied by an increase in the real average incomes of indigent and non-indigent poor households.<sup>11</sup>

In Brazil, unlike all the other countries, poverty reduction was accompanied by a fall in the average income of both the indigent and non-indigent poor. The decline in poverty was more closely related to increased incomes through transfers, which brought proportionally greater benefits to households whose income was close to the poverty line (the fourth, fifth and sixth deciles of income distribution) (Días, 1999 and Costa, 1999a) than to those in the indigent strata (the bottom three deciles).

In Chile, average labour income and average own-account earnings of rural households declined between 1990 and 1998. The fact that these households' average monetary income held steady and the resulting decrease in rural poverty are therefore wholly attributable to the income provided by monetary subsidies provided by the State (MIDEPLAN, 1999).

In those countries where the majority of the rural population are poor (Brazil, Bolivia, Colombia, Honduras, Mexico), most are indigent. In countries with less rural poverty (Chile, Costa Rica, Panama), by contrast, the non-indigent poor outnumber the indigent. These differences between countries seem to be related to a generalized phenomenon of structural mobility associated with rural economic development. In all the countries where rural poverty declined in the 1990s, the fall in indigence was proportionally greater. This suggests that the improvements benefited not only the non-indigent poor but also, and to no lesser degree, the indigent. Hence growth and anti-poverty policies in rural areas benefited not only those whose incomes were nearer the poverty threshold, but also much of the "hard core" of poverty. This is evidenced by the fact that the average income of indigent households, except in Brazil, increased between 1990 and 1997 (see table I.10).

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<sup>11</sup> It should be noted that if this had not happened and if, on the contrary, the average income of indigent households had fallen in conjunction with the percentage decline in indigent homes, the hard core of rural poverty would not have benefited from the growth of output in rural areas.

Table I.10

TRENDS IN POVERTY AND AVERAGE INCOME <sup>a</sup> IN RURAL AREAS IN THE 1990s

Country	Period	Percentage incidence of...			Percentage variation in the number of households living in...			Average income of households living in...		Percentage variation in average income of households living in...	
		indi- gence, final year	non- indigent poverty, final year	total poverty, final year	indi- gence	non- indigent poverty,	total poverty	indi- gence, final year	non- indigent poverty, final year	indi- gence	non- indigent poverty
		Brazil	1990-1996	22.9	22.7	45.6	-24	-10	-18	0.28	0.50
Chile	1990-1998	6.9	15.8	22.7	-43	-26	-32	0.39	0.68	8	6
Colombia	1994-1997	29.3	24.7	54.0	-23	29	-6	0.30	0.52	15	21
Costa Rica	1990-1997	9.1	13.8	22.9	-26	10	-8	0.29	0.59	0	9
Honduras	1990-1997	58.6	21.3	79.9	-12	25	-4	0.29	0.41	7	11
Mexico	1989-1996	24.7	28.1	52.8	10	10	10	0.38	0.58	3	2
Panama	1989-1997	14.1	19.4	33.5	-44	-16	-31	0.37	0.61	6	11
Venezuela	1990-1994	22.9	24.8	47.7	28	4	14	0.38	0.58	-5	-3

**Source:** ECLAC, on the basis of special tabulations of data from household surveys in the countries concerned.

<sup>a</sup> In multiples of the value of the per capita poverty line.

## (b) Factors that affect rural poverty

The structural nature of rural poverty and its persistence is related to a variety of factors that distinguish it from urban poverty:

- Lack of access to land;
- Demographic trends, particularly high fertility and the selective nature of migration;
- Low educational levels, coupled with high rates of functional illiteracy;
- Geographical isolation and lack of access to communications;
- Difficulties of access to basic services;
- Environmental deterioration and degradation of the production base;
- A high degree of agricultural risk;
- Inappropriate technologies;
- Lack of information and difficulties or lack of access to the markets for land, water, credit and goods in general;
- Weather-related risks; and
- Low productive potential of land.

Of all these, factors, the one most closely linked to equity is undoubtedly land ownership because of its impact on the capacity to generate income (and thus on the extent and severity of poverty), and also because of the effect of landholding patterns on the production potential of agriculture.

In the countries where most poverty is rural, and where it affects more than half the population living in the countryside, the population's natural growth rate is crucial for overcoming it. These countries are also at incipient or early stages of the demographic transition, with high rates of fertility and vegetative population growth. In these countries the demographic factor intersects with problems of access to land in a kind of "demographic trap": the division of land among many heirs helps exhaust the soil and prompts the proliferation of small properties

(*minifundios*), together with an increase in the number of poor landless families that resort to survival strategies based on their own labour and that of their children.

The natural growth rate of the rural poor clearly remains a serious challenge to overcoming rural poverty, particularly in those countries where the levels of such poverty are high. However, the gradual but universal and persistent decline in fertility rates, as well as rural-urban migration, will lead to a decrease in the number of countries where the rural population is growing in absolute terms from a total of 20 countries, to 14 in the 1990-1995 period to 10 by the end of the coming decade. It is estimated that by 2010 the rural population's growth rate will reach a turning point in Colombia, Mexico, Ecuador and the Dominican Republic, and that the sector will diminish in absolute terms, together with eight other countries where such a decline has already begun (ECLAC/CELADE, Demographic Bulletin, 1999, table 11).

### **(c) Rural poverty and the structure of rural employment**

The characteristic features of agricultural activities (seasonality, multiple employment, the importance of output for producers' consumption and for unpaid family labour), make rural employment trends harder to examine. Their general features can nevertheless be outlined. First, in contrast to the two previous decades, the 1990s saw no significant changes in the importance of wage labour relative to self-employment. Indeed, in most of the countries for which information is available (Chile, Costa Rica, El Salvador, Honduras, Mexico and Venezuela), the relative importance of wage labour was unchanged in this period, while in Brazil, Colombia and the Dominican Republic its importance declined slightly. It increased only in Panama. Concomitantly, the size of the peasantry<sup>12</sup> was stable or declined in six of the nine countries (see table I.11). Only Colombia and the Dominican Republic saw an increase in the number of peasants, as well as a fall in wage labour.

Additionally, data on the incidence of poverty among the various forms of rural labour show that in most countries poverty is higher among the peasantry<sup>13</sup> than among the other sectors. In most cases, increased waged labour in both agricultural and non-agricultural activities has been accompanied by a decline in poverty. However, in some cases the changes in the structure of employment mentioned above have also signified higher poverty levels among waged labourers, even in private enterprises with more than five workers (see table I.12).

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<sup>12</sup> Applying the terminology of the household surveys, this term is used here to refer to independent workers and unpaid family members in primary activities.

<sup>13</sup> With substantial differences between countries, from 20% of the poor among the Chilean peasantry to 89% in the case of Bolivia (table I.12).

Table I.11  
**DISTRIBUTION OF THE ECONOMICALLY ACTIVE POPULATION,  
 BY OCCUPATIONAL CATEGORY, RURAL AREAS**  
*(Percentages)*

Country	Year	Total	Employers	Wage earners			Self-employed workers and unpaid family members	
				Total <sup>a</sup>	Public sector	Private sector	Total	Agriculture
Bolivia	1997	100.0	3.3	8.9	2.4	6.5	87.8	79.9
Brazil	1990	100.0	3.0	44.3	-	44.3	52.7	44.3
	1993	100.0	1.9	33.6	5.1	28.5	64.5	58.4
	1996	100.0	1.8	34.3	4.4	29.9	63.8	57.2
Chile	1990	100.0	2.8	64.8	-	64.8	32.4	25.1
	1994	100.0	2.6	66.6	-	66.6	30.8	21.5
	1996	100.0	2.4	64.2	3.6	60.6	33.3	26.6
	1998	100.0	2.8	64.5	-	64.5	32.7	24.4
Colombia	1994	100.0	4.5	54.2	-	54.2	41.3	22.4
	1997	100.0	4.2	50.6	-	50.6	45.1	25.0
Costa Rica	1990	100.0	5.1	66.2	10.5	55.7	28.7	16.8
	1994	100.0	6.8	69.0	9.6	59.4	24.2	11.1
	1997	100.0	7.1	67.8	9.0	58.8	25.2	11.3
EL Salvador	1995	100.0	6.0	49.6	3.2	46.4	44.3	26.8
	1997	100.0	4.0	50.9	3.1	47.8	45.1	28.1
Guatemala	1989	100.0	0.5	38.3	2.9	35.4	61.2	47.9
Honduras	1990	100.0	0.5	34.9	4.0	30.9	64.6	47.6
	1994	100.0	1.6	37.2	4.8	32.4	61.2	43.4
	1997	100.0	2.6	34.8	3.4	31.4	62.6	41.6
Mexico	1989	100.0	2.5	50.2	-	50.2	47.3	34.5
	1994	100.0	4.0	48.6	-	48.6	47.4	30.8
	1996	100.0	5.1	48.1	6.4	41.7	46.7	28.6
Panama	1991	100.0	2.9	39.1	12.5	26.6	58.0	45.5
	1994	100.0	3.3	47.0	11.8	35.2	49.7	34.4
	1997	100.0	2.2	46.1	10.1	36.0	51.6	33.4
Dominican Rep.	1992	100.0	4.0	52.4	13.2	39.2	43.7	21.6
	1995	100.0	2.1	56.1	11.5	44.6	41.9	15.7
	1997	100.0	3.4	45.6	10.3	35.3	51.0	28.5
Venezuela	1990	100.0	6.9	46.6	8.3	38.3	46.5	33.3
	1994	100.0	7.6	47.6	7.4	40.2	44.8	29.7

**Source :** ECLAC, on the basis of special tabulations of data from household surveys in the countries concerned.

<sup>a</sup> Includes domestic workers. In Chile and Mexico (except 1996 in both countries), includes public-sector workers.

Table I.12  
**INCIDENCE OF POVERTY IN SOME CATEGORIES OF EMPLOYMENT,<sup>a</sup> RURAL AREAS**  
*(Percentages)*

Country	Year	Total population	Total employed	Public-sector workers	Non-professional, non-technical private sector wage earners			Non-professional non-technical self-employed	
					In establishments employing more than 5 persons	In establishments employing up to 5 persons	Domestic workers	Total	In agriculture, forestry and fisheries
Bolivia	1997	79	79	35	48	41	49	87	89
Brazil <sup>b</sup>	1990	71	64	-	45	72	61	70	74
	1993	63	57	56	58	53	53	59	60
	1996	56	49	33	46	35	40	54	56
Chile	1990	40	26	-	31 <sup>c</sup>	-	23	22	24
	1994	31	22	-	20	28	13	21	24
	1996	31	21	13	21	27	16	18	20
	1998	28	18	-	15 <sup>c</sup>	21	13	17	21
Colombia	1994	62	55	-	55 <sup>d</sup>	-	57	61	59
	1997	60	48	16	40 <sup>e</sup>	-	48	62	67
Costa Rica	1990	27	17	-	13	23	22	24	27
	1994	25	14	7	3	20	23	21	24
	1997	25	14	5	9	20	25	21	24
El Salvador	1995	64	53	24	43	56	50	63	72
	1997	69	58	26	47	56	49	67	79
Guatemala	1989	78	70	-	72	74	64	71	76
Honduras	1990	88	83	-	71	90	72	88	90
	1994	81	73	40	65	79	74	78	81
	1997	84	79	37	75	86	74	83	85
Mexico	1989	57	49	-	53 <sup>f</sup>	-	50	47	54
	1994	57	47	-	53 <sup>df</sup>	-	53	46	54
	1996	62	56	23	57	67	64	59	68
Panama	1991	51	40	-	24	43	43	52	57
	1994	49	38	6	23	39	40	52	61
	1997	42	29	6	22	39	33	36	42
Dominican Rep.	1997	39	25	17	14	26	40	30	42
Venezuela	1990	47	31	-	35	37	44	32	37
	1994	56	42	27	50	50	53	42	44

**Source:** ECLAC, on the basis of special tabulations of data from household surveys in the the countries concerned.

<sup>a</sup> Refers to the percentage of employed persons in each category who live in households that are below the poverty line.

<sup>b</sup> For 1980 wage earners with employment contracts "carteira" are included in the column for establishments employing more than 5 persons; wage earners without such contracts are included in the column for those employing up to 5 persons.

<sup>c</sup> Refers to all wage earners.

<sup>d</sup> Includes public-sector wage earners.

<sup>e</sup> Includes wage earners in establishments employing up to 5 persons.

<sup>f</sup> Includes public-sector wage earners and workers in establishments employing up to 5 persons.

Agriculture has the highest share of insecure jobs, and the highest rates of workers lacking contracts and social provision are among agricultural wage earners. Additionally, there is a growing recourse to subcontracting labour, which lessens workers' protection.

In six of seven Latin American countries for which recent data are available there was an increase in rural, non-agricultural male employment in the 1990s. In those countries, the proportion of the rural male population whose main activity was in non-agricultural employment varied between 22% and 57%. Among rural working women, non-agricultural employment surpassed 65% in eight of ten countries (see table I.13). In sum, about a quarter of the decline in agricultural employment in Latin America was attenuated by displacement towards non-agricultural activities.

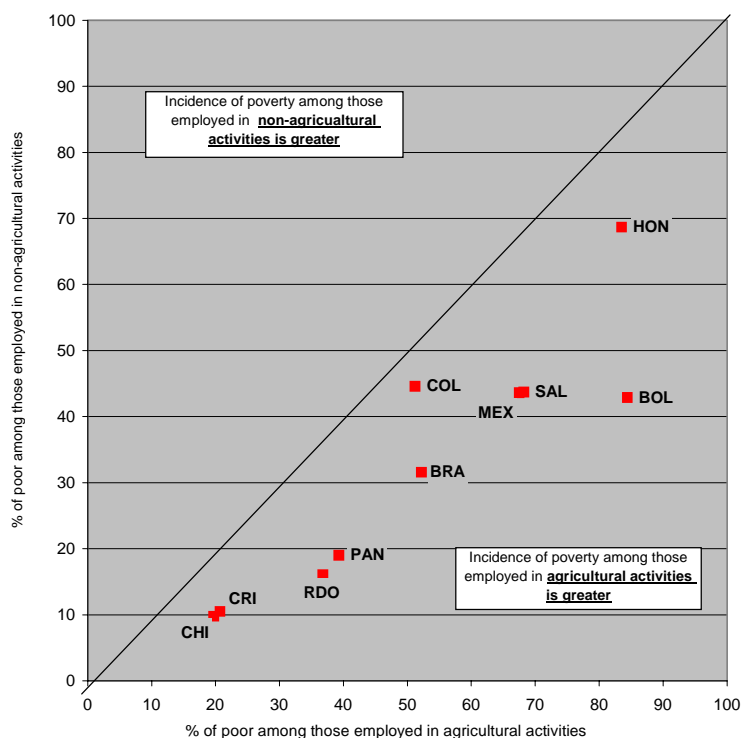
The growing importance of non-agricultural employment in the countryside springs from a combination of processes: the mechanization of agricultural production, restrictions on the use and sale of land, inadequate credit and consumer markets, deficient production insurance, etc. The risks of agricultural activity prompt families to diversify their output so as to secure some insurance against such risks. Together with the decline in agricultural employment, there has been an absolute growth in non-agricultural jobs in services and manufactures.

This increase in the proportion of non-agricultural rural employment, however, is a common feature of situations that differ sharply according to the development conditions present in each country and rural area. Non-agricultural rural employment first appears in the poorest areas, where households produce goods at a small scale and using traditional, labour-intensive technologies. A second phase sees the addition of other agriculture-related activities, particularly agro-processing and distribution/marketing, which are spurred by growing rural and urban incomes. The richest rural areas reach a third phase featuring elements of transformation and rural-urban inter-linkages, with a movement of manufacturing businesses to rural towns and intermediate areas, the subcontracting of rural workers for the production of intermediate durables, and an increase in rural services (such as tourist services and holiday homes) linked to growing urban incomes. Non-agricultural employment is growing in healthcare, education and other social services for the rural population, as well as in construction and transport.

A central feature of the diversity of non-agricultural rural employment is its poverty. Although the modern segments of this sector are attractive for many of the rural non-poor who have the necessary assets to secure decent incomes, many rural households lacking in assets embark on non-agricultural activities as a survival strategy because of deficiencies of land, education, etc. Hence much of the rural population working in non-agricultural activities (which vary substantially between countries) lives in poverty or extreme poverty, depending on the country's phase of non-agricultural rural development (Reardon, Cruz and Berdegue, 1999). As shown by figure I.4, in most countries the incidence of poverty among non-agricultural workers is half that of agricultural workers.

Figure I.4

**INCIDENCE OF POVERTY AMONG THOSE EMPLOYED IN AGRICULTURAL AND NON-AGRICULTURAL ACTIVITIES IN RURAL AREAS, 1997-1998**



**Source:** ECLAC, on the basis of special tabulations of data from household surveys in the countries concerned.

Table I.13

**WORKING POPULATION IN NON-AGRICULTURAL ACTIVITIES AS A PERCENTAGE OF THE WORKING POPULATION IN RURAL AREAS**

Country	Men			Women		
	1990	1994	1997	1990	1994	1997
Bolivia	...	...	18.2	...	...	15.6
Brazil	26.0	21.3	23.7	47.1	28.0	30.1
Chile	19.2	26.6	25.9	67.2	70.7	65.1
Colombia	30.9	35.7	32.9	71.4	77.4	78.4
Costa Rica	47.8	55.4	57.3	86.8	89.2	88.3
El Salvador	...	...	32.7	...	...	81.4
Honduras	18.6	24.7	21.5	88.0	87.0	83.7
Mexico	34.7	42.0	44.9	69.1	64.7	67.4
Panama	25.0	36.6	39.3	86.1	91.5	90.3
Dominican Republic	...	...	54.8	...	...	92.4
Venezuela	33.9	35.4	...	78.2	87.2	...

**Source:** ECLAC, on the basis of special tabulations of data from household surveys in the countries concerned.



### (d) Access to land: a problem to be addressed

In 2000, the region continues to display a high level of inequality in the distribution of land, which is incompatible with sustainable development's aims of greater equity and efficiency. Inequality in the rural population's access to land incites social tensions and has negative consequences for land use, since in extreme cases it often leads to over-exploitation of the soil (thereby exacerbating ongoing degradation) and in other cases it causes land to be left fallow.

Social movements of landless workers have increased in several countries of the region. Squatting, usually peaceful, has sometimes led to violence. In Paraguay, the most rural country in South America, difficulties in gaining access to land and high levels of rural poverty spawned several conflicts in the 1990s.<sup>14</sup> In Brazil the number of families occupying land grew from 8,000 to 63,000 between 1990 and 1997. In the Dominican Republic, between 15% and 17% of the land area, including both private and state property, is under *de facto* occupation. Chile's indigenous communities have increasingly demanded land.

Most countries of the region have high indices of land concentration. Indeed, landholding patterns in Latin America are among the most concentrated in the world. Latin American and Caribbean countries can be divided into three groups according to their level of land concentration. The first includes countries with very high concentration (Mexico, Chile and Paraguay), where the Gini coefficient surpasses 0.90. A second group, where the concentration is somewhat less, includes Colombia, Costa Rica, Venezuela, Brazil, Argentina, El Salvador and Panama, with a Gini coefficient between 0.79 and 0.85. The third group comprises Uruguay, the Dominican Republic, Puerto Rico, Jamaica and Honduras, with coefficients that fluctuate around 0.75. Among those countries for which information is available, only Honduras has a relatively low concentration, with a land concentration index of about 0.65 (see table I.14).<sup>15</sup>

The 1960s and 1970s witnessed various attempts at land redistribution in the region through agrarian reform, but in the following two decades the emphasis was placed on the market and its ability to act as an optimal means of redistributing land. However, the formalization of rural property began to acquire greater priority on the political agenda of the region's governments in the 1990s as structural reform and market liberalization policies were implemented. Government policies in this area centered on deed programmes and land registration.

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<sup>14</sup> Between 1989 and 1996 there were more than 200 occupations of land involving over 600,000 hectares and to 40,000 rural families. Between 1989 and 1991 more than 3,000 arrests were made in connection with land occupations, and armed groups were formed to discourage peasants from squatting (Molinas, 1999).

<sup>15</sup> It should be noted that these indices of land distribution refer only to the size of the properties and not their quality. Among other things, they do not take into account the properties' distance from marketing centres, climatic conditions, access to irrigation systems and the general yield of the properties according to the quality of the soil. Consideration of these factors could reveal trends in some countries that differ from those indicated with regard to the distribution of agricultural potential.

Table I.14  
**GINI COEFFICIENT OF LAND CONCENTRATION IN LATIN AMERICA,  
 1970-1994**

Country	Gini coefficient		
	1970	1985	1994
Mexico	0.93	...	...
Chile	0.92	...	0.92
Paraguay	...	0.93	0.93
Costa Rica	0.81	0.80	...
Venezuela	0.90	0.89	...
Brazil	0.84	0.85	0.81
El Salvador	0.80	0.83	...
Panama	0.77	...	0.85
Peru	0.88	0.83	0.86
Ecuador	0.81	...	...
Colombia	0.86	0.79	0.79
Uruguay	0.81	0.80	0.76
Dominican Republic	0.78	0.73	...
Puerto Rico	0.76	0.77	...
Jamaica	0.79	...	...
Honduras	0.71	...	0.66

**Source:** ECLAC, Agricultural Development Unit, on the basis of agricultural censuses.

Recent studies<sup>16</sup> have shown that land market transactions are basically carried out within one stratum of producers, and therefore do not alter the inequitable property structure. It has also been shown that the markets with the most movement are those around the cities and in recently developed areas, which are not generally places where the poorest peasants live. There have therefore been few changes to the landholding structure, and the market has not made it possible to extend access to the rural families that have been traditionally marginalized from land ownership.

Inadequate credit markets make it impossible for the poorest peasants to secure sufficient resources to buy land. Governments have promoted the establishment of special programmes of access to credit, which in some cases offer subsidies of up to 75%. However, the region has both a formal land market and another in which informal landholding prevails. This places constraints on access to credit for manpower and investment capital.

The problems of the market as a mechanism for allocating land go beyond the mere deficiencies of the credit market. Land's attributes as a fixed asset and factor of production (it is real estate, geographically dispersed and with an economic value that is closely tied to its climate, location, access to water, etc.) clearly distinguishes it from mass produced goods markets. By their very nature, land markets tend to be extremely imperfect and segmented, with high and largely fixed transaction costs (Muñoz, 1999).

<sup>16</sup> Joint ECLAC-GTZ project "Políticas para promover los mercados de tierra rurales en América Latina", ECLAC.

Additionally, most countries of the region lack one of the most important conditions for developing a rural land market: a swift, reliable and functional system of cadastral data that gives users the economic and juridical information required to participate in the market (Tejada and Peralta, 1999). These factors have underpinned a persistently high degree of land concentration and imperfections in the credit market that affect small producers and peasant families. Consequently, high levels of rural poverty have tended to persist in many countries, as has one of its main causes: unequal land distribution.

#### 4. Trends in household income distribution

In contrast to the evolution of absolute poverty, there has been little recent change in income distribution in Latin America. High levels of inequality persist, and in several countries the concentration of income distribution is among the highest in the world. With very few exceptions, inequality has remained at high levels in the past decade, even in countries that have achieved high economic growth rates. Resistance to change and the worsening of income distribution at times of crisis have been conspicuously apparent since the end of the 1970s.

Examination of the distributive changes in nine countries between 1986 and 1997 reveals that inequality in urban income distribution increased in four of them; there was practically no change in four others; and in only one did inequality decline to any appreciable degree (see figure I.7). This circumstance has been influenced by the capacity of the richest 10% of households to maintain or increase their share of total income, while the share of the poorest 40% has remained the same or fallen<sup>17</sup> (see table I.15).

Changes in the shares of the upper decile and the poorest 40% indicate that, except for Uruguay, countries with high growth rates (for more or less extended periods) after the recovery that followed the crisis did not become more equitable. Income distribution deteriorated markedly in Argentina, Mexico, Panama and Venezuela. In Brazil, Chile, Costa Rica and Paraguay income disparities between the upper and lower strata remained relatively stable, although in Chile there was a slight increase in the share of both groups.

Expectations that the recovery of production levels or the onset of a new period of growth would offset the deterioration of income distribution that took place in the 1980s have not been met. The economic dynamism of some countries in the first half of the 1990s (1990-1994), which in some cases was close to full capacity, did not translate into a decline in income concentration. Of the five countries that recorded annual GDP growth of 5% or more, income concentration increased in two (Argentina and, to a lesser degree, Costa Rica), while two others (Chile and Panama) recorded almost the same high level of inequality as at the start of the decade. Only in Uruguay did income concentration decline.

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<sup>17</sup> It is likely that in the data from the household surveys used to estimate income distribution, the incomes of the upper strata are underestimated to a higher degree, be it by omission or because income is under-declared. The values of the various income sources declared in the surveys are therefore corrected and adjusted by comparing them with data from each country's national accounts, in order to ensure that the volume of the earnings and capital incomes of upper-income homes are compatible with the accounts. It is nevertheless possible that the income of the upper strata continues to be underestimated.

Table I.15  
**CHANGES IN INCOME DISTRIBUTION IN URBAN AREAS,  
 1986, 1990 AND 1997<sup>a</sup>**

Country	Gini coefficient <sup>b</sup>			Changes in the share of income between 1990 and 1997		Share of income in 1997 compared to 1986	
	1986	1990	1997	of the poorest 40% of households	of the richest 10% of households	of the poorest 40% of households	of the richest 10% of households
Argentina (Greater Buenos Aires)	0.406	0.423	0.439	unchanged	increased	less	more
Bolivia	...	0.484	0.455	increased	decreased	...	...
Brazil <sup>c</sup>	0.543	0.528	0.538	unchanged	increased	more	unchanged
Chile <sup>d</sup>	0.485	0.471	0.474	unchanged	unchanged	more	unchanged
Colombia <sup>e</sup>	...	0.403	0.477	decreased	increased	...	...
Costa Rica <sup>f</sup>	0.364	0.345	0.357	unchanged	increased	unchanged	less
Ecuador	...	0.381	0.388	unchanged	increased	...	...
El Salvador	...	...	0.384	...	...	...	...
Honduras	...	0.487	0.448	increased	decreased	...	...
Mexico <sup>g</sup>	0.321	0.424	0.392	increased	decreased	less	more
Nicaragua	...	...	0.443	...	...	...	...
Panama <sup>e</sup>	0.430	0.448	0.462	unchanged	increased +	less	more
Paraguay <sup>h</sup> (Asunción)	0.404	0.357	0.389	decreased	increased +	more	more
Dominican Republic	...	...	0.432	...	...	...	...
Uruguay	0.385	0.353	0.300	increased	decreased +	more	less
Venezuela (National total)	0.397	0.381	0.425	decreased	increased +	less	more

**Source:** Compiled on the basis of ECLAC, *Social Panorama of Latin America, 1998* (LC/G.2050-P), Santiago, Chile, 1999. United Nations publication, Sales No. E.99.II.G.4.

<sup>a</sup> The + sign indicates that the increase or decrease in share was three points or more.

<sup>b</sup> The Gini coefficients were calculated on the basis of per capita household income distribution, by deciles.

<sup>c</sup> The latter figures are for 1990 and 1996, respectively.

<sup>d</sup> Corresponds to the period 1987-1998.

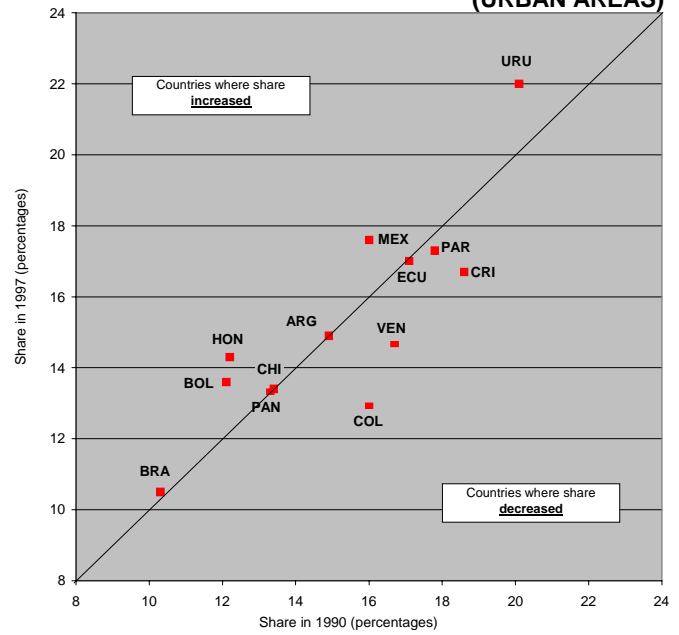
<sup>e</sup> The figure in the "1990" column corresponds to 1991.

<sup>f</sup> The initial figures correspond to 1988.

<sup>g</sup> Correspond to 1984, 1989 and 1996.

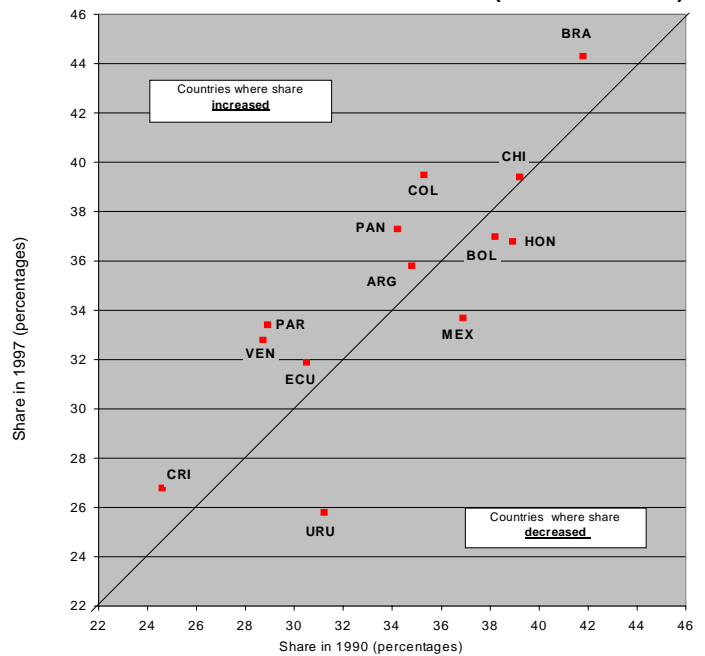
<sup>h</sup> The last figure corresponds to 1996.

Figure 1.5  
**INCOME SHARE OF POOREST 40%<sup>a</sup>**  
**(URBAN AREAS)**



Source: ECLAC, on the basis of official data from the countries and of special tabulations of the data from household surveys in the countries concerned.  
<sup>a</sup> Percentage of total income corresponding to poorest 40% of households.

Figure 1.6  
**INCOME SHARE OF RICHEST 10%<sup>a</sup>**  
**(URBAN AREAS)**

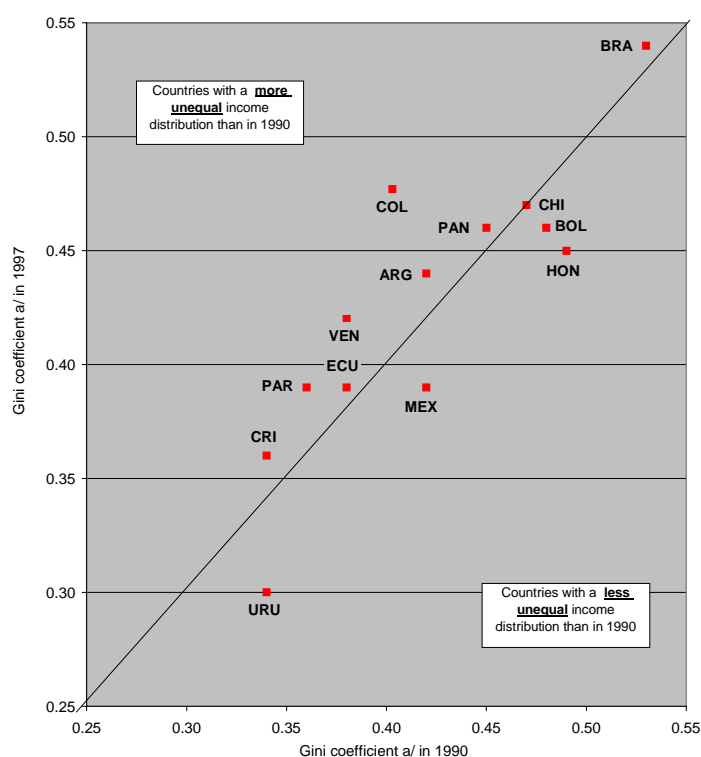


Source: ECLAC, on the basis of official data from the countries and of special tabulations of the data from household surveys in the countries concerned.  
<sup>a</sup> Percentage of total income corresponding to richest 10% of households.

The changes were dissimilar in countries with lower annual growth rates of between 3% and 4% in that period. Income concentration diminished in Bolivia and Honduras and, to a lesser degree, Mexico. However, it increased in Colombia, Paraguay and Venezuela. Brazil saw an increase in the share of both the poorest 40% and the richest 10%. This signified a slight improvement in terms of the reduction of urban inequality, but conditions deteriorated in rural areas (see tables I.15 and I.16).

Changes in the income distribution of urban households throughout the 1990s reveal a significant increase in inequality in six countries (Argentina, Colombia, Costa Rica, Panama, Paraguay and Venezuela), a lesser increase or no change in three countries (Brazil, Chile and Ecuador) and a decline in inequality in four cases (Bolivia, Honduras, Mexico and Uruguay). The improvement in Mexico, however, was insufficient to offset the worsening of income distribution between 1984 and 1989<sup>18</sup> (see figure I.7).

**Figure I.7**  
**CHANGES IN THE DEGREE OF INEQUALITY OF URBAN INCOME DISTRIBUTION, 1990-1997**



**Source:** ECLAC, on the basis of special tabulations of data from household surveys in the countries concerned.

<sup>a</sup> Calculated on the basis of per capita household income distribution, by deciles.

<sup>18</sup> Data on income distribution in Bolivia and Honduras in the mid-1980s are not available.

Table I.16  
CHANGES IN THE LEVEL AND DISTRIBUTION OF HOUSEHOLD INCOME

Country	Year	Average household income <sup>a</sup>		Gini coefficient <sup>b</sup>		Share of income of the poorest 25%		Share of income of the poorest 40%		Share of income of the richest 10%		Quotient between average income of the richest 10% and poorest 40%		Households with below-average incomes	
		Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural
		<i>(Percentages)</i>													
Argentina	1986	4.30	-	0.406	-	8.8	-	16.2	-	34.5	-	8.5	-	74	-
(Greater Buenos Aires)	1990	3.59	-	0.423	-	8.4	-	14.9	-	34.8	-	9.3	-	72	-
	1994	4.91	-	0.439	-	6.8	-	13.9	-	34.2	-	9.8	-	72	-
	1997	4.55	-	0.439	-	7.5	-	14.9	-	35.8	-	9.6	-	73	-
Bolivia <sup>d</sup>	1989	1.77	-	0.484	-	5.4	-	12.1	-	38.2	-	12.6	-	71	-
	1994	1.97	-	0.435	-	7.5	-	15.2	-	35.6	-	9.4	-	75	-
	1997	1.95	1.16	0.455	0.531	6.5	4.2	13.6	9.8	37.0	42.0	10.8	17.2	73	76
Brazil	1987	3.43	1.50	0.543	0.472	4.4	6.6	9.7	13.9	44.3	40.0	18.2	11.5	76	75
	1990	3.30	1.30	0.528	0.456	4.7	7.1	10.3	14.5	41.8	38.2	16.3	10.6	76	73
	1996	4.52	2.03	0.538	0.460	4.9	6.1	10.5	13.4	44.3	39.6	16.8	11.8	77	73
Chile	1987	2.56	1.80	0.485	0.387	6.1	9.3	12.6	17.7	39.6	34.1	12.6	7.7	74	74
	1990	2.68	2.93	0.471	0.486	6.6	6.8	13.4	13.8	39.2	45.1	11.7	11.6	74	80
	1994	3.48	2.72	0.473	0.409	6.6	8.8	13.3	17.3	40.3	37.7	11.7	8.7	74	76
	1996	4.00	2.74	0.473	0.402	6.5	8.4	13.4	16.8	39.4	35.6	11.8	8.5	74	75
	1998	4.37	2.91	0.474	0.404	6.5	8.7	13.3	16.9	39.1	40.5	11.7	9.6	74	74
Colombia <sup>e</sup>	1986	2.36	-	0.455	-	5.7	-	13.0	-	35.3	-	10.9	-	72	-
	1991	1.75	1.68	0.403	0.497	7.8	5.5	16.0	12.3	31.9	43.3	8.0	14.1	72	77
	1994	2.52	1.53	0.505	0.494	5.3	3.7	11.6	10.0	41.9	34.6	14.5	13.8	76	72
	1997	2.43	1.45	0.477	0.401	6.1	6.5	12.9	15.4	39.5	30.1	12.2	7.8	74	71
Costa Rica	1988	2.57	2.30	0.364	0.358	8.3	7.8	17.2	17.0	27.6	26.3	6.4	6.2	68	66
	1990	2.56	2.30	0.345	0.351	8.2	7.8	17.8	17.6	24.6	24.5	5.5	5.6	65	65
	1994	3.09	2.59	0.363	0.372	8.3	7.6	17.4	17.1	27.5	28.5	6.3	6.6	69	69
	1997	3.02	2.56	0.357	0.357	8.5	7.9	17.3	17.3	26.8	25.9	6.2	6.0	66	67
Ecuador	1990	1.35	-	0.381	-	8.2	-	17.1	-	30.5	-	7.1	-	70	-
	1994	1.48	-	0.397	-	7.4	-	15.6	-	31.7	-	7.9	-	70	-
	1997	1.55	-	0.388	-	8.5	-	17.0	-	31.9	-	7.4	-	70	-
El Salvador	1997	1.91	1.12	0.384	0.317	8.4	9.7	17.2	19.4	31.1	24.7	7.2	5.1	70	67
Guatemala	1989	1.89	1.00	0.479	0.432	5.4	6.4	12.1	14.4	37.9	35.1	12.5	9.7	73	73
Honduras	1990	1.27	0.70	0.4870	0.465	5.4	6.1	12.2	13.1	38.9	37.4	12.8	11.4	73	75
	1994	1.08	0.88	0.459	0.467	6.2	5.1	13.3	12.1	37.2	36.2	11.2	11.9	73	71
	1997	1.19	0.78	0.448	0.427	6.5	6.7	14.3	14.4	36.8	33.5	10.3	9.3	73	72

Table I.16 (concl.)

Country	Year	Average household income <sup>a</sup>		Gini Coefficient <sup>b</sup>		Share of income of the poorest 25%		Share of income of the poorest 40%		Share of income of the richest 10%		Quotient between average income of the richest 10% and poorest 40%		Households with below-average incomes	
		Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural
Mexico	1984	2.33	1.75	0.321	0.323	10.5	10.6	20.1	20.3	25.8	26.4	5.1	5.2	70	71
	1989	2.54	1.57	0.424	0.345	8.5	9.6	16.0	18.7	36.9	27.4	9.1	5.9	75	70
	1994	2.76	1.68	0.405	0.330	9.0	11.0	16.8	20.1	34.3	27.1	8.2	5.4	74	71
	1996	2.21	1.40	0.392	0.334	9.4	10.6	17.6	20.3	33.7	28.3	7.7	5.6	73	69
Nicaragua	1997	1.23	-	0.443	-	6.6	-	14.4	-	35.4	-	9.8	-	74	-
Panama	1986	2.89	2.42	0.430	0.451	6.2	6.8	14.2	13.6	33.0	38.8	9.3	10.6	70	76
	1991	2.72	2.14	0.448	0.431	5.9	7.5	13.3	15.0	34.2	35.6	10.3	9.5	71	72
	1994	3.40	2.16	0.451	0.411	6.4	7.7	13.8	15.5	37.4	33.1	10.9	8.5	73	71
Paraguay (Asunción)	1997	3.67	2.79	0.462	0.440	6.1	7.4	13.3	14.9	37.3	37.7	11.2	10.1	73	74
	1986	1.81	-	0.404	-	8.0	-	16.3	-	31.8	-	7.8	-	71	-
	1990	1.92	-	0.357	-	9.4	-	18.6	-	28.9	-	6.2	-	68	-
Dominican Rep. Uruguay	1994	-	-	0.417	-	8.3	-	16.2	-	35.2	-	8.7	-	74	-
	1996	2.22	-	0.389	-	8.8	-	17.4	-	33.1	-	7.6	-	70	-
	1997	2.57	1.41	0.432	0.392	6.9	7.9	14.8	16.5	35.5	32.6	9.6	7.9	74	69
Venezuela <sup>f</sup>	1986	3.50	-	0.385	-	8.7	-	17.3	-	32.4	-	7.8	-	72	-
	1990	3.29	-	0.353	-	10.9	-	20.1	-	31.2	-	6.2	-	70	-
	1994	4.06	-	0.300	-	11.8	-	21.6	-	25.4	-	4.7	-	67	-
	1997	4.72	-	0.300	-	11.9	-	22.0	-	25.8	-	4.7	-	68	-
Venezuela <sup>f</sup>	1986	2.40	1.80	0.397	0.370	9.8	9.0	16.2	17.6	30.2	29.2	7.4	6.7	70	-
	1990	2.12	1.80	0.381	0.316	8.0	10.1	16.7	19.8	28.7	23.8	6.9	4.8	69	-
	1994	1.84	1.58	0.392	0.349	8.2	9.3	16.7	18.6	31.9	29.3	7.7	6.1	71	-
	1997	1.97	-	0.425	-	7.0	-	14.7	-	32.8	-	8.9	-	72	-

Source: ECLAC, *Social Panorama of Latin America, 1998* (LC/G.2050-P), Santiago, Chile, 1999. United Nations publication, Sales No. E.99.II.G.4.

<sup>a</sup> Average per capita monthly household income, divided by the value of the per capita poverty line.

<sup>b</sup> Calculated on the basis of per capita household income distribution, by deciles.

<sup>c</sup> Percentage of total income corresponding to the poorest 25% of households.

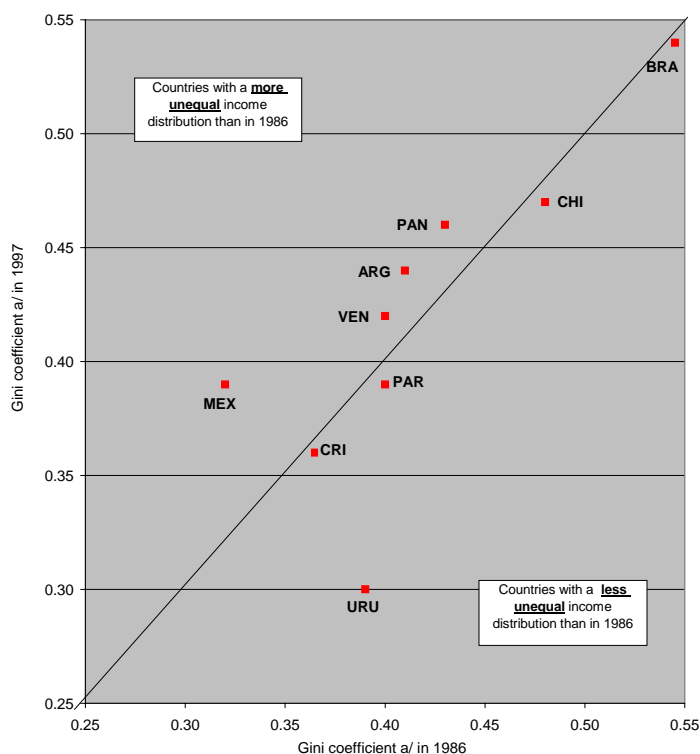
<sup>d</sup> The 1989 and 1992 surveys cover the eight departmental capitals and El Alto. The 1989 survey includes eight cities that together represent 8.2% of the total.

<sup>e</sup> For 1986, the survey covered eight major cities; the figures for the other years correspond to the urban totals.

<sup>f</sup> The figures shown in the "urban" column correspond to nationwide totals.



Figure I.8  
**CHANGES IN THE DEGREE OF INEQUALITY  
 OF URBAN INCOME DISTRIBUTION, 1986-1997**



**Source:** ECLAC, on the basis of official data from the countries and of special tabulations of the data from household surveys in the countries concerned.

<sup>a</sup> Calculated on the basis of per capita household income distribution, by deciles.

As regards distributive changes in rural areas between 1990 and 1997, the information available for some countries reveals a range of situations that do not always coincide with developments in urban areas. Colombia saw a significant de-concentration of rural income, in sharp contrast to what happened among the in urban sectors. In Brazil there was little change. Chile recorded a significant improvement after severe deterioration between 1987 and 1990, which contrasts with the relative consistency of urban income distribution during the decade. Rural distribution deteriorated slightly in Costa Rica, while in Honduras it improved. Finally, there was some (albeit modest) progress in Mexico, while in Panama the concentration of rural income slightly increased and in Venezuela it worsened markedly, more so than the deterioration in urban areas between 1990 and 1994.

The distributive trends of the 1990s, at least until the effects of the Asian crisis became apparent, revealed the capacity of the richest decile to share in the increased income. In 8 out of 13 countries, that stratum's share of urban income increased, and in three the share of the poorest 40% fell (see table I.16). In the countries where distribution worsened, therefore, the gap widened between the average income of the households in both groups, due more to the growth of the upper decile's income than to the relative decline of the lower stratum. This entailed a loss in share on the part of the middle strata, which secured a much smaller portion of the increased national income than households in the upper decile. This is consistent with the decline in absolute poverty evident in some countries during the decade, without an improvement in income distribution.

Income distribution changes in some countries illustrate the circumstances outlined above. In Chile, for example, high and sustained economic growth was not matched by an improvement in income distribution. The share of the poorest 40% remained the same, while that of the upper decile grew. The Chilean experience is particularly interesting, since Chile implemented the earliest and most radical structural reforms and has enjoyed the most sustained period of rapid growth. At the same time, it has maintained a relatively high and growing level of social spending in recent years. It is therefore interesting that after a slight increase in the share of the poorest 40% and of the 25% with lower incomes (up to 1992), the poorest decile's share of national income fell slightly but persistently, as did that of the poorest 25%, while the richest 10% continued to secure a high share (about 40%) of total income (see table I.16).<sup>19</sup> This explains the persistence of the high level of inequality that prevailed in the mid-1980s. The most recent trends also explain the difficulties in improving the income of those households that make up the "hard core" of poverty.

Uruguay remains a remarkable exception in the region, both for its low level of inequality and for the trend towards de-concentration evident since the 1980s.<sup>20</sup> In fact, the very low inequality in the distribution of urban income that was apparent by the mid-1980s continued to decline until 1997. During that period, the share of the four poorest deciles increased by almost five percentage points (from 17.3% to 22%), while that of the richest decile decreased by more than six points (from 32.4% to 25.8%). The downturn in growth after 1994 curbed the improvement trend of the early 1990s but did not lead to a deterioration in equity, since the various stratas' share of income remained the same. Uruguay is thus the only country where poverty was significantly reduced in the 1990s, thanks to a combination of the positive growth effect and progressive income distribution. This meant that the income of the households in the lower and middle strata improved more quickly than the income of the upper strata.

Venezuela, on the other hand, clearly evidences the capacity of the upper stratum to secure a proportionally greater share of increased income during periods of growth, and to avoid a loss during contractions. In the triennium 1990-1992, when growth was almost 8% a year, the share of the poorest 40% fell slightly, while that of the upper decile grew. Later, when the economy contracted, the share of the poorest 40% declined markedly while that of the richest 10% again grew, and more so than in the previous period. National income was therefore more concentrated in 1997 than ten years earlier.

The Latin American experience in the 1990s confirms that the evolution of economic growth is not conducive to predictions of what might happen to income distribution. Venezuela's negative economic growth, for example, coincided with a marked regression in distribution (the Gini coefficient rose from 0.38 to 0.43 between 1990 and 1997), while in Mexico distribution improved (the Gini coefficient fell from 0.42 in 1989 to 0.39 in 1996). This was despite the fact that in that period per capita income grew by an average of just 0.3%, which indicates that the social cost of meagre economic growth was distributed differently in the two countries. There was significant per capita growth in Chile and Argentina between 1990 and 1997, but in the former distribution remained stable and in the latter it worsened.

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<sup>19</sup> Only in Brazil and Colombia is the share of the 10% richest households as high as in Chile; in these three countries, that decile accounts for a 40% share of urban income, although in Chile the share of the lower strata is somewhat greater.

<sup>20</sup> The Gini coefficient of per capita family income in Uruguay, which stands at 0.30 in urban areas, is closer to the coefficients of industrialized countries with intermediate levels of inequality than to the levels prevailing in Latin American countries.

Table I.17  
**URBAN INCOME DISTRIBUTION<sup>a</sup>**

Country	Year	Poorest 40%	Next 30%	20% immediately below the richest 10%	Richest 10%
Argentina <sup>b</sup>	1990	14.9	23.6	26.7	34.8
	1994	13.9	23.4	28.6	34.1
	1997	14.9	22.2	27.1	35.8
Bolivia	1989	12.1	21.9	27.8	38.2
	1994	15.1	22.3	27.2	35.4
	1997	13.6	22.5	26.9	37.0
Brazil	1990	10.3	19.4	28.5	41.8
	1993	11.5	18.8	26.5	43.2
	1996	10.5	18.1	27.0	44.3
Chile	1990	13.4	21.2	26.2	39.2
	1994	13.3	20.5	25.9	40.3
	1996	13.4	20.9	26.4	39.4
	1998	13.3	20.9	26.7	39.1
Colombia	1991	16.0	24.6	27.6	31.9
	1994	11.6	20.4	26.1	41.9
	1997	12.9	21.4	26.1	39.5
Costa Rica	1990	17.8	28.7	28.9	24.6
	1994	17.4	26.8	28.3	27.5
	1997	17.3	27.6	28.4	26.8
Ecuador	1990	17.1	25.4	27.0	30.5
	1994	15.6	26.3	26.4	31.7
	1997	17.0	24.7	26.4	31.9
El Salvador	1995	17.3	25.1	25.8	31.7
	1997	17.2	24.8	26.9	31.1
Honduras	1990	12.2	20.8	28.1	38.9
	1994	13.3	23.0	26.5	37.2
	1997	14.3	22.8	26.1	36.8
Mexico <sup>c</sup>	1989	16.2	22.0	24.8	36.9
	1994	16.8	22.8	26.1	34.3
	1996	17.6	23.2	25.5	33.7
Nicaragua	1997	14.4	23.0	27.1	35.4
Panama	1991	13.3	24.3	28.2	34.2
	1994	13.8	23.3	25.5	37.4
	1997	13.3	22.4	27.0	37.3
Paraguay	1990 <sup>d</sup>	18.6	25.7	26.8	28.9
	1994	16.1	22.6	26.1	35.2
	1996	16.7	24.6	25.3	33.4
Dominican Rep.	1997	14.8	23.8	25.8	35.5
Uruguay	1990	20.1	24.6	24.1	31.2
	1994	21.6	26.3	26.7	25.4
	1997	22.0	26.1	26.1	25.8
Venezuela <sup>e</sup>	1990	16.7	25.0	28.6	28.7
	1994	16.7	25.5	26.0	31.9
	1997	14.7	24.0	28.6	32.8

**Source:** ECLAC, *Social Panorama of Latin America, 1998* (LC/G.2050-P), chapter II, Santiago, Chile, p. 64, May 1999. United Nations publication, Sales No. E.99.II.G.4.

<sup>a</sup> Corresponds to urban households' share of total household income, ordered according to their per capita income. <sup>b</sup> Greater Buenos Aires. <sup>c</sup> Special tabulations of data from income and spending surveys.

<sup>d</sup> Metropolitan area of Asunción. <sup>e</sup> National total.

The Latin American experience in the 1990s confirms that the evolution of economic growth is not conducive to predictions of what might happen to income distribution. Venezuela's negative economic growth, for example, coincided with a marked regression in distribution (the Gini coefficient rose from 0.38 to 0.43 between 1990 and 1997), while in Mexico distribution improved (the Gini coefficient fell from 0.42 in 1989 to 0.39 in 1996). This was despite the fact that in that period per capita income grew by an average of just 0.3%, which indicates that the social cost of meagre economic growth was distributed differently in the two countries. There was significant per capita growth in Chile and Argentina between 1990 and 1997, but in the former distribution remained stable and in the latter it worsened.

Such changes underline the region's poor performance in terms of income distribution. This is worrying, especially in view of the economic reactivation that most countries experienced in the 1990s, which spurred an increase in real gross national per capita income in all but two countries of the region.<sup>21</sup> There was consequently a decline in the indices of poverty and indigence, but no attendant improvement in income distribution. Several factors explain this outcome, particularly the following:

- (i) the persistence of high unemployment rates and insufficient creation of new jobs with productivity levels and wages above the minimum thresholds necessary to overcome poverty;
- (ii) the lag between wage levels and productivity increases, whose regressive effect is greater when concentrated in the most dynamic sectors;
- (iii) the increase in income disparities between workers with different levels of qualifications, the result of the rapid growth of demand and of the wages of the most skilled. These aspects are analyzed in chapters II and VIII.

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<sup>21</sup> Nicaragua and Venezuela are the exceptions. Between 1991 and 1997, per capita income fell by an annual average of 0.2% and 0.1% , respectively.



## Chapter II

# Productive job creation and wages

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### 1. Economic growth and job creation in the 1990s

In *Social Equity and Changing Production Patterns: An Integrated Approach*, and more recently, in *Equity, Development and Citizenship*, ECLAC states that the creation of productive employment is itself a goal and a necessary condition for growth with social equity. This proposal recognizes that employment is the principal link between economic development and social development, since the labour force is the basic factor of production and employment is the principal source of income for individuals, and therefore households. A major component of social inequality, the unequal distribution of income, is perpetuated through the organization and functioning of the labour market, which determines the wages and income earned by workers, both employed and self-employed (see chapter IV).

In view of the above, ECLAC advocates an integral approach, with the State playing a central role in the realm of employment, not simply creating emergency jobs during crises, but taking action in regard to savings, investment in human resources, maximization of such investments, utilization of the labour force, market expansion, and technological development—in short, actions that tie economic policy to employment policy.

The repercussions of this approach on the labour market and on employment will depend on the interaction of the macro-, meso-, and microeconomies. High and stable economic growth is therefore critical for boosting the level and quality of employment. That alone is not sufficient, however, as micro- and mesoeconomic needs must also be taken into account with a view to establishing investment and technological improvement processes that will incorporate neglected segments of the workforce into productive employment, thereby raising productivity and the income of the poorest groups.

The Commission believes that achieving simultaneous and lasting progress in employment, incorporation of technology, and social equity requires economic growth rates of about 6% a year. Moreover, this growth must remain steady, given that excessive fluctuations in economic activity discourage investment and employment, particularly as the labour market becomes increasingly flexible.

The average growth rate of the 1990s was therefore not enough to improve employment and wages, even though prior to the Asian crisis, the average growth rate for all countries in the region was higher than in the 1980s. At 3.3%, however, it was well below the 6% target that had been set (see table II.1).

Furthermore, the decline in the growth rate in 1998-1999 (2.2%) brought the decade to a close with an average growth rate of 3.1% for Latin American and Caribbean countries as a whole, just half the ECLAC target rate.

Given that some countries in the region had high growth years followed by slower years and even some periods of economic contraction, it is clear that the decade was also characterized by very unstable growth, even before the Asian crisis.<sup>22</sup>

The instability and slow pace of growth accentuated the adverse impact on employment, since job creation does not necessarily correspond linearly to changes in economies' rate of expansion. Units of production need to adjust to the successive phases of contraction of economic activity, which are accompanied by changes in the composition of aggregate demand. As a consequence of the adjustments made by business firms, which change their relative prices or alter their level of activity, asymmetries occur in the pace of job creation and elimination. Sectors that are hurt react quickly to the decline in demand by cutting back on production and employment, while those that are favoured boost production and employment more slowly as their investments mature.

In short, although the region managed to regain moderate growth levels towards the middle of 1998, the Asian crisis caused a decline in employment in many countries. As a result, the decade closed with a rather bleak labour picture. Up to 1997, there was no decline in open unemployment, in fact, it actually continued rising until the end of the decade (from 8.2% in 1990 to 10.8% in 1999).<sup>23</sup> Employment in low productivity sectors expanded more rapidly than in the formal sector, with an estimated 7 of every 10 new jobs being created in the informal sector. Similarly, in most cases wages rose more slowly than the average output per employed worker, while the disparities between the incomes of formal- and informal-sector workers increased.

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<sup>22</sup> Indeed, between 1991 and 1997, the average coefficient of variation of GDP growth rates in the region was greater than 1.0, and it grew by nearly 20% over the course of the decade. This means that, on average, the variations in growth rates were higher than the growth rates themselves.

<sup>23</sup> These figures refer to the simple average of unemployment rates for each country. According to International Labour Organization (ILO) estimates, the weighted average for the economically active population in each country indicates that unemployment rose from 5.7% in 1990 to 9.0% in 1999. See ILO, 1999.

Table II.1  
ECONOMIC GROWTH IN THE 1990s

Country <sup>b</sup>	Average annual rate of variation in GDP at market prices <sup>a</sup>			Variations in growth (variation coefficients <sup>c</sup> )	
	1991-1997	1998-1999	1991-1999	1991-1997	1991-1999
<b>5% per year or higher</b>					
Guyana	8.6	0.3	6.7	0.57	0.83
Chile	7.6	0.8	6.1	0.23	0.55
Argentina	6.1	0.3	4.8	0.87	0.97
Peru	5.8	1.5	4.8	0.79	0.92
Panama	5.0	3.6	4.7	0.51	0.50
<b>4% - 5% per year</b>					
Saint Kitts and Nevis	4.7	1.7 <sup>d</sup>	4.3	0.35	0.42
Dominican Republic	4.5	6.5	5.0	0.50	0.44
Bolivia	4.2	2.8	3.9	0.26	0.36
Guatemala	4.2	4.3	4.2	0.15	0.16
<b>3% - 4% per year</b>					
Colombia	3.9	-2.3	2.5	0.39	1.27
Uruguay	3.9	1.0	3.2	0.72	0.98
Belize	3.8	1.3 <sup>d</sup>	3.5	0.62	0.68
Honduras	3.7	1.0	3.1	0.72	0.95
Venezuela	3.6	-3.6	2.0	1.31	2.67
Costa Rica	3.5	6.5	4.2	0.67	0.59
Ecuador	3.4	-3.1	1.9	0.29	1.76
Brazil	3.2	0.2	2.5	0.64	0.87
<b>1% - 3% per year</b>					
Antigua and Barbuda <sup>e</sup>	3.0	...	...	1.21	...
Saint Vincent and the Grenadines	3.0	5.5 <sup>d</sup>	3.3	1.08	0.95
Mexico	2.9	4.1	3.1	1.38	1.13
Paraguay	2.7	-0.3	2.1	0.41	0.78
Nicaragua	2.7	5.1	3.2	0.88	0.73
Grenada	2.6	5.0 <sup>d</sup>	2.9	0.71	0.65
Dominica	2.5	3.5 <sup>d</sup>	2.6	0.12	0.16
Trinidad and Tobago	2.4	5.1	3.0	0.94	0.81
Suriname	1.8	...	...	4.85	...
Saint Lucia	1.7	2.9	2.0	1.60	1.27
<b>Less than 1% per year</b>					
Barbados	0.8	3.7	1.5	4.23	2.32
Jamaica	0.8	-0.9	0.4	1.83	3.47
Haiti	-2.1	2.7	-1.1	2.90	5.53 <sup>f</sup>
Cuba	-3.4	3.7	-1.8	2.40	4.37 <sup>f</sup>
<b>Simple averages (all countries)</b>	3.3	2.2	3.1	1.08	1.25
<b>Weighted averages</b>	3.7	1.0	3.1		
<b>Simple averages for 19 countries<sup>g</sup></b>	<b>3.9</b>	<b>1.8</b>	<b>3.4</b>	<b>0.74</b>	<b>1.14</b>
<b>Weighted averages</b>	<b>3.8</b>	<b>1.0</b>	<b>3.2</b>		

Source: ECLAC, based on official figures.

<sup>a</sup> Simple average of annual rates of variation. <sup>b</sup> Countries are listed in order of their average growth rate for the period 1991-1997. <sup>c</sup> Variation coefficient for annual GDP growth rates. <sup>d</sup> This figure represents the 1997-1998 variation. In the third column, it represents the 1991-1998 average. <sup>e</sup> Based on GDP at factor cost. <sup>f</sup> In Cuba and Haiti, the variation coefficient is negative. <sup>g</sup> Excludes Antigua and Barbuda, Barbados, Belize, Cuba, Dominica, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Saint Lucia, Suriname, and Trinidad and Tobago.

## 2. Trends in non-farm employment

The new types of growth in Latin America and the Caribbean has had a limited effect on job creation. Growth in this area has been moderate and unstable in most countries, and has not absorbed the economically active population (EAP). Moreover, the restructuring of the production system has favoured a more intensive use of specialized labour and an increase in labour productivity of enterprises in the sectors most exposed to international competition. Overall, there has been a trend toward less elasticity employment with respect to output in the primary and secondary sectors. These sectors have seen their share of jobs fall, while new job creation has tended to be concentrated in tertiary activities. On average, the latter have been characterized by stagnant or sluggish labour productivity, although some subsectors (financial establishments, insurance, and business services) have proven to be very dynamic

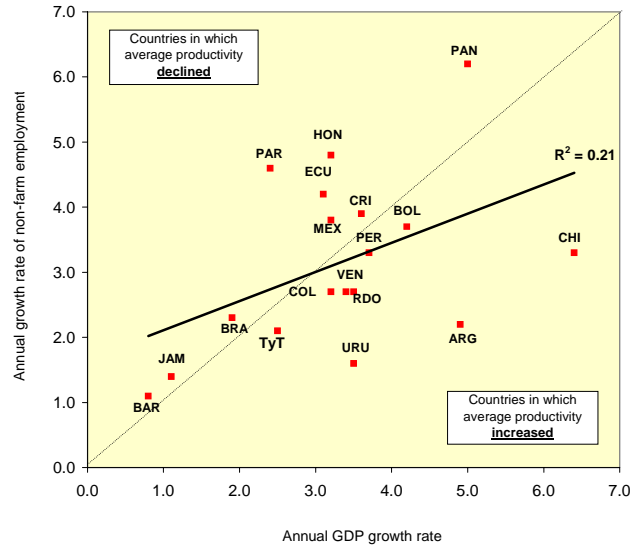
As shown in figures II.1.a and II.1.b, dynamic growth correlated —though weakly— with the increases in both total non-farm employment and wage employment. In half of the countries, however, the number of employed workers grew at a lower rate than output, thanks to gains in productivity. Most notably, in Argentina, Chile, and Uruguay the average productivity of workers employed in non-farm activities grew much faster than the Latin American average of 0.3%; output per employed worker in these countries grew at average annual rates of 2.7%, 3.1%, and 1.9%, respectively, between 1990 and 1998. In contrast, in Honduras, Panama, and Paraguay, the expansion of output was accompanied by major reductions in the productivity of both non-farm workers and urban wage earners. Consequently, employment posted better gains than expected in view of the growth rate of output (see table II.2).

Available data for 1990-1998 confirm that dynamic economic growth is a necessary condition for achieving relatively high rates of growth in employment. Indeed, countries that grew at a lower rate than the region as a whole (3.3%) during the decade (Barbados, Brazil, Jamaica, Trinidad and Tobago) saw non-farm employment remain well below the average regional growth rate of 3.1%. Honduras and Paraguay are two notable exceptions. Although their growth rates were at or below the average, they managed to achieve high rates of job growth during this period.



**Figure II.1.a**  
**RELATIONSHIP BETWEEN GDP GROWTH AND EMPLOYMENT GROWTH**  
**IN THE NON-FARM SECTOR,**  
**1990-1998**

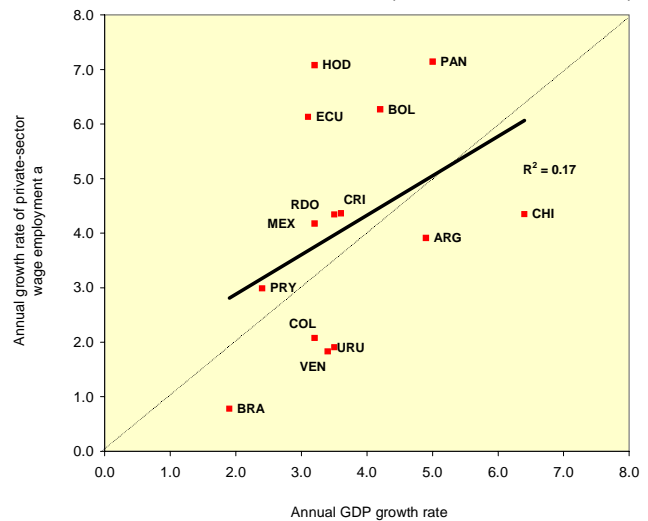
(Annual rates of variation)



**Source:** International Labour Organization (ILO), *Panorama laboral de América Latina y el Caribe*, 1999. Lima, Regional Office for Latin America and the Caribbean, 1999.

**Figure II.1.b**  
**RELATIONSHIP BETWEEN GROWTH OF NON-FARM GDP AND**  
**OF PRIVATE-SECTOR WAGE EMPLOYMENT,<sup>a</sup> 1990-1998**

(Annual rates of variation)



**Source:** ECLAC, based on special tabulations of household surveys in the respective countries concerned.

<sup>a</sup> Excludes domestic employment.

Table II.2  
**GROWTH OF OUTPUT, EMPLOYMENT AND PRODUCTIVITY IN  
 NON-FARM ACTIVITIES, 1990-1998**  
*(Annual growth rates)*

Country	Gross domestic product	Economically active population	Employed workers 1990-1998	Productivity 1990-1998
Argentina	4.9	3.0	2.2	2.7
Barbados	0.8	0.6	1.1	-0.3
Bolivia	4.2	3.2	3.7	0.5
Brazil	1.9	2.7	2.3	-0.4
Chile	6.4	3.2	3.3	3.1
Colombia	3.2	3.3	2.7	0.5
Costa Rica	3.6	3.9	3.9	-0.3
Ecuador	3.1	4.5	4.2	-1.1
Honduras	3.2	4.8	4.8	-1.6
Jamaica	1.1	1.5	1.4	-0.3
Mexico	3.2	3.9	3.8	-0.6
Panama	5.0	5.4	6.2	-1.2
Paraguay	2.4	5.6	4.6	-2.2
Peru	3.7	3.5	3.3	0.4
Dominican Rep.	3.5	1.2	2.7	0.8
Trinidad and Tobago	2.5	1.2	2.1	0.4
Uruguay	3.5	1.9	1.6	1.9
Venezuela	3.4	3.1	2.7	0.7
<b>Simple average</b>	<b>3.3</b>	<b>3.1</b>	<b>3.1</b>	<b>0.2</b>
<b>Weighted average</b>	<b>3.1</b>	<b>3.1</b>	<b>2.8</b>	<b>0.3</b>

**Source:** International Labour Organization (ILO), *Panorama laboral de América Latina y el Caribe, 1999*, Lima, Regional Office for Latin America and the Caribbean, 1999.

The performance of employment during the decade was strongly influenced by the relatively high growth rate of the workforce in these countries (3.0% per year) resulting from the increase in the working age population (WAP), which grew at a slightly slower pace than in the previous decade (2.6% per year). Also contributing to the increased supply of labour was the tendency for overall participation rates to climb as more and more women joined the workforce. On average, women's participation went from 34.4% to 39.2% of the workforce between 1990 and 1999. Nonetheless, there are significant variations in the expansion of the EAP from one country to the next, depending on how far it has progressed in the demographic transition.

For this reason, the job creation challenge was quite different. In addition to the high growth of working age population (3.3%) in countries in the **incipient and moderate transition** phase (Bolivia, El Salvador, Guatemala, Honduras, Nicaragua, and Paraguay), there was a major upswing in overall female participation in economic activity that was only partially offset by a decline in male participation. Both factors translated into a 3.5% annual growth rate in the economically active population (see table II.3).

Table II.3

## TRENDS IN LABOUR FORCE BY DEMOGRAPHIC TRANSITION STAGE, 1990-1999

Transition category	Growth of working age population <sup>a</sup>	Variation in overall rate of participation <sup>b</sup>			Growth of economically active population <sup>a</sup>		
	Total	Total	Men	Women	Total	Men	Women
<b>Incipient and moderate transition<sup>c</sup></b>	<b>3.3</b>	<b>1.1</b>	<b>-2.7</b>	<b>4.6</b>	<b>3.5</b>	<b>2.9</b>	<b>4.9</b>
	<b>3.2</b>	<b>1.4</b>	<b>-2.3</b>	<b>4.9</b>	<b>3.5</b>	<b>2.9</b>	<b>5.0</b>
Bolivia	2.7	2.0	-1.2	4.8	3.0	2.6	4.0
El Salvador	3.4	0.2	-5.5	4.8	3.4	2.8	4.9
Guatemala	3.1	2.5	-0.8	6.0	3.6	2.9	5.9
Honduras	3.5	1.6	-3.7	6.7	3.8	3.1	6.2
Nicaragua	3.8	-0.8	-3.5	1.8	3.6	3.4	4.2
Paraguay	3.1	1.0	-1.4	3.3	3.3	2.9	4.3
<b>Full transition<sup>c</sup></b>	<b>2.6</b>	<b>2.4</b>	<b>-0.3</b>	<b>5.2</b>	<b>3.0</b>	<b>2.5</b>	<b>4.3</b>
	<b>2.5</b>	<b>1.2</b>	<b>-1.8</b>	<b>4.2</b>	<b>2.8</b>	<b>2.3</b>	<b>3.8</b>
Brazil	2.4	-0.1	-3.1	3.1	2.3	1.9	3.2
Colombia	2.3	3.2	0.8	5.4	2.9	2.4	3.8
Costa Rica	2.8	5.3	3.6	7.1	3.8	3.3	5.4
Ecuador	3.0	2.5	-1.0	6.1	3.5	2.8	5.2
Mexico	2.6	2.1	-1.3	5.5	3.0	2.4	4.5
Panama	2.4	2.7	0.4	5.3	2.9	2.4	4.2
Peru	2.5	1.7	-0.3	4.0	2.8	2.4	3.7
Dominican Rep.	2.4	1.9	-0.7	4.7	2.8	2.3	3.8
Venezuela	2.8	2.3	-0.9	5.5	3.3	2.7	4.6
<b>Advanced transition<sup>c</sup></b>	<b>1.4</b>	<b>2.2</b>	<b>0.3</b>	<b>4.0</b>	<b>1.9</b>	<b>1.5</b>	<b>2.7</b>
	<b>1.7</b>	<b>1.7</b>	<b>0.0</b>	<b>3.3</b>	<b>2.1</b>	<b>1.7</b>	<b>2.8</b>
Argentina	1.7	1.0	-0.3	2.2	1.9	1.7	2.3
Chile	1.7	3.5	0.7	6.1	2.5	1.9	3.9
Uruguay	0.8	2.2	0.4	3.8	1.2	0.9	1.8
<b>Simple average</b>	<b>2.6</b>	<b>1.9</b>	<b>-1.0</b>	<b>4.8</b>	<b>3.0</b>	<b>2.5</b>	<b>4.2</b>
<b>Weighted average</b>	<b>2.5</b>	<b>1.3</b>	<b>-1.5</b>	<b>4.1</b>	<b>2.8</b>	<b>2.3</b>	<b>3.8</b>

Source: ECLAC, based on population projections made by the Population Division – Latin American and Caribbean Demographic Centre (CELADE).

<sup>a</sup> Annual rate of variation.

<sup>b</sup> Percentage difference between 1990 and 1999 overall participation rates.

<sup>c</sup> Simple average in shaded areas, weighted average below.

In **full-transition** countries, which account for more than two-thirds of the region's population (Brazil, Colombia, Costa Rica, Ecuador, Mexico, Panama, Peru, Dominican Republic, and Venezuela), the economically active population grew at a slightly lower rate (3.0% per year). Although the growth of the working age population exerted less pressure on the labour supply side,

the overall participation rate climbed more rapidly. Only in Brazil was the growth of the economically active population well below that of the other countries in this group, 2.3% per year.

The countries in the **advanced transition** phase (Argentina, Chile, and Uruguay) are in a different situation. Although women continued to join the workforce in large numbers, much more than men, the supply of labour expanded at a relatively low annual rate (1.9%) because of the smaller increase in the working age population.

In sum, the limited number of jobs created in the region during the 1990s was a result of the insufficiency and volatility of economic growth and the rapid expansion of the workforce in countries that have not reached the advanced stage of the demographic transition. In these latter countries, however, the lack of pressure on the labour supply side was accompanied by a slower rate of job creation due to the low employment-output ratio of non-farm activities, which had been more dynamic during the growth years.

### 3. Open employment and segmentation of the job market

As pointed out earlier, one characteristic of the employment situation in the region during the 1990s was the high and persistent level of unemployment. After moving upward gradually until 1997, urban unemployment began to rise faster as the ripple effect of the Asian crisis hit in the late 1990s. In some countries, the unemployment rate doubled. The marked instability of economic growth meant that the more dynamic sectors of the economy were able to absorb fewer workers. The expansion of the workforce in countries at a less advanced stage of demographic transition exerted additional pressure, leading to the persistence or even exacerbation of already high jobless rates and a more rapid surge of informal employment (see table II.6).

In the majority of countries where the unemployment rate rose (Argentina, Brazil, Colombia, Mexico, Uruguay, and Venezuela), the informal sector's share of urban jobs also increased. This trend was seen even in some countries where unemployment declined or remained stable (Bolivia, Costa Rica, El Salvador, and Dominican Republic). Countries that were able to create formal-sector jobs at a faster clip than the expansion of the workforce while also reducing unemployment were an exception in the region (Chile and Panama).

The informal sector generated the most employment: In urban areas, the average annual rate of informal job growth was 4.2%, nearly three points higher than the growth rate of formal employment. Thus, the percentage of workers employed in low-productivity sectors rose from 42.1% in 1990 to 46.7% in 1997 in the region as a whole<sup>24</sup> (see table II.4.a).

Job creation in the formal sector was characterized by an upswing in the number of professional and technical positions and of employers (approximately 2.5% per year). In contrast, the proportion of unskilled wage earners in small, medium-sized, and large businesses declined; only in Argentina, Chile, Mexico, and the Dominican Republic did their share of urban jobs rise. At the same time, the downward trend in public-sector employment continued. In the region as a whole, its share fell by about three percentage points (from 15.9% to 13.7%).

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<sup>24</sup> The unweighted average for the region indicates that employment in the informal sector grew from 45.4% to 47.3%.

**Table II.4.a**  
**DISTRIBUTION OF THE EMPLOYED POPULATION IN URBAN AREAS**  
**BY LABOUR MARKET SEGMENT, 1990-1997**  
*(Percentage of total urban employment)*

Country	Year	Formal sector						Informal sector					
		Total formal sector	Public sector	Private sector				Total informal sector	Employment in micro-enterprise <sup>a</sup>	Domestic employment	Unskilled own-account workers		
				Employers and self-employed professionals and technicians	Wage earners						Total <sup>b</sup>	Industry and construction	Commerce and services
					Total wage earners	Professionals and technicians	Neither professionals nor technicians						
Argentina <sup>c</sup>	1990	<b>56.9</b>	19.3	5.2	32.4	5.5	26.9	<b>43.1</b>	16.8	4.5	21.8	6.6	15.2
	1997	<b>58.7</b>	13.5	6.4	38.8	7.1	31.7	<b>41.4</b>	19.6	5.1	16.7	5.1	16.4
Bolivia	1989	<b>37.6</b>	17.9	3.3	16.4	2.0	14.4	<b>62.5</b>	14.9	5.8	41.8	9.9	30.6
	1997	<b>34.6</b>	10.5	3.9	20.2	5.8	14.4	<b>65.5</b>	17.0	3.6	44.9	11.9	27.7
Brazil	1990	<b>59.7</b>	14.8	3.2	41.7	5.4	36.3	<b>40.2</b>	12.6	6.2	21.4	3.5	15.8
	1996	<b>53.3</b>	13.7	3.8	35.8	5.2	30.6	<b>46.6</b>	12.5	8.4	25.7	5.0	15.9
Chile	1990	<b>60.6</b>	9.2	4.5	46.9	10.4	36.4	<b>39.4</b>	10.7	7.0	21.7	5.7	15.0
	1998	<b>62.7</b>	9.5	3.3	49.9	10.5	39.4	<b>37.3</b>	13.3	5.9	18.1	4.3	12.9
Colombia	1991	<b>45.9</b>	11.6	6.5	27.8	4.9	22.9	<b>54.1</b>	21.2	5.6	27.3	6.4	20.0
	1997	<b>44.2</b>	9.9	7.1	27.2	6.4	20.8	<b>55.9</b>	20.6	4.5	30.8	7.1	22.9
Costa Rica	1990	<b>62.3</b>	25.0	2.6	34.7	5.2	29.5	<b>37.6</b>	15.0	4.4	18.2	6.5	10.6
	1997	<b>60.4</b>	20.5	3.7	36.2	6.3	29.9	<b>39.6</b>	18.3	3.5	17.8	4.8	12.4
Ecuador	1990	<b>45.5</b>	17.5	3.0	25.0	3.9	21.1	<b>54.5</b>	15.5	4.5	34.5	7.8	24.4
	1997	<b>46.0</b>	13.8	3.8	28.4	5.4	23.0	<b>53.9</b>	17.9	5.0	31.0	6.4	22.8
Honduras	1990	<b>46.8</b>	14.4	1.9	30.5	4.2	26.3	<b>53.2</b>	14.9	6.7	31.6	8.8	18.7
	1997	<b>48.1</b>	10.1	4.4	33.6	5.9	27.7	<b>52.0</b>	14.6	5.1	32.3	7.6	20.4

Table II.4.a (concl.)

Country	Year	Formal sector						Informal sector					
		Total formal sector	Public sector	Private sector				Total informal sector	Employment in micro-enterprise <sup>a</sup>	Domestic employment	Unskilled own-account workers		
				Employers and self-employed professionals and technicians	Wage earners						Total <sup>b</sup>	Industry and construction	Commerce and services
					Total wage earners	Professionals and technicians	Neither professionals nor technicians						
Mexico	1989	60.5	18.1	4.4	37.9	7.3	30.6	39.6	17.7	2.7	19.2	3.0	12.8
	1996	56.4	15.1	2.3	39.0	5.9	33.1	43.6	19.6	3.6	20.4	3.8	15.7
Panama	1991	62.2	26.6	1.8	33.8	3.8	30.0	37.8	8.3	7.0	22.5	4.3	11.2
	1997	66.6	24.5	2.4	39.7	10.5	29.2	33.6	8.6	6.5	18.5	4.6	12.8
Paraguay <sup>d</sup>	1990	42.4	12.9	3.6	25.9	4.8	21.1	57.6	23.3	11.4	22.9	5.6	16.7
	1996	42.8	11.3	4.4	27.1	4.2	22.9	57.1	19.3	9.3	28.5	6.4	19.9
Dominican Rep.	1992	54.9	14.3	5.3	35.3	7.2	28.1	45.1	9.1	3.2	32.8	5.6	23.0
	1997	53.1	11.9	4.1	37.1	6.0	31.1	47.0	11.2	4.4	31.4	6.8	21.3
Uruguay	1990	60.5	21.8	3.8	34.9	3.4	31.5	39.5	13.3	6.9	19.3	5.7	12.2
	1997	57.6	17.7	4.3	35.6	5.3	30.3	42.5	14.4	7.1	21.0	6.9	12.8
Venezuela	1990	62.9	22.5	3.6	36.8	5.5	31.3	37.1	11.6	4.0	21.5	4.1	15.5
	1997	50.6	16.8	3.4	30.4	5.0	25.4	49.4	14.9	4.3	30.2	6.1	19.9
Simple average	1990	54.6	17.7	3.7	33.2	5.3	27.9	45.4	14.9	5.9	24.6	5.9	16.6
	1997	52.7	14.4	4.3	34.0	6.4	27.3	47.3	16.1	5.5	25.7	6.1	17.7
Weighted average	1990	57.9	15.9	3.9	38.1	5.8	32.3	42.1	14.5	5.3	22.3	4.2	15.9
	1997	53.2	13.7	3.9	35.7	5.8	29.9	46.7	15.4	6.3	25.0	5.2	17.0

Source: ECLAC, based on special tabulations of household survey data from the countries concerned.

<sup>a</sup> Includes employers and wage earners in companies with five or fewer employees.

<sup>b</sup> Includes workers in agriculture, forestry, fishing, and hunting.

<sup>c</sup> Greater Buenos Aires. <sup>d</sup> Asunción and central department.

Table II.4.b

**CONTRIBUTION OF INDIVIDUAL OCCUPATIONAL CATEGORIES TO THE VARIATION IN URBAN EMPLOYMENT, 1990-1997**  
(In percentages and number of workers x 1,000)

Country	Total formal sector	Public sector	Private sector				Total informal sector	Employment in micro-enterprise	Domestic employment	Unskilled own-account workers		
			Employers and self-employed professionals and technicians	Wage earners						Total <sup>b</sup>	Industry and construction	Commerce and services
				Total wage earners	Professionals and technicians	Neither professionals nor technicians						
Argentina <sup>c</sup>												
1990-1997	75.5	- 42.8	17.9	100.3	22.9	77.4	24.5	46.5	10.9	- 32.8	- 9.5	27.8
	319.0	- 180.8	75.8	423.9	96.9	327.1	103.6	196.5	45.9	- 138.7	- 40.0	117.6
Bolivia												
1989-1997	26.4	- 9.6	5.5	30.5	16.1	14.4	73.6	22.7	- 2.4	53.3	17.3	19.8
	75.7	- 27.4	15.8	87.3	46.1	41.2	210.8	65.0	- 6.8	152.6	49.6	56.8
Brazil												
1990-1996	17.4	7.5	7.2	2.7	4.1	- 1.4	82.6	12.0	20.8	49.9	13.4	16.5
	1 329.7	576.6	549.9	203.2	312.6	- 109.4	6 331.3	915.5	1 592.1	3 823.7	1 029.8	1 262.4
Chile												
1990-1998	70.2	10.6	- 1.0	60.6	10.7	49.9	29.8	22.5	2.0	5.3	- 0.7	5.4
	715.8	107.7	- 9.8	618.0	109.5	508.5	303.3	229.0	20.3	54.0	- 6.9	55.4
Colombia												
1991-1997	33.1	- 0.7	10.8	23.1	15.7	7.4	66.9	16.9	- 2.4	52.3	11.4	40.8
	430.7	- 9.6	140.1	300.2	203.8	96.4	869.0	219.6	- 30.8	680.2	148.2	529.8
Costa Rica												
1990-1997	51.9	0.9	8.5	42.5	11.0	31.5	48.1	32.5	- 0.4	16.0	- 2.6	20.2
	54.3	0.9	8.8	44.5	11.5	32.9	50.3	34.0	- 0.4	16.7	- 2.7	21.1
Ecuador												
1990-1997	47.7	2.5	6.3	39.0	10.0	28.9	52.3	25.3	6.6	20.4	2.1	18.0
	353.7	18.4	46.5	288.7	74.3	214.4	387.4	187.8	48.6	151.0	15.7	133.2
Honduras												
1990-1997	50.5	1.8	9.2	39.4	9.1	30.3	49.5	14.0	2.0	33.5	5.3	23.6
	165.5	6.0	30.1	129.3	30.0	99.4	162.5	45.9	6.6	110.0	17.3	77.4
Mexico												
1989-1996	41.0	3.6	- 5.7	43.1	0.6	42.5	59.0	27.0	7.0	25.0	6.8	26.7
	1 771.3	157.0	- 245.2	1 859.6	25.2	1 834.3	2 547.3	1 165.4	303.3	1 078.6	295.5	1 154.5
Panama												
1991-1997	79.7	17.8	4.2	57.7	31.3	26.5	20.3	9.5	4.9	5.9	5.5	17.7
	129.2	28.8	6.9	93.5	50.6	42.9	32.8	15.3	7.9	9.6	8.9	28.6
Paraguay <sup>d</sup>												
1990-1996	44.5	5.3	7.5	31.8	1.9	29.8	55.5	4.2	1.4	49.8	9.5	32.1
	68.9	8.2	11.5	49.2	3.0	46.2	85.9	6.6	2.2	77.2	14.6	49.7

Table II.4.b (concl.)

Country	Total formal sector	Public sector	Private sector				Total informal sector	Employment in micro-enterprise <sup>a</sup>	Domestic employment	Unskilled own-account workers		
			Employers and self-employed professionals and technicians	Wage earners						Total <sup>b</sup>	Industry and construction	Commerce and services
				Total wage earners	Professionals and technicians	Neither professionals nor technicians						
Dominican Rep. 1992-997	<b>39.6</b>	- 5.6	- 4.6	49.8	- 2.7	52.6	<b>60.4</b>	26.3	13.1	21.0	15.4	8.8
	<b>71.9</b>	- 10.1	- 8.4	90.4	- 5.0	95.3	<b>109.5</b>	47.7	23.7	38.1	28.0	16.0
Uruguay 1990-1997	<b>28.4</b>	- 22.9	9.2	42.1	24.0	18.1	<b>71.6</b>	25.1	9.0	37.5	18.6	18.6
	<b>31.8</b>	- 25.7	10.3	47.2	26.9	20.3	<b>80.3</b>	28.1	10.1	42.1	20.9	20.8
Venezuela 1990-1997	<b>- 7.1</b>	- 9.9	2.5	0.4	2.7	- 2.3	<b>107.1</b>	30.4	5.7	71.0	15.5	40.5
	<b>- 80.8</b>	- 113.3	28.1	4.4	30.3	- 25.9	<b>1 222.3</b>	346.7	65.1	810.4	176.7	462.7
Simple average 1990-1997	<b>42.8</b>	- 3.0	5.5	40.2	11.2	29.0	<b>57.2</b>	22.5	5.6	29.2	7.7	22.6
Weighted aver. 1990-1997	<b>30.2</b>	3.1	3.8	23.4	5.8	17.6	<b>69.8</b>	19.5	11.6	38.7	9.7	22.4
	<b>5 364.8</b>	546.9	668.8	4 149.1	1 020.8	3 128.3	<b>12 386.7</b>	3 455.3	2 064.0	6 867.3	1 727.6	3 970.0

**Source:** ECLAC, based on special tabulations of household survey data from the countries concerned.

Note: Shaded rows show percentage distribution.

a Includes employers and wage earners in companies with five employees or fewer.

b Includes workers in agriculture, forestry, fishing and hunting.

c Greater Buenos Aires.

d Asunción and central department.



Although there were variations from one country to another, the increase in informal employment came from both the expansion of microenterprise employment and the rise in the number of unskilled own account workers in commerce and services. These increases were accompanied by a slight rise in domestic service employment, which continued absorbing part of the rapidly growing female workforce throughout the decade. It is noteworthy that countries that reduced the size of the informal sector did so by shrinking the category of unskilled own-account workers, while maintaining or slightly raising employment in microenterprises, where average wages are lower than in the former category. This trend offset the effect of higher earnings in these countries' informal sectors.

An estimate for 14 countries in the region indicates that there was an increase of 17.8 million employed workers, of whom 12.4 million were absorbed by the informal sector. Of the latter, 6.9 million were unskilled own-account workers, who as a whole account for nearly 39% of the total increase in urban employment. The public sector contributed little to that growth, generating just over 500,000 new jobs, while the private formal sector created nearly 5 million jobs. It is also significant that, despite their relatively limited role in the informal sector, microenterprises created 3.5 million new jobs.

In short, the principal feature of the region's labour market in the 1990s was a rise in urban unemployment, especially towards the end of the decade, accompanied with the informal sector accounting for a relatively larger share of jobs in most countries. The contraction of the formal sector was associated with a decline in the number of public-sector jobs and a slow expansion of demand for labour by private companies, especially medium-sized and large businesses.

#### **4. Trends and disparities in pay**

Workers' income was characterized by low wages and a widening pay gap. Although improvements were seen in average income from employment in urban areas during the first seven years of the decade, 9 of 11 countries reported in 1997 that average wages were below those of 1980. In Argentina, Bolivia, Brazil, Colombia, Costa Rica, Honduras, Mexico, Uruguay, and Venezuela, the mean income of employed workers in 1997 was 11% to 50% lower than it had been in the early 1980s.<sup>25</sup>

In most countries, the resumption of economic growth was accompanied by an improvement in the mean income of all urban employed workers, with increases ranging from 1.0% to 6.5% per year. The same was true of wages, although they grew less than the income of employers. This disparity is one of the reasons for the persistence or even aggravation of the unequal distribution of primary income (see chapter I). Between 1990 and 1997, the average pay of urban wage earners in 10 countries went up between 0.9% and 5.4% per year. Of the countries for which information is available, only Ecuador, Honduras, Mexico, and Venezuela reported a decline in the mean income of urban wage earners as a whole during this period.

The improvements in wages were tied to the expansion of countries' gross domestic product, and in many cases, resulted from the recovery of buying power stemming from lower inflation. The trends in the labour market and institutional mechanisms had a lesser impact on these improvements. This explains why the wage recovery was often interrupted after 1996, as the measures taken to control inflation diminished the beneficial effect of the slowdown in price hikes,

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<sup>25</sup> The exceptions are Chile and Panama. In Chile, income per urban employed worker was more than 30% higher in 1997 than in 1980. In Panama, mean income in 1997 was similar to that of 1980. The estimates in every case refer to income per urban employee, expressed in multiples of the per capita poverty level for each country. ECLAC 1999a, Statistical Annex, table 6.

since lower rates of inflation meant that pay raises became less frequent. In addition, the GDP edged upward more slowly or even fell in some countries after mid-1998.

The above assertion is confirmed by trends in real industrial wages. Between 1990 and 1998, the mean wage in industry surged by nearly 25% (ILO, 1999, table 8-A). In the region as a whole, and in general, real wage increases were more marked in countries that achieved higher GDP growth rates and managed to control hyperinflation or cut inflation to low levels over a short period of time.

Real minimum wages also climbed in numerous countries, thanks to the favourable impact of price controls and government measures to boost nominal minimum wages. This came in a context of healthier business finances resulting from economic recovery or growth. Between 1990 and 1998, minimum wages soared by 40% to 133% in Argentina, Bolivia, Brazil, Chile, Ecuador, and Peru. Real increases were smaller in Costa Rica, Panama, and the Dominican Republic, ranging from 10% to 20%.<sup>26</sup>

All in all, the aforementioned improvements, particularly in minimum wages, were not enough to restore the real levels attained before the crisis of the early 1980s. Only in Chile, Colombia, Costa Rica, Panama, and Paraguay did the minimum wage in 1998 exceed that of 1980. In 1998, the average minimum wage in the region was 28% below that of 1980.

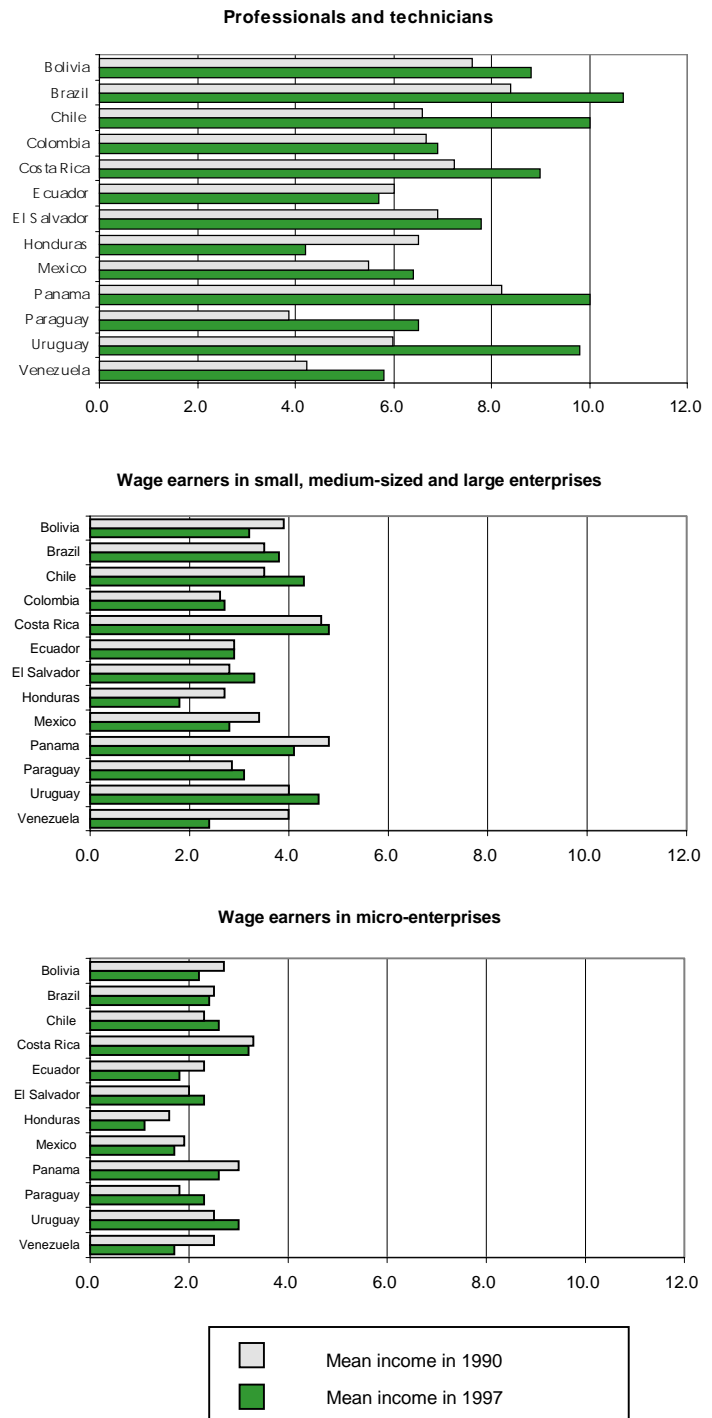
To sum up, labour income in the region was characterized primarily by slow improvements that did not keep pace with per capita GDP growth, and in most countries, they were not enough to restore the levels that had prevailed before the crisis of the 1980s. Moreover, the pay raises that did occur were almost without exception the result of the high growth of employee earnings in the more dynamic activities of the modern sector, coupled with lower growth or even declines in the pay of other urban workers. As will be shown later on, this trend translated into a widening income gap between the formal and informal sectors in several countries, as well as an ever-expanding disparity in income between more skilled workers and less skilled workers. Consequently, the distribution of income remained the same or worsened throughout the decade.

An additional argument emphasizing the centrality of economic growth is that the demand for employment during the decade was more sensitive to variations in the level of activity than to variations in total labour costs (wages plus benefits). Estimates for the 1990-1995 period indicate that wages have only a slight impact on the capacity to generate employment. If nominal wages rise by 10%, industrial employment tends to decline by an average of only 0.4%, so the data do not support the assertion that lower wages mean more employment.

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<sup>26</sup> No background information is available on the proportion of wage earners who are paid at approximately the minimum wage in these countries, or on the effect of the pay hike on the employment of low-skill labour or the wages of workers earning slightly more than the minimum wage. Consequently, the distributive impact of these improvements cannot be measured more precisely.

**Figure II.2**  
**MEAN WAGES<sup>a</sup> OF EMPLOYED WORKERS**  
**IN URBAN AREAS, 1990-1997**



**Source:** ECLAC, based on special tabulations of household survey data from the countries concerned.

<sup>a</sup> Expressed in multiples of the respective per capita urban poverty levels.

## 5. Overall results of labour market trends in the 1990s

An overall assessment of the behaviour of the labour market in the 1990s reveals differences in the situation of each country and in the relationships between the various dimensions subject to assessment (see table II.5). Persistent unemployment and the influence of the informal sector highlight the inability of the region's economies to absorb new entrants into the labour market or to create enough new jobs at the higher income and productivity levels. Indeed, open unemployment in urban areas rose in 8 out of 16 countries. It should be noted that economic growth was the key to reducing this unemployment: In 6 of the 8 countries where unemployment fell or stayed low during the decade (Chile, Peru, Panama, El Salvador, Dominican Republic, and Bolivia), economic growth was markedly higher than the regional average. In the first four countries mentioned, GDP growth was 5% or more per year. In Honduras and Venezuela, where unemployment was relatively low throughout the decade, economic growth was also higher than the norm.

Table II.5  
LABOUR MARKET PERFORMANCE DURING THE 1990s

Country	Open urban unemployment	Urban informal sector	Mean income of formal sector	Mean income of informal sector	Minimum wage	Social security coverage
	1990-1998	1990-1997	1990-1997	1990-1997	1990-1998	1990-1998
Argentina	++	+	+	+	++	-
Bolivia	-	+	+	--	++	...
Brazil	+	++	+	+	+	-
Chile	-	-	++	++	+	-
Colombia	++	+	+	-- <sup>a</sup>	-	+
Costa Rica	=	+	+	+	+	-
Ecuador	++	=	-	++	+	-
El Salvador	-	+	++	++	-	...
Honduras	-	=	--	-	-	...
Mexico	+	+	+	--	--	-
Panama	--	--	+	++	+	...
Paraguay	+	=	++	--	--	...
Peru	=	=	...	...	+	-
Dominican Republic	--	+	...	...	+	...
Uruguay	+	+	+	+	--	-
Venezuela	+	++	--	--	--	-

**Source:** Open urban unemployment: ECLAC, *Economic Survey of Latin America and the Caribbean, 1998-1999* (LC/G.2056), Santiago, Chile, November 1999. United Nations publication, Sales No. E.99.II.G.2.

Informal urban sector: ECLAC, *Social Panorama of Latin America, 1999*, Santiago, Chile, under preparation; International Labour Organization (ILO), *Panorama Laboral de América Latina y el Caribe, 1999*, Lima, Regional Office for Latin America and the Caribbean, 1999.

Mean income: ECLAC, *Social panorama of Latin America, 1999*, Santiago, Chile, under preparation.

Urban minimum wage and social security coverage: International Labour Organization (ILO), *Panorama laboral de América Latina y el Caribe, 1999*, Lima, Regional Office for Latin America and the Caribbean, 1999.

**Note:** ++: sharp increase; +: increase; =: stable; -: reduction; --: sharp reduction.

<sup>a</sup> Based on trends in mean income of own-account workers without professional or technical skills and domestic employees.

With respect to the absorption of employment in the urban informal sector, 10 of the 16 countries reported a decline. In 4 of the 6 remaining countries (Ecuador, Honduras, Paraguay, and Peru), the informal sector accounted for practically the same proportion of urban employment as before, and only in Chile and Panama did its share of jobs fall. Without a doubt, pressures from the labour supply side prevented the formal sector from absorbing more employment, even with relatively high growth. In Bolivia, Costa Rica, El Salvador, Peru, and the Dominican Republic, in fact, the urban informal sector continued incorporating a high percentage of EAP growth during the 1990s, while unemployment subsided.

The outcome for average pay is less gloomy. Those who obtained employment in the formal sector generally saw their real income move upward, with only 3 of 14 countries reporting lower income. These improvements were associated with the vigour of economic growth; in most cases, the earnings of more highly skilled workers rose at a much more rapid pace.<sup>27</sup> As shown in figure II.3, the already broad gap between the earnings of professionals and technicians and those of less skilled wage earners tended to widen, as evidenced by the comparison of average income trends in the formal and informal sectors. In the majority of countries, the mean income of employees in the informal sector climbed more slowly than that of their counterparts in the formal sector, and in four countries (Bolivia, Colombia, Mexico, and Paraguay), real wages in the informal sector fell.

The minimum wage was eroded in 7 out of 16 countries, and in 4 of them (Mexico, Paraguay, Uruguay, and Venezuela) the loss of buying power was significant (more than 20%). In general, it should be pointed out that there was a tendency for the minimum wage to recover lost ground, and the gains were usually greater than those recorded for mean income, in both the formal and informal sectors.

With respect to social security coverage for employed workers, the picture is indeed grim. In 9 of the 10 countries for which information is available, the percentage of unprotected workers (wage earners who have no social security coverage) increased. The only exception is Colombia, where the improvement was probably due to the increase in the rate of healthcare coverage in the subsidized system following the implementation of the 1993 reform programme. In addition, the figures show that in all countries the sharp differences between the coverage of formal and informal sector employees remained the same. In 1998, only 25% of workers in the informal sector had access to some kind of social security, compared to approximately 75% of those in the formal sector. Throughout the decade, the percentage of unprotected wage earners increased by about 3 points in both sectors of the labour market (ILO, 1999, table 7-A).

The larger number of unprotected workers is a distinctive feature of the increased flexibility of the job market that has accompanied labour reforms in many cases. This flexibility has a variety of facets: increase in the types of contract available, including fixed-term contracts; extension of the probationary period and provisions for subcontracting; additions to the possible grounds for dismissal and reduction of the severance package; and in some cases, introduction of individual unemployment insurance accounts (Weller, 1998). All of this encourages the trend towards informal and temporary employments, since these measures encourage the use of temporary contracts, usually without any protection system and with low pay levels.

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<sup>27</sup> Paraguay is an exception, in that despite a moderate growth rate during the period in question, average income in the formal sector rose significantly. This can be explained by the considerable increase in real wages in the public sector.

## 6. The labour market and its impact on social equity

### (a) Regressive effects of increased unemployment

In the context of the general trend toward the deterioration of the labour market's performance in the region, unemployment stands out as one of the main obstacles hindering the improvement of income distribution. Open unemployment in urban areas rose in most countries, and is still affecting lower income groups disproportionately. On average, the unemployment rate in households in the lowest income quartile in the region was more than double the overall rate in 1997. For this reason, unemployment is still strongly associated with the problems of poverty and inequality. Nevertheless, in the countries where unemployment rose during the 1990s, it increasingly affected medium-income sectors. This is consistent with the tendency for young people with an intermediate education to have more and more difficulty finding work.

The sluggish economies of many countries and the relative shortage of quality jobs posed problems for young people entering the workforce, even with rising levels of education. This trend was aggravated by the precarious situation of low-income households, which forced young people to seek gainful employment at an earlier age. Consequently, the unequal distribution of educational capital among people at different socioeconomic levels became entrenched and even worsened (see chapter IV).

This situation is reflected in the high rate of unemployment among young people 15 to 24 years of age, who account for one-fifth to one-fourth of the labour force in Latin America. In 1997, the jobless rate of this group was twice the average rate (see table II.6). This is partly due to the fact that their participation in economic activity has been on the rise, particularly during the last three years (ECLAC, 1999a, chapter III). Looking at the participation rates of young people by household income level, we also see that in the countries where their participation grew, the gains were generally more pronounced in the poorest quartile. This phenomenon is linked to the difficulty of keeping poor youths in the educational system, which tends to perpetuate conditions of poverty and inequality. Thus, a "hard core" of urban unemployment has developed which is made up mainly of young people and adults with low skill levels from the poorest households.

Moreover, although women have joined the labour market at a faster pace than men, and have done so at increasingly higher levels of education, they have encountered more difficulty finding jobs commensurate with their qualifications. With a few exceptions (El Salvador, Honduras, and Mexico), the unemployment rate among women is higher than that of men, and this has dampened the trend toward improved income levels in low- and medium-income households as more women join the workforce.

Table II.6  
**LEVEL AND STRUCTURE OF OPEN UNEMPLOYMENT IN URBAN AREAS**  
**1990-1997**

Country	Total employment rate		Unemployment rate, youths aged 15-24	Quotient of youth unemployment rate and total unemployment rate	Unemployment rate in poorest 25% of households	Quotient of unemployment rate in poorest 25% of households and total unemployment rate	Quotient of female unemployment rate and male unemployment rate
	(percentages)		(percentages)		(percentages)		
	1990	1998	1997	1997	1997	1997	1997
Argentina	7.4	12.9	24.2	1.69	28.8	2.01	1.39
Bolivia	7.3	4.4	6.4	1.73	8.6	2.33	1.00
Brazil	4.3	7.6	15.1	1.89	14.4	1.79	1.49
Chile	7.8	6.4	13.2	2.20	15.4	2.56	1.43
Colombia	10.5	15.3	24.3	2.06	30.5	2.58	1.52
Costa Rica	5.4	5.4	13.0	2.24	13.6	2.35	1.26
Ecuador	6.1	11.5	18.9	2.05	21.5	2.34	1.83
El Salvador	10.0	7.9	14.6	2.00	...	...	0.63
Guatemala	6.0	5.9	...	...	...	...	...
Honduras	7.8	5.2	8.9	1.71	12.4	2.39	0.73
Mexico	2.7	3.2	12.5	2.45	5.5	1.08	0.67
Nicaragua	7.6	12.2	20.9	1.60	...	...	0.93
Panama	20.0	15.0	31.5	2.05	27.5	1.79	1.37
Paraguay	6.6	7.2	17.8	2.12	...	...	1.06
Peru	8.3	8.4	...	...	...	...	...
Dominican Republic	20.3	14.3	27.8	1.64	...	...	2.39
Uruguay	8.5	10.1	26.3	2.31	17.6	1.55	1.65
Venezuela	10.4	11.2	19.8	1.87	22.8	2.15	1.51
<b>Latin America<sup>a</sup></b>	8.7	9.1	18.5	1.97	18.2	2.08	1.30

**Source:** Based on official statistics from the countries and special tabulations of data from household surveys in the countries concerned.

<sup>a</sup> Simple average of all countries.

## (b) Increased income disparities in the labour market

The persistent and growing disparity in income levels is a key factor in explaining the rigidity of income distribution that has accompanied economic growth in several countries over the past few years. The wide gap between the incomes of skilled and unskilled workers, and the expansion of that gap in countries whose economies grew, continued to be a determining factor in the unequal distribution of income in Latin America.

The distance between the incomes of professional and technical workers and those of wage earners in the formal sector lengthened in most countries; in the region as a whole, this disparity grew by 24% between 1990 and 1997 (see table II.7). The reason for this was the faster rise in the earnings of skilled labour and the slower rise in the pay of private-sector wage earners in small, medium-sized, and large businesses. Similarly, the income gap between the most highly skilled employees and wage earners in microenterprises widened by an average of 28% between 1990 and 1997.

Table II.7

DISPARITIES<sup>a</sup> IN URBAN INCOME, 1990-1997

Country	Year	Wage disparity between professionals and technicians and private-sector wage earners in the formal sector	Wage disparity between professionals and technicians and private-sector wage earners in the informal sector <sup>b</sup>	Wage disparity between private-sector wage earners in the formal and informal sectors <sup>b</sup>	Disparity in mean wages between formal and informal sectors	Wage disparity between men and women	Wage disparity between men and women with more than 12 years of schooling
Argentina	1990	...	...	...	129	132	161
	1997	...	...	...	124	127	156
Bolivia	1989	195	281	144	151	167	204
	1997	275	400	145	273	145	167
Brazil	1990	240	336	140	229	154	192
	1996	282	446	158	219	147	179
Chile	1990	189	287	152	142	152	182
	1996	233	385	165	161	137	167
Colombia	1990	255	...	...	...	125	154
	1997	256	...	...	187	130	149
Costa Rica	1990	156	220	141	221	135	152
	1997	188	281	150	230	115	130
Ecuador	1990	207	261	126	212	149	179
	1997	197	317	161	209	120	139
El Salvador	1995	246	345	140	...	...	...
	1997	236	339	143	253	114	141
Honduras	1990	241	406	169	283	128	159
	1997	233	382	164	256	130	169
Mexico	1989	162	289	179	164	137	159
	1996	229	376	165	282	137	159
Nicaragua	1997	...	...	...	270	152	169
Panama	1991	171	273	160	295	125	132
	1997	244	385	158	246	132	159
Paraguay	1990	136	215	159	182	159	172
	1996	210	283	135	229	132	143
Dominican Republic	1997	...	...	...	148	111	133
Uruguay	1990	150	239	160	190	156	175
	1997	213	327	153	199	149	175
Venezuela	1990	106	170	160	139	127	141
	1997	242	341	141	125	120	143
Latin America <sup>c</sup>	1990	189	277	152	195	141	164
	1997	233	355	153	213	130	153

Source: ECLAC, based on special tabulations of data from household surveys in the countries concerned.

<sup>a</sup> The disparities are quotients of the average income in the highest pay category and that of the lowest one, multiplied by 100.

<sup>b</sup> Excludes domestic employment.

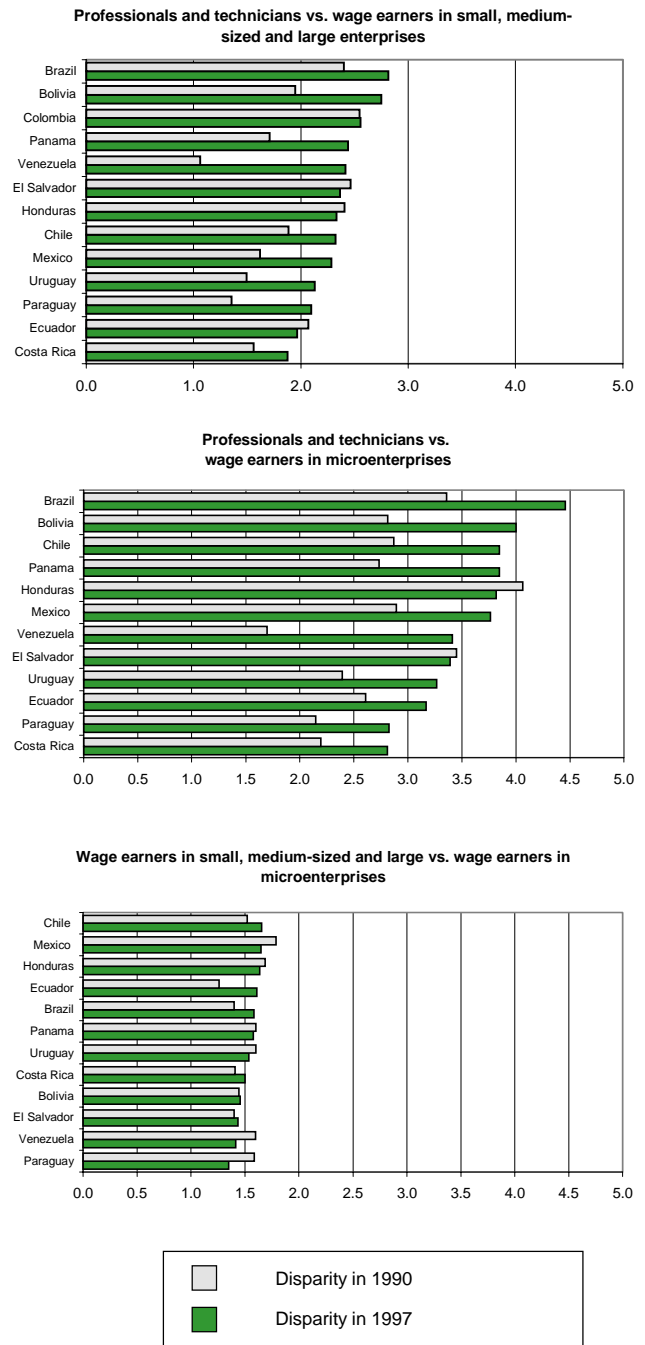
<sup>c</sup> Simple average of countries.

As shown in figure II.3, in every country but El Salvador and Honduras, there was a widening of the income gap between the extremes in the pay scale, that is, professionals and technicians versus wage earners in microenterprises. The figure also shows the strong correlation between the magnitude of this disparity and the degree to which the distribution of income is concentrated in various countries. Bolivia, Brazil and Chile, which have large pay gaps, are among the countries with the highest concentration of wealth, while Costa Rica, Ecuador and Uruguay, with smaller disparities, also belong to the group with the least



inequality of distribution in the region. Indeed, while urban income distribution in Bolivia, Brazil, and Chile resulted in Gini indices of 0.455, 0.538, and 0.473, respectively, in Costa Rica, Ecuador, and Uruguay, the figures were 0.357, 0.388, and 0.300).

**Figure II.3**  
**DISPARITIES IN EMPLOYEE EARNINGS<sup>a</sup>**  
**IN URBAN AREAS, 1990-1997**



**Source:** ECLAC, based on special tabulations of data from household surveys in the countries concerned.

<sup>a</sup> Quotient of highest mean income and lowest mean income.

A comparison of formal- and informal-sector incomes over the course of the decade shows that the disparities between the two tended to increase in countries with higher growth rates, while the gap was reduced in those where the average income of urban employees as a whole declined, as a result of the sharper drop in the income of formal-sector wage earners. In countries where growth was sluggish, the unequal distribution of income persisted or was exacerbated not so much because of the disparity between formal- and informal-sector incomes as because of the rise in unemployment, the decline in wages, and the ability of the highest income sectors, mostly employers, to maintain their share of total income.

Finally, there was a trend during the decade towards smaller wage disparities between men and women. Although women continued to earn an average of 30% less than men, the shortfall was less than it had been. In fact, in 9 of 13 countries, the gap between the average incomes of men and women narrowed. This tendency did not necessarily affect the concentration of income, however, as there are signs of a significant improvement in the earnings of more highly skilled women; this partly contributed to the greater disparity between the incomes of professional and technical employees and those of other wage earners.



## Chapter III

# Social integration

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In a modern and democratic society, social integration is primarily determined by the observance, on the part of groups and individuals, of certain standards of behaviour, and by the existence of institutions that guarantee an orderly resolution of conflicts. In addition, capacities are distributed in an equitable fashion, and everyone has more or less the same access to opportunities for well-being. And finally, different social and cultural groups coexist and are able to express their separate identities in a manner that is in harmony with the exercise of citizenship, political negotiation, access to social assets, and participation in the economy.

The idea that a single national identity should be shaped through assimilation within a nation state is losing ground. Given the diversity that characterizes most societies in the region today, there has been increasing recognition of the need to respect different value systems, worldviews, languages, and forms of community organization. The challenge is to blend these differences in such a way as to avoid fragmentation and discrimination, on the one hand, and standardization, on the other.

In practice, however, some serious asymmetries remain, particularly those related to ancillary factors such as ethnic background, gender, generation, physical location, family income and educational environment. A number of barriers and sociocultural filters also cause social exclusion to be reproduced across generations.

## 1. The gap between expectations and social integration

Up until the 1970s, the discourse of development and modernization had posited the existence of a virtuous process whereby different social groups would gradually gain access to the benefits of progress because they would have modern, more productive and better paying jobs. At the same time, they would receive a better education and thus improve their social and occupational mobility and their access to a greater variety of social services and goods. It was also believed that this would encourage political participation. Essentially, the idea was that in modern mass society, increased material consumption would keep pace with symbolic integration.

More recently, new elements have been added to the concept of integration, including those relating to the cultural affirmation of ethnic minorities, the gender variable, the problems of the new generations, and the strengthening of social capital.

It is no longer likely that informality will disappear as new jobs are created in the modern sector. In fact, the opposite seems to be the case.

The communications media have been growing steadily, which means that the bulk of the population is better informed; at the same time, informality on the labour scene is on the increase. Well-educated workers are rewarded, while those entering the job market with low levels of schooling and training either remain unemployed or have to settle for low-quality jobs. This dichotomy increases the income gap. Moreover, the traditional rural sector has been increasingly neglected. In short, a new process of social fragmentation is underway.

There are those who would argue that integration should be sought by mobilizing the social capital of actors who have a tradition of community life, so as to increase the internal cohesion of such groups, as well as their access to goods and services,<sup>28</sup> or by promoting symbolic integration through the use of new information technologies designed to increase horizontal communication among different groups, and by giving marginal groups access to public dialogue and making their demands known through the media, thus promoting their political integration. A new type of segmentation exists in the field of communications, however, as access to international cable television and, in particular, to the Internet, has created a new information gap in addition to those that already exist in the fields of education, productive employment, and income.

This gap between symbolic and material consumption is detrimental to social integration. When social segmentation exists side by side with open communications, expectations and patterns of behaviour are bound to change. The dissociation between increased options for symbolic consumption and limited access to material progress is a fact of life for a significant part of the population. It is difficult to reconcile material integration through redistribution of the benefits of growth with symbolic integration through education and the mass media.

According to the Economic Commission for Latin America and the Caribbean, between 1980 and 1990, per capita private consumption in Latin America fell by 1.7%. During the same period, according to the United Nations Educational, Scientific and Cultural Organization, the number of television sets per 1,000 inhabitants in the Latin American and Caribbean region rose from 98 to 162. At the same time, the average educational level of the young population also rose considerably. This means that while access to knowledge, images, and symbols rose sharply, consumption of “real” goods fell. In countries where crime levels in large cities were high, the

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<sup>28</sup> In another chapter of this document, social capital is defined as a set of social and cultural resources possessed by a human group, which provide benefits for the group that it would not otherwise have. It arises from cultural values such as reciprocity and respect for rules, as well as from family relationships, and is expressed in social institutions that provide for cooperation and management of human resources.

media industry also grew considerably and school coverage and educational achievement increased; yet there was no reduction in urban poverty and no improvement in the quality of life in the metropolises. During the 1980s and the early 1990s, there was a sharp increase in violence and in citizens' perception of insecurity, all of which are symptoms of social disintegration.

During the period 1970-1997, the number of television sets per 1,000 inhabitants increased fourfold, and hours of television programming rose geometrically every five years, along with the average number of hours people watched television. Although the level of formal education of the young population has risen by at least four years, the poverty index today has not changed since the early 1980s. The real income of the urban population has risen only modestly in some countries and has declined in others. Thus, access to knowledge, information, and advertising has not brought access to higher income levels, greater well-being, or increased consumption. The widening of the gap between symbolic and material consumption could be related to the increase in urban violence.

Given the existence of this gap between symbolic and material integration, it could be surmised that increased symbolic consumption also generates higher expectations of material consumption, and that the fact that these expectations cannot be fulfilled leads to a weakening of traditional standards, causing people to behave accordingly.

Citizen perception is critical where opportunities for attaining socially accepted goals are concerned. One indication of this is how people perceive the way that the fruits of growth are distributed. According to a recent survey, two thirds or more than half of all respondents (depending on the country concerned) felt that wealth was (highly or very) unfairly distributed (Huneus, 1997, p. 28).

Unsatisfied expectations can cause serious frustration, especially among those young people who have greater access to information and stimuli that symbolize social mobility but remain beyond their reach. Intermediate adults also have to deal with changes in the production process that limit their opportunities and require them to stay in jobs that are not highly regarded and afford no options for mobility.

## **2. Other situations that work against social integration**

There are a number of critical situations in the region the persistence of which affects social integration in different ways. These situations are summarized below.

### **(a) Hard-core poverty**

The hard-core poor are those who lack the skills necessary to get productive jobs and participate actively in the general exchange of society, and who have no support networks or cultural resources with which to overcome this situation. Since they are not able to take advantage of the existing structure of opportunities, they tend to internalize their discouragement and their poor self-esteem. They have little hope of ever being able to improve their living standards.

The hard-core poor include both the disruptive and the downtrodden groups of society —the two sides of disintegration. The first group includes urban youth who have been in and out of school, whose socialization has been precarious and has taken place in dysfunctional family settings, who live in ghettos, and who do not hold steady jobs. They are prone to behave in ways that are disapproved and punished by the rest of society, especially since they resort to violence in settling conflicts. The downtrodden include older people who are in financial straits and receive no support; women heads of household who have low-paying jobs; peasants who have no access to credit, training, technology, or markets; and ethnic minorities who have been uprooted from their traditions and do not participate in modern life. This categorization is, of course, merely

illustrative, since there are also young people who are downtrodden and ethnic minorities who are disruptive.

### **(b) Ethnic discrimination**

When people suffer contempt because of their ethnic or cultural identity, they are not likely to participate actively in society. Such discrimination usually makes it difficult for them to gain access to material resources, information, and knowledge that could help them achieve minimum levels of material well-being.

In the past, policies for integrating indigenous peoples were aimed at ensuring their assimilation into the culture. Today, however, such policies are geared towards respecting cultural differences and are aimed at achieving integration with diversity, with due recognition and protection for certain specific rights, including those mentioned in International Labour Organization Convention concerning Indigenous and Tribal Peoples. The idea is to promote a sense of community, respect and mutual recognition for peoples of different cultures.

Ethnic and racial inequity are usually associated with poverty, poor health and educational indicators, low-quality jobs, and low income. They are also present in areas where natural resources and productive resources have been depleted, where forced emigration has occurred, and where the rights of the people groups affected have been denied.

The indigenous population is generally believed to amount to approximately 8% of the total population of the region, i.e., between 33 and 35 million individuals (Deruyttere, 1997; Peyser and Chackiel, 1999) belonging to some 400 different language groups and distributed throughout practically every geographic area, including the large cities such as Guatemala City, La Paz, Lima and Quito. The black and Afro-Latin mestizo population is estimated at some 150 million individuals, or 30% of the total population of the region.<sup>29</sup>

Formal education is a key factor in the problems that affect indigenous peoples, not only because they have little access to it, but also because the curricula, which are usually designed to foster cultural assimilation and standardization, are of poor quality and are not relevant to their lives. Some countries, including Bolivia and Guatemala, have started important intercultural education programmes designed to overcome the longstanding barriers between the school and the indigenous community.<sup>30</sup>

As far as health conditions are concerned, the Pan American Health Organization and the International Labour Organization have pointed out that “the health conditions of ethnic minorities exhibit a level of deterioration that is higher than the average for the general population” (ILO/PAHO, 1999). According to this report, these minorities are excluded, in varying degrees, from different types of social health care programmes in almost every country of the region.

With regard to the Afro-Latin population, there are significant differences in many countries between the wages received by black and mulatto men and those received by white men. Figures on educational differences and racial background show that the average income of black and mulatto men amounts to between 74% and 79% of the income of white men. The figures for women are 86% and 82% (UNDP/IPEA, 1996).

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<sup>29</sup> The figures and percentages for the black and mestizo population were taken from the following sources: U.S. Bureau of the Census, Database ([www.census.gov](http://www.census.gov)), except in the case of Brazil ([www.ibge.gov](http://www.ibge.gov)), Haiti ([www.odci.gov](http://www.odci.gov)), Colombia, Dominican Republic and Venezuela (Larousse Moderno, 1991). For the population: Statistical Yearbook of Latin America and the Caribbean (ECLAC, 1999b).

<sup>30</sup> On this subject, see: Revista Iberoamericana de Educación No. 13 (Educación Bilingüe Intercultural) (<http://www.oei.es/rie13.htm>) for Guatemala and other countries, and the Website of the training programme on bilingual intercultural education for the Andean countries, located in Cochabamba ([www.proeibandes.org](http://www.proeibandes.org)).

### **(c) The family**

The family, which is the basic unit of socialization and reproduction of individual behaviour, is also in a critical situation. Families that are headed by individuals with a low level of schooling tend to reproduce that situation in their children, thus perpetuating the vicious circle of poverty.

Parents serve as role models and act as agents who create habits and links between their children and the world of work and culture. Thus, they are a decisive factor in social integration. When the heads of household have internalized violent or irresponsible behaviour patterns, their children tend to do poorly in school and behave irresponsibly as adults. In Latin America and the Caribbean, statistics on family violence and paternal irresponsibility are high, both because of the high rate of occurrence of such behaviour and because it tends to be reproduced. It is therefore imperative that society provide options for resolving this situation.

Finally, female-headed families are highly vulnerable, both because of problems relating to income security and protection, and because the situation generates or reproduces exclusion and inequality. Gender discrimination within the family and in daily life means that women are likely to be abused and overburdened with work.

### **(d) Work: labour segmentation and social exclusion**

Work is a key element of social integration. Not only is it the main means by which people earn a living, but it also provides a sense of psychosocial identity.

Because work is so important, the longstanding structural problems of Latin America that have been caused by the failure of the economies to generate modern jobs have been compounded by the so-called labour crisis. The region is faced not so much with European-style technological unemployment as with problems arising from technological underemployment, poor working conditions, and low wages.

The persistent gap between jobs that incorporate technical progress, on the one hand, and low-productivity jobs, on the other, is likely to be widened by the knowledge and information revolution. This will aggravate the division between those who are integrated and those who are excluded.

### **(e) Obstacles to democratic participation**

As democracy is consolidated, it is especially important that political consensus be achieved so that sustainable development projects can be implemented. This means that citizens must be able to exercise their right to participate in political decision making. Some social sectors have very little ability to put forward their demands, and since they are not skilful in applying the rationale underlying politics and public administration, they have a low public profile. The sectors that are left out of productive development, who live on the outskirts of the territorial network, rarely have access to public dialogue or deliberative bodies. Their absence from political life is mainly due to the obstacles they have had to face in order to function as organized social actors. Hence the need to strengthen their exercise of citizenship.

Clientelism, special interests, and corruption are still very much a part of political life in many countries of the region. This makes it difficult for all sectors of society to be represented in decision making and undermines trust in the political system.

This lack of citizen participation must be reversed in order to improve social integration. There is increasing recognition of the importance of public dialogue and democratic participation in promoting integration. Deliberative bodies not only provide opportunities for political consensus

building, but they also help citizens learn the basic rules of democratic dialogue. By the same token, the more active citizens become, the easier it will be for the excluded sectors of society to become a part of the institutional system that facilitates negotiation and arbitration.

### **(f) The territorial factor: urban and rural fragmentation**

Residential segregation of squatter settlements, which include a large number of children and adolescents, increases the feeling their sense of not belonging to society and fosters the development of subcultures with separate rules of behaviour. This aggravates social and labour-related marginalization. The inhabitants of these settlements find that they have no access to legitimate means for attaining the goals established by society, and thus, they engage in anomalous patterns of behaviour.

The difficulties that citizens experience in trying to satisfy their basic needs and the fact that they have no access to regular channels for seeking justice and protection often cause them to resort to survival strategies that are associated with crime, including organized crime and drug trafficking, and to the use of violence within the neighbourhood as a way to settle accounts or acquire power and benefits.

Moreover, this urban population, unlike the rural population, has assimilated more of the status symbols that are characteristic of modern society, such as prestigious jobs, purchasing power, and symbolic distinctions.

## **3. Violence and citizen insecurity**

### **(a) Violence in the region**

There is a close relationship between lack of social integration and high levels of insecurity. When social groups internalize behaviour patterns that do not follow the rules of community life, justice, and respect for others, society is increasingly exposed to the use of violence as a way to settle conflicts and obtain resources. The difficulties that institutions experience in guaranteeing citizen protection and applying justice accentuate the perception of insecurity.

The increase in urban violence in many countries of the region has created an atmosphere of public insecurity. Comparative studies conducted in the early 1990s show that the Latin American and Caribbean region is one of the most violent in the world, as it has a homicide rate of 20 per 100,000 inhabitants (Guerrero, 1998). More recently, in 1995, a study of six countries of the region (Brazil, Colombia, El Salvador, Mexico, Peru, and Venezuela) showed an estimated homicide rate of 30 per 100,000 (Londoño, 1998).

Homicide rates rose during the period 1984-1994 (see table III.1), although there were notable differences between subregions and countries and between cities within the same country. The lowest rates were found to be in the Southern Cone of South America and the English-speaking Caribbean. Homicide rates were higher among males than among females.



Table III.1

**LATIN AMERICA AND THE CARIBBEAN 1984-1994: HOMICIDE RATES  
PER 100,000 INHABITANTS**

Regions	1984			1994		
	Total	Males	Females	Total	Males	Females
Central America and the Latin Caribbean <sup>a</sup>	17.5	31.5	3.8	21.1	38.1	4.0
Andean Area <sup>b</sup>	25.2	46.6	4.0	51.9	96.6	7.7
English-speaking Caribbean <sup>c</sup>	5.2	7.6	2.8	8.7	13.1	4.2
Southern Cone <sup>d</sup>	5.4	9.3	1.8	6.2	10.5	1.9
Brazil	23.2	42.4	4.0	30.1	54.8	5.2
Mexico	18.2	33.3	3.1	19.5	34.8	3.8

**Source:** Pan American Health Organization, *Health in the Americas*, vols. I and II, Washington, D.C., 1998.

<sup>a</sup> Central America and the Latin Caribbean: Costa Rica, Dominican Republic, El Salvador, Guatemala, Nicaragua, and Panama.

<sup>b</sup> Andean area: Colombia, Ecuador, Peru and Venezuela.

<sup>c</sup> English-speaking Caribbean: Anguilla, Bahamas, Barbados, Belize, Cayman Islands, Dominica, Guyana, Saint Kitts and Nevis, Saint Lucia, Suriname, Trinidad and Tobago, and Turks and Caicos Islands.

<sup>d</sup> Southern Cone: Argentina, Chile, Paraguay and Uruguay.

## (b) Social conditions and risk factors

Citizen insecurity does not affect everyone in the same way. Certain risk factors that aggravate the situation fall into three main categories, as follows: (a) factors relating to the family situation and social position of individuals, including sex, age, education, socialization, and use of alcohol and drugs; (b) social, economic, and cultural factors, including unemployment, poverty, crowding, social inequalities, violence in the media, and the culture of violence; and (c) contextual and institutional factors, including war, drug trafficking, corruption, and availability of firearms.

The absence of effective institutional controls paves the way for violent behaviour. The inadequacy of the court systems causes people to lose confidence in existing institutions, including law enforcement. The data available for Chile—which is probably not an extreme case in the region—indicate that in 1996, temporary stays of proceedings were granted in 84.9% of all cases of robbery with the use of force, 76.1% of cases of robbery with violence, and 81.5% of theft cases. This, along with the procedural complications involved, helps explain why in 1997, only 40% of all robberies and thefts were actually reported (Fundación Paz Ciudadana, 1998). Impunity often causes citizens to take the law into their own hands and increases their distrust of institutions.

When citizens have little or no access to the justice system, they lose confidence in the agencies that are supposed to provide justice, protection, and security. Unsatisfactory and unsafe conditions in prisons, lack of access to legal defence for people in low-income brackets, and lengthy periods of imprisonment caused by delays in proceedings, along with the impunity of certain sectors who contribute nothing to social integration are all factors that lead to irregular behaviour and undermine the value systems of society and hence, the sense of community. If confidence is to be encouraged and nurtured, the judiciary must guarantee transparent, fair, and effective proceedings that do not keep out the poor. The system must guarantee protection and respect for the physical integrity of individuals, and the penal system must work against impunity and moral degradation.

Networks that reaffirm relationships and trust within a community facilitate smoother interaction and help reduce violence, even under poverty conditions. This “social capital” (Putnam,

1992) can make the difference between a poor community with little violence and one with high levels of violence. It should be noted, however, that there is also such a thing as a “perverse” social capital, in which networks, contacts, and associations serve the interests of illegal activities (Rubio, 1998a and 1998b).

The following conclusions may be drawn from a review of sociodemographic and economic data (ECLAC, 1999b):

- There is not necessarily any correlation between violence and the percentage of the total population that lives in urban areas. For example: Argentina and Chile have a higher percentage of urban population than Colombia and Brazil, but their homicide rates are much lower. On the other hand, the increase in urban homicides is often caused by social disintegration. Latin American cities undergo constant changes in culture, administrative and political systems, and socioterritorial organization; therefore, they are highly fragmented because of the existence of enormous economic gaps, cultural differences, and social inequalities (Carrión, 1995). At present, three out of every four inhabitants of the region live in urban areas, and it is estimated that by the year 2000, it will be the most highly urbanized region in the world. At the same time, urban violence is growing at unprecedented rates.
- There is not necessarily any correlation between the increase in urban population and the rise of criminal behaviour. In Bolivia and Paraguay, the urban population has grown considerably, but the level of violence has remained relatively stable; in Colombia and Venezuela, on the other hand, violence has risen steadily during the same period without there being a corresponding increase in the urban population. There may be some relationship between the high percentage of young people living in metropolitan areas and the increase in urban violence.
- There is no correlation between poverty and violence. A study in Peru showed that the poorest departments do not have the highest levels of insecurity (Reyna and Toche, 1999). In Colombia, several studies showed no relationship between poverty and violence; the poorest regions were not the most violent nor is there any correlation between poverty and homicide (Fedesarrollo, 1996).
- There may be some correlation between increased violence and unemployment. Perhaps more importantly, when unemployment rises steadily and then falls, there is no corresponding drop in urban violence.
- It is possible but not inevitable that there could be a relationship between a worsening of distribution and an increase in violence.
- The percentage of poor households is not related to levels of violence, but may have something to do with an increase in violence in the long run.

### **(c) The syndrome of citizen insecurity**

The aforementioned phenomena have given rise to a “citizen insecurity syndrome”, i.e., a widespread feeling of insecurity that is caused both by a perception that antisocial behaviour has increased and by distrust of the institutions that are responsible for controlling such behaviour (the courts and law enforcement).

This syndrome is aggravated by a combination of drug trafficking, corruption, and violence, all of which are known to cause social decay. Although these phenomena are not comparable, when taken together, they cause a breakdown of the basic rules of community life and undermine governance. Moreover, they give rise to a widespread sense of insecurity, because citizens perceive

that antisocial behaviour has increased, and they distrust the institutions that are supposed to control such behaviour.

The perception of insecurity is not necessarily commensurate with the actual increase in violence. Indeed, surveys on citizen insecurity usually show a greater increase in perceived insecurity than in the level of violent or criminal behaviour. This is partly due to the intimidating nature of violence, its spread, and the dramatic coverage it receives in the mass media, as well as the impunity which, in the eyes of the public, is enjoyed by many of those who commit crimes and manage to avoid punishment. Sensationalistic coverage of such events can generate a climate of fear and strong feelings of vulnerability that are not always in line with actual observed levels of violence.<sup>31</sup>

These perceptions influence lifestyles. People tend to avoid public areas and refrain from going out at night or visiting certain neighbourhoods; instead, they stay indoors and seek entertainment in private places. This means there is less interaction among people of different social backgrounds, and spontaneous socializing is discouraged. People stay with their own peers and tend to distrust anyone they consider “different”. Urban design changes, as barred houses and condominiums proliferate, and many people choose to live in apartments rather than houses. They spend more on robbery insurance, pay for private surveillance, or purchase physical protection devices. Commercial activities tend to be concentrated in large malls, which are considered to be protected from assault and accidents.

In general, the aforementioned situations, many of which are closely interrelated, weaken or eliminate the bonds that make people feel like they belong together, and undermine the acceptance of common patterns of behaviour and the exercise of effective citizenship. Moreover, they strengthen a type of individualism that excludes others and creates distrust of public agencies. If we are to attain higher levels of social integration, we must rebuild channels of social mobility that will meet the needs created by ongoing change; social capital and related networks need to be strengthened, especially among the excluded sectors. An approach to development is needed that will combine growth with equity and generate greater equality of opportunities for inclusion; diversity must be valued, the actors of civil society must be strengthened, and the political system must ensure that the demands and interests of all actors are adequately represented and negotiated.

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<sup>31</sup> For example, a survey of 12 press media in Guatemala that was conducted over an eight-week period (from 10 October to 5 December 1997) showed that 66.3% of the stories covered had some component of violence (UNDP, 1998b).

**OVERVIEW OF SOCIAL DEVELOPMENT IN THE CARIBBEAN SINCE THE WORLD SUMMIT FOR SOCIAL DEVELOPMENT IN COPENHAGEN**

A look at social development in the Caribbean in the late 1990s leads to the following conclusions:

- Despite the universal call made in Copenhagen for greater consistency between social development and economic development policies, in the Caribbean, the link between the two seems to be no closer.
- While some countries have experienced higher rates of economic growth, poverty levels remain high as reflected, among other things, in high infant mortality rates, especially in Haiti, and also, albeit to a lesser degree, in Guyana, Grenada, Saint Kitts and Nevis, the British Virgin Island, Saint Lucia and Suriname.
- The increasing discrepancy between levels of economic and social well-being and the exclusion of a large proportion of the population from the benefits of economic growth have translated into a break-down in the fabric of society in the subregion.
- The main issues of concern since the World Summit for Social Development have been crime, violence, drugs and acquired immunodeficiency syndrome (AIDS). As regards the first of these, the average age of delinquents is falling increasingly lower and the same is true for drug traffickers. AIDS is as much an economic as a social problem: the higher mortality rate due to this disease among men aged 25 to 35 results in a significant loss of manpower.
- The problem of social exclusion has been aggravated by the situation of children employed as domestic workers in Haiti; other problems include that of young people who do not attain minimum standards of education (Common Entrance Examination) or who drop out of the school system at an early age; the increasingly high number of patients with AIDS; the impoverishment of small banana producers and their families; the increase in the emigrant population returning to their country of origin and growing waves of migration from poorer countries towards those with higher per capita income levels.

Efforts to overcome some of these problems include the following:

- Sectoral institutional reform initiated in some countries of the subregion, particularly in the areas of health and education. In the case of the Dominican Republic, economic reform has enabled the country to achieve one of the highest economic growth rates in the hemisphere, especially in the late 1990s.
- Special programmes for poverty reduction or for strengthening existing social safety nets. It should be noted that in most countries, the results are still to be assessed.
- The improvement of programmes for analysis and planning of gender issues. To this should be added the political empowerment of women.
- The attention paid to improving social data, statistics and indicators.

**Source:** ECLAC, "Overview of Social Development in the Caribbean Post Copenhagen", Port-of-Spain, ECLAC Subregional Headquarters for the Caribbean, September 1999.

## **Part Two**

### **Determinants of opportunities for attaining well-being**

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## Chapter IV

# Inter-generational transmission of opportunities for attaining well-being

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In many documents, ECLAC has underscored the marked and persistent inequality in the welfare of the people of Latin American and Caribbean. In particular, it has stressed the high concentration of income distribution and has maintained that lack of equity is a constraint on economic growth. ECLAC drew up a proposal pointing out that growth and equity are mutually conditioning, and asserting the need to move towards both objectives simultaneously rather than sequentially. This proposal argues that the distributive substance of development crucially depends on the adoption of policies that promote greater social distribution of the benefits of economic growth (ECLAC, 1992a).

As pointed out in chapter I, the trends of the 1990s suggested that profound inequality in income distribution persisted or was accentuated in most countries of the region. This circumstance coexists with a marked concentration of educational capital and of physical and financial holdings. Additionally, other demographic and socio-economic factors determine very pronounced differences in levels of well-being between low-income households with many members, of whom a large proportion are jobless, and high-income households with fewer members, a large proportion of whom are employed (ECLAC, 1998a).

The aim of this chapter is to highlight the importance of educational, demographic and physical or financial resource factors in conditioning income distribution and welfare, and to bring out a feature common to all them: the high degree to which they can be transferred between generations. This, in turn, is one of the central elements of profound and persistent socio-economic inequality, evident both in income distribution and in other aspects of people's opportunities for material and immaterial well-being.

The decisive role played by the inter-generational transmission of inequality springs from its endogenous character in the reproduction of the chain of individuals' welfare opportunities. In other words, it stems from the fact that the main determinants of those opportunities in the current generation to a large extent condition the welfare opportunities in the succeeding generation. This explains the persistence of inequalities over time, notwithstanding the redistributive efforts of the State, except perhaps those policies geared towards reducing inequalities in the distribution of human and physical capital.

It is particularly important, in that regard, to point out the main mechanisms and factors involved in the inter-generational transmission of opportunities, so as to identify public policies that can deactivate or attenuate the mechanisms that transmit socio-economic inequalities.

A prime consideration in this regard is education, because of its strong influence on employment opportunities and income, and because of its significant effect on the demographic and socio-economic dimensions of opportunities.

This chapter analyzes the hereditary nature of the factors underlying the different components of household income, and their direct and indirect links with educational capital. It quantifies the relative effect of the main components of income in the various distribution strata, as well as other determinants of per capita household income, the latter being the main indicator of material well-being.

## **1. The transferability of the main sources of family income**

Examination of the profile of households in the upper and lower deciles of the pyramid of incomes shows that educational, occupational, demographic or physical and financial resource factors conspire to keep children from low-income households in disadvantaged circumstances when they reach adulthood, and to give those from higher-income households a significant prospect of maintaining their place in terms of distribution. Such factors thus confer a hereditary character on individuals' relative place in future income distribution.

The interrelation of the above factors and the way they combine in households of various socio-economic strata emerge from an examination of the components of family income and the characteristics of the households in the different deciles of distribution. A simple average of these characteristics among households<sup>32</sup> in the countries of the region reveals that income from work (salaries, wages and employers' and own-account workers' earnings) represent about 80% of total

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<sup>32</sup> This average is justified not only because it clarifies the exposition, but also because it adequately represents the characteristics examined in each of the countries, mainly since there is a high degree of homogeneity between these for each decile of income distribution.



household income<sup>33</sup> (see tables IV.1 and IV.2). Hence, a large share of family income depends on earnings generated in the labour market and, therefore, on the factors that condition those earnings: mainly educational capital and the number of employed persons in each household.

As is evident in table IV.2, income from work is closely linked to the average number of years of schooling completed by the employed: income per employed person in households in the lowest decile is 1.5 times the value of the per capita poverty line; their employed members average about six years of schooling. By contrast, average income in households in the upper decile is 16 times the value of the poverty line, and the educational level is an average 13.5 years of study. These levels of income prevailing in the poorest decile correspond to households with an average of almost 6 members (5.7), of whom only 1.4 are employed; the ratio of employed persons to household members (employment density) is thus 0.24. For households in the upper decile, the averages are 3 people per household and 1.8 employed, with a much higher employment density (0.56). As mentioned earlier, these differences in income components between the different strata depend on educational capital.

**Table IV.1**  
**COMPONENTS OF PER CAPITA HOUSEHOLD INCOME, LATIN AMERICA<sup>a</sup>**  
(Urban areas)

Deciles <sup>b</sup>	Structure of per capita household income in multiples of poverty lines				Percentage composition of per capita household income			
	Per capita household income	Per capita income from work	Per capita capital income	Per capita income from transfers	Total	Income from work	Income from capital	Income from transfers
Decile 1	0.43	0.35	0.02	0.05	100.0	81.6	5.8	12.6
Decile 2	0.79	0.65	0.05	0.09	100.0	82.4	5.9	11.6
Decile 3	1.05	0.87	0.06	0.12	100.0	82.8	5.8	11.4
Decile 4	1.34	1.11	0.08	0.14	100.0	83.4	6.0	10.6
Decile 5	1.66	1.39	0.10	0.18	100.0	83.4	5.9	10.7
Decile 6	2.06	1.71	0.13	0.22	100.0	82.9	6.2	10.8
Decile 7	2.57	2.12	0.17	0.28	100.0	82.6	6.5	11.0
Decile 8	3.40	2.80	0.23	0.37	100.0	82.3	6.9	10.8
Decile 9	4.80	3.91	0.38	0.52	100.0	81.3	7.9	10.8
Decile 10	11.76	9.16	1.54	1.06	100.0	77.9	13.1	9.0
<b>Total</b>	<b>2.55</b>	<b>2.06</b>	<b>0.22</b>	<b>0.26</b>	<b>100.0</b>	<b>80.8</b>	<b>8.8</b>	<b>10.3</b>

**Source:** ECLAC, on the basis of special tabulations of household surveys conducted in the respective countries.

<sup>a</sup> Simple average of 12 countries around 1997: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Honduras, Mexico, Panama, Paraguay, Uruguay and Venezuela.

<sup>b</sup> Deciles of per capita household income distribution.

<sup>33</sup> Analysis of the components of per capita household income was conducted on the basis of the following equation:

$$\frac{YTH}{N} = \frac{YTRAB}{OCUP} * \frac{OCUP}{N} + \frac{YK}{N} + \frac{YTRANF}{N}$$

YTH represents total household income; N is the number of household members; YTRAB represents income from work (salaries, wages and earnings from independent work); OCUP is the total number of employed household members; YK represents the household's capital income (earnings, interest, dividends and attributed rent); YTRANF represents income from household transfers (including allowances, retirement pensions, widow's pensions and monetary subsidies in general).

Table IV.2  
**RELEVANT FEATURES OF HOUSEHOLD INCOME GENERATION, LATIN AMERICA<sup>a</sup>**  
*(Urban areas)*

Deciles <sup>b</sup>	Average years of schooling of employed	Average labour income per employed person (in multiples of the poverty line)	Average number of employed persons in household	Average number of persons in household	Ratio of number of employed and number of household members
Decile 1	6.1	1.5	1.4	5.7	0.24
Decile 2	7.0	2.2	1.5	5.2	0.29
Decile 3	7.6	2.6	1.6	4.8	0.33
Decile 4	8.0	3.0	1.7	4.7	0.37
Decile 5	8.5	3.4	1.8	4.4	0.41
Decile 6	9.2	3.8	1.9	4.2	0.45
Decile 7	9.6	4.5	1.9	4.0	0.47
Decile 8	10.6	5.6	1.9	3.7	0.50
Decile 9	11.7	7.5	1.8	3.5	0.52
Decile 10	13.5	16.3	1.8	3.1	0.56
<b>Total</b>	<b>9.3</b>	<b>5.1</b>	<b>1.7</b>	<b>4.3</b>	<b>0.41</b>

**Source:** ECLAC, on the basis of special tabulations of household surveys conducted in the respective countries.

<sup>a</sup> Simple average of 12 countries around 1997: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Honduras, Mexico, Panama, Paraguay, Uruguay and Venezuela.

<sup>b</sup> Deciles of per capita household income distribution.

For their part, income from transfers (which largely consist of pensions and allowances) varies between countries and between different strata in each country, amounting to 5% in some cases and to 20% in others.<sup>34</sup> However, it should be noted that income inequalities prevailing before a person retires tend to extend into the period of retirement. This is because the chances of securing those allowances, as well as their amount, depend to a large extent on the kind of job that the beneficiaries had during their working life, and therefore on their level of education.

Finally, as regards the income from holdings that households receive from dividends, profit-sharing, interest earnings, and revenue from ownership of property or financial assets, these are significantly greater at the apex of the pyramid of distribution; some of them are almost wholly concentrated in the ninth and tenth deciles.<sup>35</sup> However, it should be recalled that an appreciable portion of company savings—which mostly belong to members of households in the upper deciles—do not form part of the current income of those households, although a part of employers' and managers' work income, as well as that of professionals and independent specialist workers, is directly related to their holdings of physical or financial assets.

Although income from holdings is not particularly significant relative to that from work, it is important in terms of its role in the mechanisms that transmit inequalities between generations because of the very inheritability of such resources. Holdings enhance the employment prospects of those with more and better education, thus creating a force of great inertia that guarantees children from higher-income households a position in the distributive pyramid that is similar to that of their parents.

<sup>34</sup> On average, transfers represent about 13% of total income in the lowest decile, falling to 9% in the highest, although, in per capita terms, the amount in this latter decile is 20 times that of the former.

<sup>35</sup> Considering the regional average of the real flows, which are undoubtedly underestimated given the substantial distance (a ratio of 60 to 1) between the extreme deciles.

## 2. Intervening factors in opportunities for attaining well-being

People's educational capital, meaning the number of years of schooling and the quality and relevance of the education received, is the main factor affecting their material and immaterial welfare opportunities. The effect stems from a variety of direct and indirect mechanisms, each of them inter-related, that determine the range of present and future opportunities.

With regard to material welfare opportunities, educational capital decisively influences the capacity to generate income and, therefore, the relative position of each person and his family in income distribution. First, it does this by means of the close links between the educational level attained and the chances of working in various occupations and of acquiring the attendant income. Second, with regard to immaterial welfare, more education offers greater freedom and enhanced decision-making capacity regarding desired family size. It also facilitates the harmonization of the reproductive role of women with their participation in productive activity. More education thereby increases household income, because the number of dependent people declines and because women have better opportunities to participate in the labour market, and to do so for longer throughout their lives.

Educational capital also enhances the self-sustaining and management capacity of community projects and, in general, is conducive to participation, with the consequent increase in social and political citizenship.

### (a) Education, employment, income and social stratum of origin

The occupations in which young people with different educational capital most frequently work reflect the extent to which their welfare prospects are predetermined by the educational and socio-economic circumstances of the home. Those from low-income households whose parents have limited education usually complete no more than 8 years of schooling, while youths from more affluent households complete 12 or more. This conditions their employment prospects, since most of those (between 80% and 90%) with less than 8 years of education are unskilled factory hands, labourers, caretakers, waiters, domestic employees or agricultural workers, with insufficient monthly average income to guarantee the welfare of a new family (their income does not exceed the value of 2.5 times the per capita poverty line).

Youths with 12 or more years of schooling are largely (between 50% and 55%) professionals, specialist workers and managers, and their average monthly income fluctuates between 6 and 8 poverty lines (see tables IV.3 and IV.4).

It should nevertheless be noted that inequalities in the quality of education are also transmitted, which influences people's hierarchical position within a single occupation. The reason is that social stratum also determines family contacts and the social network that can be accessed. This is reflected in the income differentials between youths of differing social backgrounds in the same occupation which, in turn, increase the differences in their welfare prospects (ECLAC, 1998a).

Table IV.3

OCCUPATIONS OF YOUNG PEOPLE <sup>a</sup> BY LEVEL OF EDUCATION, LATIN AMERICA

	Number of years of schooling	Total	Occupation		
			Professionals, specialist workers and managers	Administrative employees, salespersons and shop assistants	Factory hands, labourers, waiters, caretakers, domestic employees and agricultural workers
<b>Urban areas</b>					
	Total	100.0	15.4	32.1	52.4
	0 - 8	100.0	2.0	15.6	82.4
	9 - 11	100.0	11.5	44.7	43.9
	12 or more	100.0	48.8	40.9	10.3
<b>Rural areas</b>					
	Total	100.0	7.1	9.8	83.1
	0 - 8	100.0	1.8	4.9	93.2
	9 - 11	100.0	15.8	24.5	59.7
	12 or more	100.0	53.6	28.9	17.5

**Source:** ECLAC, on the basis of tables IV.3.1 and IV.3.2 in Social Panorama of Latin America, 1997 (LC/G.1982-P), chapter IV, Santiago, Chile, 1998. United Nations publication, Sales No. E.98.II.G.3.

<sup>a</sup> Includes young people aged 20 to 29 who work 20 or more hours a week.

Table IV.4

AVERAGE INCOME <sup>a</sup> OF YOUNG PEOPLE <sup>b</sup> BY OCCUPATION AND LEVEL OF EDUCATION, LATIN AMERICA

	Number of years of schooling	Total	Occupation		
			Professionals, specialist workers and managers	Administrative employees, salespersons and shop assistants	Factory hands, labourers, waiters, caretakers, domestic employees and agricultural workers
<b>Urban areas</b>					
	Total	3.4	5.6	3.3	2.6
	0 - 8	2.5	...	2.6	2.4
	9 - 11	3.4	...	3.2	2.9
	12 or more	5.2	6.4	4.3	...
<b>Rural areas</b>					
	Total	3.2	6.2	3.6	2.7
	0 - 8	2.8	...	3.1	2.6
	9 - 11	3.9	...	4.9	3.6
	12 or more	7.5	8.2	7.5	...

**Source:** ECLAC, on the basis of tables IV.3.3 and IV.3.4 in Social Panorama of Latin America, 1997 (LC/G.1982-P), chapter IV, Santiago, Chile, 1998. United Nations publication, Sales No. E.98.II.G.3.

<sup>a</sup> Expressed in multiples of the per capita poverty line. It should be recalled that rural poverty lines represent about 67% of the urban poverty lines of each country.

<sup>b</sup> Includes young people aged 20 to 29 who work 20 or more hours a week.

## **(b) Constraints on the accumulation of educational capital**

The link between accumulated educational capital, occupation and income is not the only means whereby differing opportunities and relative positions in income distribution are transmitted from one generation to another. The deficient educational capital and inadequate economic resources of households activates other phenomena that weaken or diminish young people's educational prospects and the associated opportunities. Shortage of resources in the home and limited education give rise to child labour and increase teenage motherhood. Both phenomena cut youths' schooling by at least two years, as is clear from comparing the average years of schooling of those who enter the labour market early with the average of those who do not, or the educational level of youths who had at least one child before the age of 20 with those who did not (ECLAC, 1995 and 1998a). Both phenomena tend to curb the accumulation of educational capital, which then translates into lower-income occupations and, consequently, into disadvantaged positions in the pyramid of distribution.

As mentioned earlier, education has a variety of effects on people's behaviour, on their opportunities for well-being, and on the intergenerational transmission of these trends. The educational level of women has a great influence on the health and survival of their children: when the mother is lacking in education, the average infant mortality rate is 70 per 1,000 live births. This falls to about 50 if the mother has some primary education, and to under 30 per 1,000 if she has some secondary education (ECLAC, 1998b).

Education also crucially affects reproductive behaviour: uneducated women have an overall fertility rate of about 6 children, which falls to 4.5 among women with primary education and to about 2.5 among those with some secondary education. This entails sharp differences in the household's material welfare, since the larger number of children reduces per capita household income and lessens the prospect that the mother can work, thus contributing to family income. The income that women earn, moreover, also depends on their educational level.<sup>36</sup>

## **3. Evidence of the inter-generational transmission of education**

### **(a) Inheritability of educational capital**

The inheritability of educational capital is the source of the transmission of welfare opportunities in societies where educational wealth is, along with financial or physical holdings (which are concentrated in the high-income strata) an individual's main asset. This inheritability is clear in as much as the quantity and quality of education that youths accumulate depends to a large extent on factors that they cannot alter: the educational capital of their parents and the economic resources of their home. Data on the intergenerational transmission of education are presented below.

Despite the expansion of education in the region, educational inequalities between youths of different social strata have persisted in recent decades. Currently, only about 20% of young people whose parents failed to complete primary education finish secondary school. The percentage exceeds 60% among children whose parents have at least 10 years of schooling. There were similar, albeit smaller differences in these proportions, at the beginning of the 1980s (see table IV.5 and figure IV.1).

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<sup>36</sup> The average rate of female economic participation in the region is about 50%; but it is only about 34% for women with less than 4 years of schooling; it is slightly above 40% for those with between 4 and 9 years of schooling; and it reaches 70% for those with more than 12 years (ECLAC, 1999a).

Table IV.5

**PERCENTAGE OF CHILDREN AGED 20 TO 24 WHO COMPLETED AT LEAST 9 OR 12 YEARS OF STUDY, BY THE EDUCATIONAL LEVEL OF THEIR PARENTS, LATIN AMERICA**

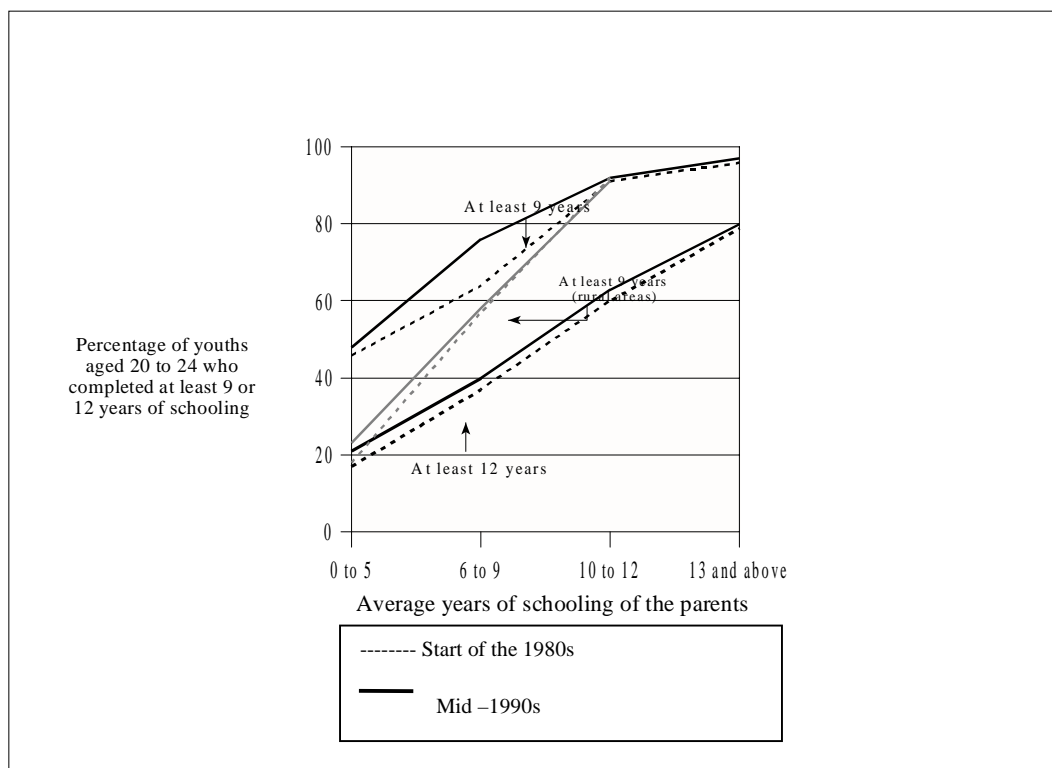
Years of schooling of the children	Period	Total	Educational level of the parents <sup>a</sup>			
			0-5	6-9	10-12	13 or more
Urban areas						
At least 9 years	At the beginning of the 1980s	62	46	64	91	96
	By the mid-1990s	67	48	76	92	97
At least 12 years	At the beginning of the 1980s	34	17	37	60	79
	By the mid-1990s	34	17	37	60	79
Rural areas						
At least 9 years	At the beginning of the 1980s	22	18	57	92	
	By the mid-1990s	30	23	58	91	

**Source:** ECLAC, on the basis of table IV.2.1 of *Social Panorama of Latin America, 1997* (LC/G.1982-P), chapter IV, Santiago, Chile, 1998. United Nations publication, Sales No. E.98.II.G.3.

<sup>a</sup> Average number of years of schooling of the head of the household and spouse.

Figure IV.1

**YOUTHS AGED 20 TO 24 WHO COMPLETED AT LEAST 9 OR 12 YEARS OF SCHOOLING, BY THE EDUCATIONAL LEVEL OF THEIR PARENTS, LATIN AMERICA, URBAN AREAS, 1980-1995**



**Source:** ECLAC, on the basis of table IV.2.1 in *Social Panorama of Latin America, 1997* (LC/G.1982-P), chapter IV, Santiago, Chile, 1998. United Nations publication, Sales No. E.98.II.G.3.

Educational capital thus continues to depend on factors that are assigned: the likelihood of receiving an adequate minimum of education is strongly conditioned by the level of education of the parents and the economic capacity of the household, which in turn depends on the likelihood of receiving an adequate minimum of education. The welfare opportunities of the current generation of youths thus depends to a high degree on inequalities in the distribution of education that prevailed in the preceding generation. The result is a highly rigid social structure, since the scant education of many people blocks the main (and usually the only) means of mobility.

The transmission of educational inequalities from parents to children is particularly significant when it concerns the prospects of finishing secondary school. This is educational capital that offers a high probability of being non-poor.<sup>37</sup> In all the countries of the region the very sharp differences in the proportion of urban youths who complete at least 12 years of schooling are conditioned by the educational level of their parents. In rural areas, too, profound inequality in educational capital is related to the educational circumstances prevailing in the household (average years of parents' schooling): only 23% of youths whose parents did not finish primary education complete a minimum of nine years of education; the percentage rises to 90% among children whose parents completed at least 10 years of education. As in urban areas, in the countryside the differences have persisted in the percentage of youths that finished nine years of study. These figures correspond to an average of 11 countries whose population represents around 80% of the Latin American total (ECLAC, 1998a).

Three considerations merit particular attention because of their implications for education policies. First, educational circumstances in the home have a more decisive effect on children's level of education than does family income,<sup>38</sup> which removes any doubt that opportunities and disadvantages are transmitted between generations.

Second, inequality in educational opportunities is apparent long before young people complete the number of years of study required today for satisfactory integration in the labour market. In fact, substantial (albeit less acute) differences persist as regards the percentage of young people who only finish primary school as a function of the education of their parents. By the mid-1990s, two of every three youths had finished less than nine years of schooling, and most of them came from homes where the parents had also failed to surpass that number. Most youths who reach only that level will earn low incomes and, in many cases, they will reproduce the poverty of the parental home.

Third, differences in the number of years of schooling are not the only source of inequality. The quality of the education received by young people from different social strata is an increasingly important determinant of inequality of opportunities. In this regard, measurements of educational levels reveal substantial differences between public and private schools. For example, while the average student barely attains 50% of that expected in the official curriculum, those in private schools attain almost 100%.<sup>39</sup> Additionally, there is a close correlation between the two dimensions of educational capital (quantity and quality): those who receive better quality education

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<sup>37</sup> Analysis of the work income of those in the labour market indicates that completion of secondary school and a minimum of 12 years of education are crucial to gaining access to welfare. Reaching that educational threshold offers the chance to earn income that gives a more than 80% probability of remaining non-poor during working life. Analysis of the link between education and work income shows that additional years of study do not offer the same return in terms of income when they are under or above that threshold. For those who enter the labour market without having completed secondary school, one, two or three more years of schooling does not have much influence on earnings. In most cases, the additional years translate into very low incomes and little prospect of being non-poor. By contrast income quickly rises when the additional years of schooling are added to the threshold (ECLAC, 1994a).

<sup>38</sup> These are the most decisive, but not the only factors. There is empirical evidence of the influence of other factors (such as the physical infrastructure of houses and the family set-up) on prospects for accumulating educational capital, as is evident in the higher school drop-out and repetition rates of students in the neediest households (ECLAC, 1994a).

<sup>39</sup> Analysis of the answers in reading and writing reveals that two out of every five fourth and fifth grade students do not understand what they read, and that they are from families in the lower socio-economic sectors. This suggests that there are serious problems of equity in the quality of education provided in the region (UNESCO, 1996).

usually complete more years of schooling, which aggravates the inequalities arising from the hereditary character of educational capital.

### **(b) Devaluation of education**

The persistence of a high concentration of educational capital stems not only from its hereditary character. It is also sustained by the high proportion of youths in the present generation who simultaneously can neither surpass their parents' educational level, in view of its devaluation, nor reach the minimum educational level required to secure sufficient wages. The unequal distribution of education and opportunities therefore tends to be passed on to the next generation.

Education is devalued as its coverage and average level increases, since more years of schooling are needed to acquire the same job and an equivalent income. There is thus intergenerational educational improvement if the level attained by youths in the present generation is higher than that of their parents, discounting this devaluation. But the less the education of the parents, the greater is the number of additional years of education that children need to secure higher incomes than their parents. In other words, the devaluation is greater for those who begin at a disadvantage, which is an additional obstacle to mobility between generations.<sup>40</sup>

The inter-generational conditions that shape this set of constraints on welfare are evident in the fact that, together with the marked broadening of educational coverage, only a small percentage of young people surpass their parents' educational level, owing to this devaluation. The latter has grown precisely because of the increase in the average level of education in the region. Young people currently have an average of three years more schooling than their parents. The number rose from 6.5 to 10 years in urban areas and from 3 to 6.5 in the countryside between the start of the 1980s and the mid-1990s. However, in view of the devaluation, only 47% of urban youths and 28% of rural youths surpassed the education of their parents. Moreover, not all attained the basic educational capital of 12 and 9 years schooling in urban and rural areas respectively, and only 30% and 12% of all youths aged 20 to 24 did so (see table IV.6).

## **4. The outlook in terms of inequality**

Analysis of the link between the population's educational level, and income from work prompts the conclusion that even under conditions of sustained economic growth, in the coming decade there is unlikely to be significant improvement in income distribution in most countries of the region. This is because income from work, the main component of distribution, depends on an occupational profile that is already at least 80% pre-configured.

Examination of the link between household income distribution and the aggregate structure of occupations according to earnings shows that four in every five employed members of the 40% of low-income households have jobs with insufficient welfare (factory hands, labourers, caretakers, waiters, domestic employees or agricultural workers). By contrast, in the 10% of higher-income households, about two in every three employed members are in occupations with sufficient welfare (professionals and specialist workers), or they are in managerial posts.

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<sup>40</sup> Those in the current generation surpass the preceding one when youths aged 20 to 24 exceed the average education of their parents by seven or more years in cases where the parents had less than three years of schooling, by six or more when the parents had between three and five years of schooling, and so on until improvement is represented by one or more additional years of education when the parents had 13 or more years of schooling (ECLAC, 1998a).



Table IV.6

**INTER-GENERATIONAL EDUCATIONAL MOBILITY OF YOUNG PEOPLE AGED 20 TO 24,  
BY SEX AND GEOGRAPHIC AREA, LATIN AMERICA**

Sex	Total	Inter-generational educational mobility			
		Young people who surpass the education of their parents <sup>a</sup>		Young people who do not surpass the education of their parents <sup>a</sup>	
		and secure basic educational capital <sup>b</sup>	and do not secure basic educational capital <sup>b</sup>	and secure basic educational capital <sup>b</sup>	and do not secure basic educational capital <sup>b</sup>
<b>Urban areas</b>			<i>Percentages</i>		
Both sexes	100	30	17	7	46
Men	100	26	15	7	52
Women	100	35	19	7	39
<b>Rural areas</b>					
Both sexes	100	12	16	1	71
Men	100	10	13	1	76
Women	100	16	20	1	63

**Source:** ECLAC, on the basis of table IV.1.1 of *Social Panorama of Latin America, 1997* (LC/G.1982-P), chapter IV, Santiago, Chile, 1998. United Nations publication, Sales No. E.98.II.G.3.

<sup>a</sup> This improvement takes account of the devaluation of educational capital between generations.

<sup>b</sup> Basic educational capital refers to 12 or more years of study.

The strong education-occupation-income link at the heart of the marked inequality and rigidity of income distribution is evident in the fact that, among the urban employed, those whose occupations offer insufficient welfare and who are from the 40% of low-income households represent about 25% of total urban employment; they obtain about 10% of total income. By contrast, those in occupations with sufficient welfare who come from the 10% of higher-income households represent about 7% of the urban employed; they take on average 25% of income (ECLAC, 1998a).

The occupational profile that will condition the structure of earnings and income distribution in the coming decade is already largely configured. In the next 10 years, about 80% of today's employed population will be the same people, because the rate at which individuals join and leave the labour market does not exceed 3% a year. As was pointed out earlier in this chapter, the educational capital and the labour opportunities of those people are predictable, and largely respond to intergenerational transmission mechanisms.

## 5. Some implications for the current public policy agenda

Some socio-economic trends and aspects of the reforms under way in the region are examined below, since they are important for their impact on the reproduction and persistence of welfare inequalities. The question is if these trends, and the reforms, reinforce the reproductive mechanisms of inequality or if, on the contrary, they help attenuate them. In other words, the aim is to reflect on the effects of public policies on equity and on equality of opportunities for all, irrespective of socio-economic origin.

Policies geared to reducing inequality in income distribution should aim to repress the transmission of low educational capital between generations. This entails interventions that foster its accumulation and that obviate or deactivate the processes that interrupt it. In this regard, public policies will be more successful in attenuating inequality in income distribution if social

programmes are geared towards increasing the quantity and improve the quality and relevance of the education available to the lower-income strata that share less in the distribution of educational capital.

To further the deactivation of regressive mechanisms that transmit inequalities between generations, there are two crucial fields of action: education and employment. Education and labour reforms are thus core elements of an integrated public policy that seeks an increasing degree of social equity. This is not to disregard the effects of policies in the areas of health, housing, access to basic and other services, nor the role of the various types of household transfers. These also influence the mechanisms for the intergenerational transmission of opportunities, in conjunction with or through education and employment.

In contrast, redistributive policies primarily tend to reduce inequality in each moment of time; their role in deactivating the reproduction of inequality between generations it is not so significant, except for those geared to reducing inequalities in the distribution of human and physical capital. The search for lower sustainable inequality over the long term therefore demands that emphasis be placed on the distributive mechanisms.

The inequality transmission mechanisms described here tend to be sustained by longer term educational changes in favour of universal access to schooling (but which do not ensure completion) and by high repetition and drop-out rates before the 12-year basic threshold has been reached, coupled with sharp differences in quality.

The education reforms under way, which seek to increase the quality and equity of education systems, cannot be limited to modifying intra-school factors (curricular, administrative and financial). Even were they successful, they would be insufficient to foster the accumulation of educational capital, and simultaneously to obviate the danger of inequality being transmitted from parents to children. To enhance their effect, the reforms should be part of a broader programme of social policies that help counteract the negative effect of conditions in the home. This includes dealing with the opportunity cost for low-income households of keeping children and youths in school and out of labour market. It also means addressing the consequences of an inadequate family environment and deficiencies in housing and access to basic services.

Improving access to education of similar quality will have scant results if it is not matched by policies that keep young people from the middle and lower strata in the school system. Hence the importance of initiatives that seek to increase the income of poor households through targeted monetary transfers or institutional arrangements that facilitate integration of the household's unemployed adults, particularly women, in the labour market (access to day-care centres, for example). Such policies have a direct impact on equity, by increasing the income of the poorest households, and also a longer-term effect, by allowing children and adolescents to remain in school.

As regards employment trends, their main features are: the high incidence of low-productivity, low-income jobs in the total number of jobs created; the high rate of open unemployment, more flexible labour markets and the growth of income differentials between workers with different levels of skills (see chapter II). All of these, especially the first two, are particularly relevant for this analysis because, on the one hand, they constrain the processes of educational capital accumulation and, on the other, they often interrupt that accumulation by triggering family survival strategies that prompt the early entry of children and adolescents into the labour market: three in every four of them, when they do so, stop going to school.



## Chapter V

# Factors that limit opportunities for attaining well-being early in life

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Childhood and adolescence are phases of the life cycle during which many of the opportunities for participation in society are defined. It is the time when people acquire not only the basic skills that enable them to become integrated into the productive arena and generate the income necessary to achieve well-being, but also the abilities that are required in order for them to participate actively in society, in the culture and in politics. For this reason, investments in childhood and adolescence may be seen as a means of creating the indispensable human, social and cultural capital that enables young people to get adequate jobs, develop their values and exercise their role as citizens.

A population's chances for attaining well-being depend without question on the development of its children, which is shaped by such factors as their nutritional status and their health in general, the basic sanitary condition of the homes in which they grow up, the economic capacity of the household, the educational environment and type of family in which they are raised, and, especially, their access to schooling and the progress they are able to make in this regard (Labarca, 1996).

This chapter will look at some of the phenomena that have an early effect on the opportunities that children and adolescents have in life and their chances of attaining well-being, particularly their access

to and level of achievement in primary school, child and adolescent labour and the definition of job roles, and adolescent maternity. These are all phenomena that significantly affect the vulnerability of children and adolescents and can seriously compromise their opportunities for future well-being. They are therefore the first links in the chain that transmits inequity from one generation to the next.

Following up on the previous chapter, which pointed out the key role played by education in the transmission of inequity from parents to children, this chapter will focus on deficiencies in educational achievement during primary school, and for each of the phenomena mentioned, attention will be called to disparities in the conditions faced by children and adolescents in households from different socio-economic strata as well as urban and rural areas.

**Box V.1****THE EARLIER LEARNING TAKES PLACE, THE BETTER**

Children who start preschool before 4 years of age, who live with their biological parents, and whose mothers completed more than nine years of formal education have a greater chance of being promoted and getting better marks than the rest of the children in their generation. This is the main conclusion of the study *“Incidencia de la educación inicial, de las características del hogar y de la escuela en los resultados de los alumnos del primer año de escuelas públicas de Montevideo”* [Impact of early education and characteristics of the home and school on the performance of first-grade pupils in Montevideo public schools], conducted in Uruguay by Rubén Tansini of the Department of Economics, School of Social Sciences, University of the Republic.

This study examined the effects of various factors on the performance of children during their first year of primary school using a probabilistic model that included, among other variables, the age at which the child started school, the composition of the family, the presence of books in the home, the mother's level of education, the child's attendance record, and the availability of regular teachers as opposed to substitutes. One of the main conclusions was that *children who started school early, especially those who had the benefit of both public and private preschool education, were more likely to be promoted than those who did not*. Moreover, children who started going to school early got better marks and were less likely to have to repeat a year than those who started later or did not attend preschool.

Among those children who started preschool before the age of 3, the proportion promoted to the second year of primary school with a grade higher than “very good” was between 36% and 42%, whereas among those who started at the age of 5, the proportion was 14%, and for those who did not go to preschool at all, it was 3%. This finding is consistent with the fact that one of the most important objectives of the educational reform begun in Uruguay in 1995 has been to achieve universal initial education for children 4 and 5 years of age.

The children's performance was also affected by socio-economic conditions in the home, the school they attended, and the environment in which they were growing up. Both the socio-economic conditions in the school and the “cultural capital of the household” had a strong influence on the children's performance. Indeed, the more books in the home, the lower the repetition rate and the higher the proportion of those who were promoted with the best marks. The results also showed that children who lived with their biological parents had a better chance of being promoted, and those chances improved even more if the mother had completed primary school.

## 1. Shortfalls and inequities in the acquisition of educational capital

A look at the progress achieved in Latin America during the 1990s in terms of access to and completion of primary schooling shows that, despite high overall enrolment rates at this level, there are still major lags in the region, particularly in rural areas. In most of the countries, between 5% and 10% of the children living in the countryside start their primary schooling late or never attend school at all. In urban areas, on the other hand, enrolment is practically universal; more than 80% of the children finish fourth grade and more than 70% complete the entire primary cycle<sup>41</sup> (see table V.1).

Nevertheless, there are still major shortfalls in the acquisition of educational capital at an early age, and these deficits tend to increase over the course of the primary cycle: a deficiency first appears with a high percentage of repetition in the first two grades of primary school; then a large proportion of children fail to complete the first four grades or are delayed in doing so, and finally, an even larger proportion never complete the primary cycle, which is an essential —albeit insufficient— requirement if they are to be adequately incorporated in the workforce. The problem is clearly shown by the numbers in table V.1: on average, two out of every five children in rural areas fail to finish primary school, whereas in urban areas one in every six interrupt their studies before completing the primary cycle or are at least two years behind when they finally do so, which in most cases means that they drop out before completing the 12 years that are considered the minimum educational capital necessary in order to have a good chance of rising above poverty within the course of their active life (ECLAC, 1994a).

Although the 1990s brought major progress in this regard, the urban-rural gap in primary school access was significantly reduced in only four of the 12 countries for which information was available. Three of these countries were Brazil, Honduras and Venezuela. Panama also saw a greater improvement in primary school access in rural areas than in the cities, so that the urban-rural discrepancy which had existed in 1990 was significantly smaller by 1997.

On the other hand, only three countries appreciably reduced their urban-rural gap in terms of the percentage of children completing six years of education (Panama, Honduras and Venezuela), which means that the inequities resulting from the educational lag in rural areas continue to exist. Of the countries studied, Brazil and Honduras, and to a lesser extent Venezuela, have the greatest disparities in this regard.

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<sup>41</sup> Although some countries (Argentina, Brazil, Chile, Colombia and Venezuela) have seven, eight, and even nine years of primary schooling, in most cases the cycle is six years. It was decided to use the number six for present purposes in order to allow for comparisons between countries. Since there is a tendency to complete the number of years in the cycle, after which a portion of the students may stop going to school, when a cycle of free compulsory primary schooling is longer than six years, this tends to translate into a larger proportion of children with more years of schooling.

Table V.1  
**SHORTFALLS IN PRIMARY SCHOOLING,<sup>a</sup>**  
**URBAN AND RURAL AREAS, CIRCA 1997**  
*(Percentages)*

Country	Geographical area	Lag in starting school	Repetition of the first two grades of primary school	Interruption or delay in	
				Completing the first four years	Completing primary school
Argentina	Urban	1	...	...	8
	Rural	...	...	...	...
Brazil	Urban	5	26	29	44
	Rural	12	53	63	76
Chile	Urban	1	10	5	8
	Rural	1	20	13	21
Colombia	Urban	5	14	14	24
	Rural	9	41	46	59
Costa Rica	Urban	2	20	14	14
	Rural	3	21	23	29
El Salvador	Urban	5	14	15	18
	Rural	14	41	43	59
Honduras	Urban	6	11	14	23
	Rural	10	25	31	45
Mexico	Urban	2	...	...	10
	Rural	3	...	...	33
Nicaragua	Urban	6	17	19	28
	Rural	...	...	...	...
Panama	Urban	1	7	6	8
	Rural	1	18	16	17
Paraguay	Urban	2	10	11	18
	Rural	7	17	...	...
Uruguay	Urban	1	8	6	8
	Rural	...	...	...	...
Venezuela	Urban	3	11	10	15
	Rural	4	21	29	42
Simple average	Urban	3	13	12	17
	Rural	6	28	33	42

**Source:** ECLAC, *Social Panorama of Latin America, 1998* (LC/G.2050-P), Santiago, Chile, May 1999. United Nations publication, Sales No. E.99.II.G.4.

<sup>a</sup> For a definition of the indicators, see box V.2.

## Box V.2

INDICATORS USED TO ANALYSE SHORTFALLS AND INEQUITIES  
IN PRIMARY SCHOOLING

The four indicators corresponding to the degree of delay in starting the school cycle, repetition of the first two grades, and interruption or delay in completing the first four grades and the full primary cycle are explained below. They are based on information gathered in the course of household surveys periodically conducted in the countries of the region.

**Indicator of delay in starting the school cycle:** The percentage of children 8 or 9 years old who are not in school two years after the official starting age for the primary cycle (depending on whether this age is 6 or 7 in the particular country).

**Indicator of repetition of the first two grades:** The percentage of children 9 or 10 years old (depending on the country's official starting age for the primary cycle) who are in school but at that age have not completed at least the first two grades.

**Indicator of interruption or delay in completing the first four grades:** The percentage of children 12 or 13 years old (depending on the country's official starting age for the primary cycle) who have failed to complete at least four years of study, regardless of whether or not they are currently attending school.

**Indicator of interruption or delay in completing primary school:** The percentage of children 14 or 15 years old (depending on the country's official starting age for primary school) who have failed to complete at least six years of study, regardless of whether or not they are currently attending school.

Inequities in educational achievement were studied by comparing these indicators among the children falling in the two extreme quartiles of household income distribution, the first quartile corresponding to the 25% of households with the lowest income, and the fourth quartile to the richest 25% of households.

The shortfalls in primary schooling are also manifested in high rates of repetition of the first two grades. In addition the negative impact of repetition on drop-out rates, the high personal and social costs<sup>42</sup> are cause for concern, because they mean that the internal efficiency of primary education in Latin America remains low, and also that marked disparities continue to exist between urban and rural areas and between socio-economic strata in most of the countries. Because of the high rates of repetition and lateness in starting school, an average of 13% of the children in the cities and 33% of those living in the countryside are at least two years behind by the end of the second grade of primary school. The inequities are even greater between the socio-economic strata: in the poorest 25% of households the repetition rate (20%) is more than six times as high as it is among children from the richest 25% of households (see table V.2).

These averages conceal some marked differences between the countries, and for this reason the numbers should be interpreted with caution. Repetition in the first two grades may be affected, among other factors, by the prevailing standards and practices for promoting or failing students, which vary greatly from one country to another. Thus, a reduction in the percentage of students falling behind may not be due to an improvement in educational efficiency but rather to the introduction of an automatic promotion system or less strict standards for evaluating school performance.<sup>43</sup>

<sup>42</sup> Repetition also increases total costs because it imposes an added burden on social programmes, such as supplementary meals in the schools, which have a high per-student cost and thus make attainment of their objectives more difficult.

<sup>43</sup> It should also be kept in mind that repetition has been estimated indirectly, based on the percentage of children who were behind in school for their age. While this indicator is mainly accounted for by repetition, it also includes, to a lesser extent, children who

Table V.2  
**INEQUITIES IN PRIMARY SCHOOLING <sup>a</sup> BY LEVEL OF INCOME, URBAN AREAS, CIRCA 1997**  
*(Percentages)*

Country	Household income quartile	Lag in starting school	Repetition of the first two grades of primary school	Interruption or delay in	
				completing the first four years	completing primary school
Argentina	Quartile 1	2	...	...	18
	Quartile 4	0	...	...	0
Brazil	Quartile 1	8	44	48	67
	Quartile 4	1	5	5	13
Chile	Quartile 1	2	14	8	14
	Quartile 4	0	4	2	2
Colombia	Quartile 1	8	21	23	35
	Quartile 4	2	7	4	12
Costa Rica	Quartile 1	3	30	17	23
	Quartile 4	0	3	3	4
El Salvador	Quartile 1	9	19	25	29
	Quartile 4	1	5	2	3
Honduras	Quartile 1	10	19	18	33
	Quartile 4	4	3	10	9
Mexico	Quartile 1	4	...	...	16
	Quartile 4	0	...	...	0
Nicaragua	Quartile 1	9	22	24	35
	Quartile 4	0	6	12	18
Panama	Quartile 1	1	12	8	12
	Quartile 4	0	1	2	2
Paraguay	Quartile 1	7	17	19	23
	Quartile 4	0	3	4	10
Uruguay	Quartile 1	2	15	8	13
	Quartile 4	0	0	5	0
Venezuela	Quartile 1	5	16	15	25
	Quartile 4	1	2	2	8
Simple average	Quartile 1	5	20	19	26
	Quartile 4	1	3	4	6

**Source:** ECLAC, *Social Panorama of Latin America, 1998* (LC/G.2050-P), Santiago, Chile, May 1999. United Nations publication, Sales No. E.99.II.G.4.

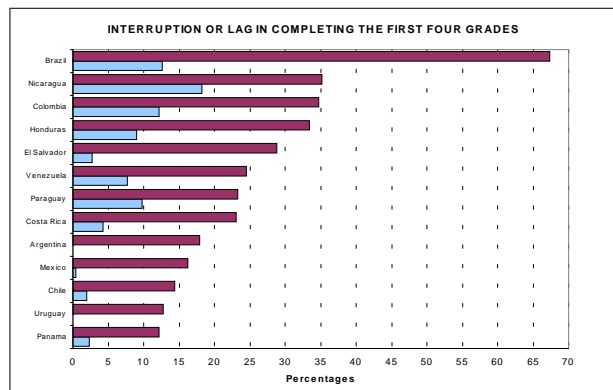
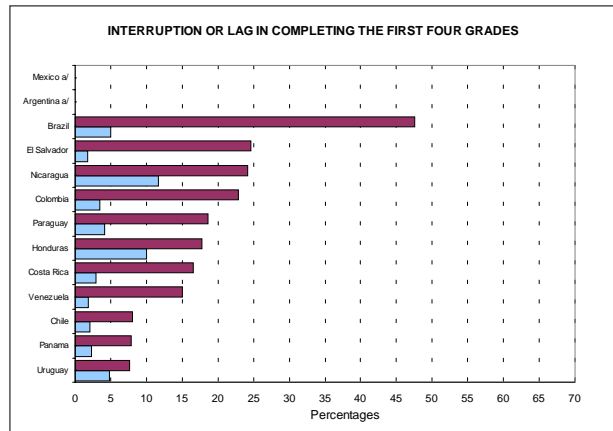
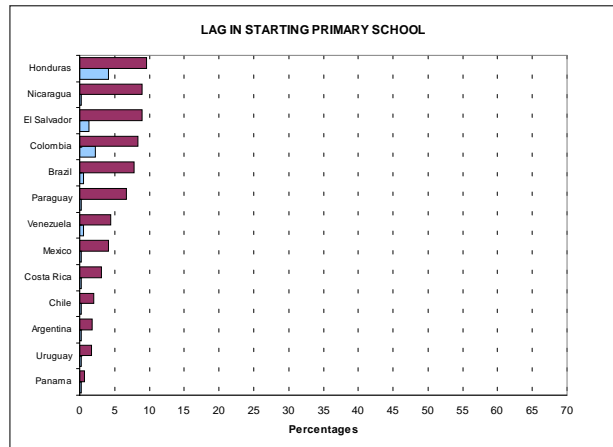
<sup>a</sup> For a definition of the indicators, see box V.2.

The socio-economic inequities in educational achievement at the end of the primary cycle are more pronounced than the rural-urban disparities; however, there are differences of both types in countries that have relatively low levels of enrolment coverage and also in those that have higher coverage (see figure V.1). Thus, in urban areas, only 6% of the children from the richest 25% of households dropped out of school or had fallen behind at the end of primary school, whereas in the poorest 25% of households such students represented 26%. These differences continue throughout the primary cycle. By the end of the fourth grade the proportions are 4% and 19% for the respective strata, reflecting in part of the proportion that had fallen behind in the first two grades —3% and 20%, respectively (see table V.2).

started school late. An increase in the percentage of children starting school at the officially mandated age would be reflected in a lower percentage of those behind in school for their age two years later.



**Figure V.1**  
**INEQUITIES IN PRIMARY SCHOOL ACHIEVEMENT BY INCOME LEVELS,**  
**URBAN AREAS, CIRCA 1997**



Children from the poorest 25% of households.  
 Children from the richest 25% of households.

Source: ECLAC, *Social Panorama of Latin America, 1998* (LC/G.2050-P), Santiago, Chile, May 1999. United Nations publication, Sales No. E.99.II.G.4.

There are two aspects of this situation that are important to point out. First, during the 1990s some countries recorded progress toward less inequity in educational achievement between the different socio-economic strata, but even so, considerable differences remained. Progress in school system coverage and reduced drop-out rates were greatest among children from the middle and lower strata. The breakdown can be seen in box V.3, which shows that for three of the indicators—repetition during the first two grades, completion of the first four grades, and completion of primary school—the improvements were greatest for children in the poorest quartile or the two lowest quartiles of income distribution. This amounts to a narrowing of the gap with respect to the upper strata.

**Box V.3**  
**EVOLUTION OF INEQUITIES IN PRIMARY SCHOOL ACHIEVEMENT IN THE 1990s**  
(Urban areas)

1990s	Repetition rate in the first two grades	Percentage of children who complete 4th grade	Percentage of children who complete primary school
1. Quartiles 1 and 2 improved more or deteriorated less than the total <sup>a</sup>	Brazil Costa Rica Honduras	Brazil Chile Venezuela	Panama
2. Quartile 1 improved more or deteriorated less than the total	Chile Colombia Panama	Costa Rica Panama Uruguay	Colombia Costa Rica Uruguay
3. Quartile 2 improved more or deteriorated less than the total	Ecuador	Colombia Ecuador Honduras	Chile Ecuador Honduras Mexico Venezuela
4. Quartile 1, 2 or both improved more or deteriorated less than the total	Uruguay Venezuela	Paraguay	Argentina Brazil Paraguay

**Source:** ECLAC, *Social Panorama of Latin America, 1998* (LC/G.2050-P), Santiago, Chile, May, 1999. United Nations publication, Sales No. E.99.II.G.4.

<sup>a</sup> The improvement was proportionally greater than in the population as a whole, or the deterioration was less, which in either case constitutes a reduction of inequity between socio-economic strata.

In the second place, during the 1990s the educational achievement of girls saw an improvement relative to the previous decade. In the 1990s the gap for girls narrowed more than it did for boys in seven of nine countries; the proportion of girls completing the fourth grade remained the same or improved in nine of 10 countries, and the same was true with regard to completion of at least six years of primary school in eight of 12 countries.

This increased difference between the sexes means that girls are remaining in the school system longer, and as a result, their educational levels have improved, which has facilitated their incorporation into the workforce (see box V.4). In this case, the gender-based educational difference has served to attenuate the inequities between the sexes in terms of income because it has enabled more women to get jobs and contribute to family income.

## Box V.4

## EVOLUTION OF GENDER-BASED DIFFERENCES IN EDUCATIONAL ACHIEVEMENT IN THE 1990s

*(Urban and rural areas)*

Evolution of differences between boys and girls in the 1990s	Repetition rate in the first two grades	Percentage of children who complete 4 <sup>th</sup> grade	Percentage of children who complete primary school
1. The differences in favour of girls decreased	Costa Rica	Venezuela	Colombia <sup>a</sup> Ecuador <sup>a</sup> Honduras Uruguay <sup>a</sup>
2. The differences in favour of girls remained the same	Chile	Chile Ecuador <sup>a</sup> Honduras Panama Paraguay <sup>a</sup> Uruguay <sup>a</sup>	Chile Costa Rica Panama
3. The differences in favour of girls increased	Brazil Colombia <sup>a</sup> Ecuador <sup>a</sup> Honduras Panama Uruguay <sup>a</sup> Venezuela	Brazil Colombia <sup>a</sup> Costa Rica	Argentina <sup>a</sup> Brazil Mexico Paraguay <sup>a</sup> Venezuela

**Source:** ECLAC, *Social Panorama of Latin America, 1998* (LC/G.2050-P), Santiago, Chile, May, 1999. United Nations publication, Sales No. E.99.II.G.4.

<sup>a</sup> Urban areas only.

The longer delay in acquiring educational capital during the early years in rural areas poses a major challenge for policy-making in this area: added to the difficulties for children in remote areas to have access to schooling, often there are problems associated with the requirements of ethnic minorities. Both these circumstances stand in the way of achieving universal education; not only is there a need for more schools in general, but more specifically, there is a need for schools that are responsive to particular cultural backgrounds.

The challenge in the urban areas is to get children from the poorest strata to go to school and keep them there. For these youngsters, adverse conditions in the home such as family breakdown and little importance given to education, will make it difficult and costly to improve upon the levels of access that have already been achieved.

The aim of achieving universal basic education might not seem so challenging, given the high rates of primary enrolment shown in administrative records and especially in light of current requirements for educational capital. However, it needs to be seen from a nationwide perspective—in other words, as a goal that must be met in rural areas as well as in the cities, and in all socio-economic strata. In countries where the inequities are great, the lag in rural areas and low-income groups makes this objective more challenging.

This goal entails a dual challenge for educational policy-making. On the one hand, since the inequities are already quite clear by the age at which children should have completed the first four grades, efforts should be geared toward increasing the proportion of those who complete this first cycle both by improving the quality of education and extending access to it for children in all socio-economic strata. At the same time, as primary school coverage rates improve, it is increasingly important to ensure that the course content is adequate, to improve measurement systems as well as the quality of the education itself, and to step up efforts to reduce school drop-out rates.

On the other hand, in rural areas and low-income brackets where there continue to be lags in terms of basic education coverage, the thrust should be toward achieving not only greater equity of access but also an improvement in the quality of education. With regard to the first of these objectives, the establishment of supplementary meal and health care programmes—and if these already exist, mechanisms for evaluating and monitoring them—should be key components of equal-opportunity policies because of their positive effect on learning, inasmuch as they make it possible to offset shortcomings in the home environment and improve the rates of retention in the schools.

## **2. Child labour and the early definition of roles**

### **(a) General considerations**

There is a growing perception that child labour is a social problem that undermines the physical and psychological development of children. However, in all societies children have participated and continue to participate to a greater or lesser degree in the production process and in the exchange and provision of services that are essential for the development of the family unit. The more openly negative perception of this phenomenon came about with the appearance of paid child labour—in other words, to the use of child labour by persons outside the family.

In most cases, child labour arises out of the situations of poverty in which large segments of the population live. Chief among its basic causes are unemployment and underemployment, precarious income, and, in general, the unequal distribution of goods and social benefits that erodes the quality of life of families.

In the beginning, child labour was associated with subsistence agriculture. It represented a supplementary contribution to family income, and it consisted in performing tasks that were essential to the survival of families functioning as production units. However, with growing urbanization and modernization, this form of family labour began to yield to other modalities of work that involved employment, either permanent or sporadic, outside the home. Paid child labour is the most distressing form because it exploits children as cheap manpower, using them in place of adults, to the detriment of their schooling. It has been proven that working children, particularly those who work for pay, are more likely to have to repeat grades in school. This group has the highest repetition and drop-out rates (ILO, 1983).

With growing awareness of the damaging effects of child labour and the need to make school attendance compulsory, laws and practical measures have been introduced to provide for the well-being of children while at the same time protecting the jobs and income of adults. It is well known that a child in the workforce usually deprives an adult of his or her job, and that the work is much lower paid. Thus child labour has been presented as a phenomenon that has a negative impact not only on the development of children but also on society in general, since it tends to increase unemployment and reduce the income of adults. This situation lends added pressure to the need to define labour roles at an early age.

The following section looks at the trends in child and adolescent labour in the Latin American countries during the 1990s and examines their impact on household economy as well as their negative effects on the schooling of those who perform this work.

### **(b) Magnitude of child and adolescent labour and its evolution in the 1990s**

Although the facts about child and adolescent labour tend to be kept hidden for legal and cultural reasons and in any case are difficult to obtain because of the paucity of data, the information available on the magnitude of the phenomenon shows that it affects a high percentage of the population in these age groups in the region. As of 1997, 22% of the children and adolescents between 13 and 17 years of age were engaged in some form of paid work, and the great majority of them had dropped out of school for this reason. Moreover, the phenomenon increases with age: the average proportion of 15- to 17-year-old working adolescents was 27% in the region. It is also more frequent among minors in rural areas than those who live in the cities, with proportions of 33% and 15%, respectively (see table V.3).

However, there are notable differences between the countries of the region in terms of the size of the child workforce. These are largely affected by income levels, conditions of poverty, educational coverage, and the retention children and adolescents in school. Three groups of countries may be distinguished:

- Argentina, Chile and Panama, with the lowest proportions of child and adolescent labour lower than 7%.
- Colombia, Costa Rica, Uruguay and Venezuela, with intermediate levels, ranging from 7% to 15%.
- Bolivia, Brazil, Ecuador, Honduras, Mexico and Paraguay, with the highest levels—more than 15% of the children and adolescents between the ages of 13 and 17.

Table V.3  
**WORKING CHILDREN AND ADOLESCENTS 13 TO 17 AND 15 TO 17 YEARS OF AGE, CIRCA 1997**  
*(Percentages)*

Country		Total		Urban		Rural	
		13-17 years	15-17 years	13-17 years	15-17 years	13-17 years	15-17 years
Argentina	1990	...	...	13	19	...	...
	1997	...	...	7	9	...	...
Bolivia	1990	...	...	17	21	...	...
	1997	39	44	17	22	68	76
Brazil	1990	39	48	32	42	56	63
	1996	36	44	29	38	61	67
Chile	1990	7	10	5	7	17	24
	1996	6	8	5	7	11	16
Colombia	1990	28	33	17	21	41	47
	1997	18	23	11	15	27	34
Costa Rica	1990	25	32	15	21	32	40
	1997	22	28	12	17	28	36
Ecuador	1990	...	...	18	23	...	...
	1997	...	...	16	20	...	...
El Salvador	1995	25	30	17	22	33	39
	1997	20	24	12	16	28	33
Honduras	1990	31	40	22	29	37	47
	1997	35	44	26	34	42	51
Mexico	1990	21	28	16	22	29	37
	1996	23	30	16	22	33	41
Nicaragua	1997	...	...	16	19	...	...
Panama	1991	17	17	13	13	28	28
	1997	11	15	5	7	19	26
Paraguay <sup>b</sup>	1990	...	...	24	32	...	...
	1996	...	...	29	34	...	...
Dominican Rep.	1992	20	27	19	25	21	30
	1997	15	19	15	19	15	19
Uruguay <sup>c</sup>	1990	...	...	16	20	...	...
	1997	...	...	15	17	...	...
Venezuela	1990	13	17	...	...	...	...
	1997	14	19	...	...	...	...
Simple average	1990	23	28	17	23	33	39
	1997	22	27	15	20	33	40

**Source:** ECLAC, special tabulations from the household surveys in the respective countries.

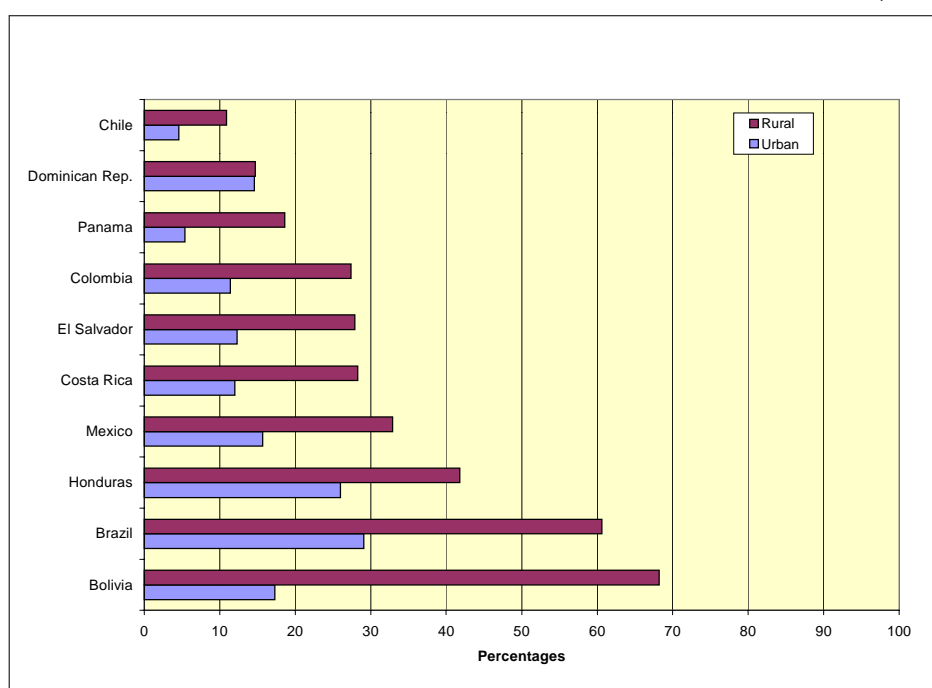
<sup>a</sup> Percentage of all children and adolescents in the age group.

<sup>b</sup> Asunción and urban areas of the Central Department.

<sup>c</sup> According to the survey design, adolescents were ages 14 to 17.

It can be seen that the countries which had the lowest levels of child and adolescent labour at the beginning of the 1990s are also the ones that performed the best during the decade. In two of them, Argentina and Panama, the proportion of employed minors declined, while in Chile the level remained unchanged.

**Figure V.2**  
**WORKING CHILDREN AND ADOLESCENTS 13 TO 17 YEARS OF AGE,**  
**URBAN AND RURAL AREAS, 1997**



**Source:** ECLAC, *Social Panorama of Latin America, 1998* (LC/G.2050-P), Santiago, Chile, May 1999. United Nations publication, Sales No. E.99.II.G.4.

By the same token, the countries that had the highest rates of child labour at the beginning of the decade continued to have the poorest performance. Only Ecuador saw a decline in its rate.

During the 1990s the proportion of working adolescents declined in slightly more than half the countries, while it increased in one-third of them. This phenomenon, which severely limits young people's human capital and their future chances for well-being, began to shift in a favourable direction for those under 15 years of age, a group for which clear standards have been established that prohibit them from being employed.

### (c) Contribution of child and adolescent labour to family income and its impact on poverty

Although paid child and adolescent labour significantly reduces the level of education these young people achieve, the resources that they generate add, sometimes appreciably, to the income of their families.

In urban areas these resources represent between one-sixth and one-fourth of total household income. The same is true in rural areas. As might be expected, in both areas the income derived from child labour represents a higher proportion of total resources in the case of the lower-income strata. In the poorest 25% of households they represent, on average, nearly 30% of family income, while this proportion falls to about 10% in the 25% of households with the highest income.

One way of assessing the effect on household well-being is through impact on levels of poverty. An analysis of 10 countries in the region shows that child and adolescent labour in urban areas impacts significantly —between 5 and 20 percentage points— on poverty in their families. However, since the proportion of households that have working members 13 to 17 years of age is only between 4% and 17% in the countries under study, the overall reduction in poverty due to this factor is only between 0.5 and 1.5 percentage points (see table V.4).

Table V.4  
**IMPACT ON POVERTY OF INCOME DERIVED FROM CHILD AND ADOLESCENT LABOUR,  
URBAN AREAS, 1992**  
(Percentages)

Country	Households with working children			All households	
	Percentage of all households	Incidence of poverty including income contributed by children	Incidence of poverty excluding income contributed by children	Incidence of poverty including income contributed by children	Incidence of poverty excluding income contributed by children
Argentina	4	9	18	10	10
Bolivia	8	35	45	46	46
Brazil	14	54	64	43	44
Chile	3	35	55	28	28
Colombia	5	43	54	38	39
Costa Rica	8	23	42	25	27
Honduras	17	81	86	73	74
Mexico	10	51	60	36	37
Uruguay	4	18	29	8	8
Venezuela	7	32.5	50	33.1	34.4

**Source:** ECLAC, *Social Panorama of Latin America, 1998* (LC/G.2050-P), Santiago, Chile, May 1999. United Nations publications, Sales No. E.99.II.G.4.



The low impact of child and adolescent labour on overall levels of poverty, and yet its high impact on the households affected,<sup>44</sup> underscores the importance of promoting policies that will alleviate the present needs of these households in order to postpone the incorporation of young people into the workplace and enable them to accumulate the educational capital that is essential for their future well-being.

### **(d) Lost educational opportunity due to child labour, and assessment of its economic value**

As a general rule, early entry in the workforce is preceded by dropping out of school, and the income generated by children and adolescents has a high cost in terms of lost educational opportunity. Indeed, working males between 13 and 17 years of age get two years less schooling than if they did not work, and the figure is only slightly lower for females. This loss represents between 10% and 25% of the total years of study typically completed by young people in this age group. Moreover, those who suffer this setback end up accumulating an educational deficit of more than two years relative to those who join the workforce between the ages of 18 and 24.

This loss of two years of education, on average, translates to a 20% loss of income over the person's working life (ECLAC, 1995). For those who join the workforce during their adolescence, it may be estimated that this loss is four and six times greater than the income they would fail to receive if they had remained in school instead of going to work.

The adverse consequences of this reduction in educational capital goes beyond simply the loss of income over the person's working life: the new households formed by these young people are characterized by a deficient educational climate, larger numbers of children, and low remuneration for their work, as a result of which their children's educational achievements will also be lower. Thus the economic costs entailed in child and adolescent labour become one more link in the chain that transmits inequity from parents to children. These consequences are the basis for the arguments in favour of developing programmes focused on the sectors that have the greatest needs, in which the early definition of labour roles is more common—more often in the form of remunerated labour outside the home in the case of boys and unremunerated tasks inside the home in the case of girls. These programmes should be geared to supplementing household income, at least in the amounts that the children and adolescents would have contributed otherwise, in order to keep them in school. The programmes would have to be the subject of close monitoring, both to promote further investment in them and to keep track of the progress achieved.

## **3. Adolescent maternity**

One of the phenomena that is openly recognized as a factor in the perpetuation of poverty, the deterioration of living conditions, and the limitation of opportunities for future well-being is adolescent maternity. Although it is part of the cultural pattern in some regions and social groups, it has been increasingly defined and generally recognized as a factor of biological, economic and social risk.

The occurrence of adolescent pregnancy—the result of sexual behaviours associated with economic, social, educational and psychological deficits—usually leads to one of four situations, each of which entails further consequences: abortion, single motherhood, forced marriage (which typically ends in break-up of the family) or abandonment of the baby (either giving it up for

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<sup>44</sup> If the urban households with working children and adolescents did not have this additional income, the overall incidence of poverty would increase 10% to 20%, which means that poverty would increase 25% to 100% for the subset of households that have working children and adolescents.

adoption or leaving it in the care of other family members). Any of these situations is fraught with biological risks: teenage girls are more vulnerable to the complications of pregnancy, premature delivery, delivery of low birthweight babies, and greater maternal, foetal, and neonatal morbidity and mortality.<sup>45</sup> The child, in turn, has a greater possibility of being born malnourished or becoming so during the postnatal period. Because of these biological hazards, adolescent pregnancy is considered a high-risk condition.

From the social standpoint, both its causes and its consequences have the same denominators: the socio-economic situation and its associated cultural patterns. It is generally agreed that the problem of adolescent pregnancy and maternity is closely related to the social and economic situation of the girls' families, which promotes risk-prone sexual behaviour: poverty, low levels of formal education, little if any sexual education, dysfunctional family patterns, and so forth.

Additional problems associated with adolescent pregnancy and maternity include abortion, abandonment of the baby, limited access to prenatal monitoring, shortened birth intervals, and other factors that have a negative impact on the future well-being of the mother and her child, such as dropping out of school, joining the workforce at an early age, unstable and inadequate family arrangements, and deficient socialization of the child.

The following sections examine the fact that adolescent maternity<sup>46</sup> is at once the key mechanism by which the lack of opportunities for achieving adequate well-being are transmitted from one generation to the next, and also the expression itself of this transmission.

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<sup>45</sup> For example, toxemia and complications of delivery resulting from cephalopelvic disproportion.

<sup>46</sup> For a definition of the indicator used, see box V.5.

## Box V.5

### ADOLESCENT MATERNITY: A METHOD FOR EXAMINING ITS CHARACTERISTICS AND SOCIO-ECONOMIC IMPLICATIONS

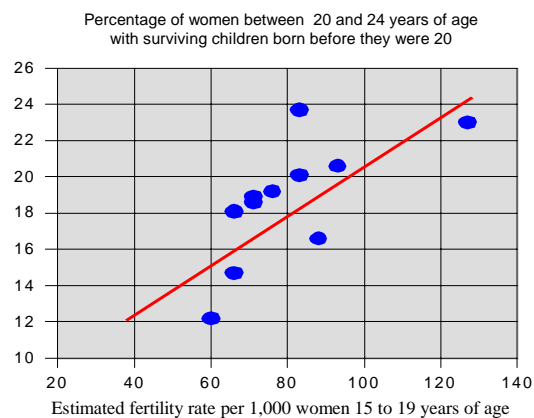
In an analysis of the reproductive behaviour of the population, what happens during adolescence is of special because of its social and economic implications. The indicators most frequently used for this purpose are the fertility rate between 15 and 19 years of age, and the proportion of women who had their first child before the age of 20. These two indicators are strongly correlated because they are both measurements of the same phenomenon —namely, adolescent maternity.

These indicators are usually calculated on the basis of administrative or statistical records or data from health and demographic surveys. While these sources are adequately representative, they afford little potential for relating the phenomenon to the characteristics and socio-economic repercussions that this event generates for the adolescent girl, the child and her family.

The indicator presented and used in this chapter is an approximation of the proportion of women who have their first child before the age of 20: it measures the proportion of women 20 to 24 years of age with surviving children born before they were 20 years old (see figure). This approximation has a bias: it underestimates the proportion of women who had their first child before the age of 20 because it does not take into account the factor of child mortality, which varies between the different socio-economic strata. Nevertheless, the indicator has a number of advantages for demographic and socio-economic analysis which justifies its use. In any case, it gives a conservative estimate rather than exaggerating the phenomenon. The numerator corresponds to the women 20 to 24 years of age, minus the ages of their oldest children, giving a value of less than 20; the denominator is the sum of all women between 20 and 24 years of age.

This approach has the following advantages:

- The calculation, based on data from ongoing multipurpose household surveys, allows for a number of different socio-economic analyses based on the magnitude and evolution of adolescent maternity, including frequency of the phenomenon in different strata, cost of the lost educational opportunity for the mother, and the social and family situation of children born to teenage mothers;
- These household surveys collect data of good quality and valuable breadth on employment status, income, education, access to basic services, and other aspects of the situation of the mothers, their children, and their households. In addition, the fact that these surveys are conducted annually in the Latin American and Caribbean countries gives this indicator important advantages for analysis and periodic monitoring of the phenomenon;
- Since the indicator is calculated on the basis of data from a survey that is not specifically oriented toward the subject of reproduction, it greatly improves the statistical reliability of the information on adolescent maternity, inasmuch as the ages of the mother and the child are declared within a broad framework of socio-economic data, virtually eliminating the possibility that the person being interviewed would conceal the situation for reasons of social stigma .



**Source:** ECLAC, special tabulations from household surveys conducted in the respective countries; CELADE, *Demographic Bulletin*, year 26, No. 52 (LC/DEM/G.135), Santiago, Chile, July 1993.

**Source:** ECLAC, *Social Panorama of Latin America, 1997* (LC/G.1982-P), Santiago, Chile, 1998. United Nations publication, Sales No. E.98.II.G.3.

### **(a) Adolescent maternity: geographic and economic patterns**

As it has already been mentioned, several of the cultural patterns that orient reproductive behaviour during adolescence are closely tied to the social and environmental circumstances in which different social groups live. Thus, cultural patterns are an expression of both social needs and the precarious environmental circumstances. Table V.5 groups the countries according to their stage of demographic transition and then, for each group, it shows the incidence of adolescent maternity in urban and rural areas, and in the case of urban areas, the differences between the poorest 25% of households and the richest 25% of households.

The differences in the incidence of adolescent pregnancy are characteristic of the initial and intermediate stages of demographic transition: the reduction in adolescent pregnancy impacts on the fertility of the population both through the rise in the age at which a woman has her first child and through the lengthening of the birth interval, and it can make for a reduction in neonatal mortality, especially, as well as maternal mortality. With a few exceptions, those countries that are in the earliest stages of demographic transition (Bolivia, El Salvador, Honduras, Nicaragua and Paraguay) have the highest levels of adolescent maternity. The main difference between the country groups is precisely in the incidence of this phenomenon in rural areas, where it is always higher than in urban areas. Its high frequency in rural areas, as well as the marked change that it undergoes between the incipient, moderate, and full stages of transition, is explained in part by the decreasing importance of agricultural employment in these areas and the concomitant reduction in the demand for family labour as a production strategy in the minifundios (see chapters I and II).

Moreover, in all the countries studied there is a clear tendency for the phenomenon of adolescent maternity to occur in a much higher proportion in the lower-income brackets. Of course it is not just the lower income that accounts for this higher incidence; other factors include the attitudes toward education in the home, the level of formal education and the amount of sex education that has been made available to the adolescents.<sup>47</sup> In this way the stage is set for the transmission of inequity from one generation to the next: the limited education of the parents has a strong impact on the income they earn; their reduced income, in turn, restricts the educational opportunities of their children and increases the likelihood of adolescent pregnancy; early pregnancy then curtails the young mother's chances of acquiring educational capital; and this disadvantage will mean that the new family, headed either by both parents or a single mother, has a low level of education and consequently a low level of income; and finally, these factors will even further limit the acquisition educational capital by the child of the teenage mother.

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<sup>47</sup> Apart from the above, the greater capacity of higher-income families to pay for sanitary abortions makes it more likely to have a reduction in adolescent maternity in these strata due to interruption of the pregnancy.

Table V.5

**WOMEN 20 TO 24 YEARS OF AGE WHO GAVE BIRTH TO CHILDREN, CURRENTLY LIVING,  
WHEN THEY WERE 15 TO 19 YEARS OLD, 1990-1997**  
(Percentages)

Country	Year	National total	Urban total	Income quartiles		Rural total
				1	4	
<b>Incipient and moderate transition</b>		<b>28</b>	<b>23</b>	<b>35</b>	<b>11</b>	<b>38</b>
Bolivia	1989	...	23	30	16	...
	1997	25	18	27	11	40
El Salvador	1995	31	26	44	14	38
	1997	31	27	39	12	39
Honduras	1990	33	25	34	16	41
	1997	27	21	34	10	35
Nicaragua	1997	...	25	32	17	...
Paraguay <sup>a</sup>	1994	...	23	40	4	...
	1996	...	23	45	5	...
<b>Full transition</b>		<b>23</b>	<b>20</b>	<b>33</b>	<b>8</b>	<b>29</b>
Brazil	1993	22	20	33	7	30
	1996	21	20	33	7	28
Colombia <sup>b</sup>	1990	...	14	26	6	...
	1994	18	17	25	9	21
	1997	23	20	32	8	30
Costa Rica	1990	26	20	36	11	30
	1997	28	23	37	11	32
Ecuador	1990	...	20	29	8	...
	1997	...	20	31	11	...
Mexico	1989	24	19	23	12	32
	1994	19	17	27	7	24
Panama	1991	21	18	33	6	29
	1997	22	16	28	4	32
Venezuela	1994	27	27	41	12	...
	1997	26	26	40	11	...
<b>Advanced transition</b>		<b>...</b>	<b>16</b>	<b>30</b>	<b>4</b>	<b>...</b>
Argentina	1990	...	18	39	1	...
	1997	...	16	30	2	...
Chile	1990	22	21	37	7	29
	1996	22	20	33	9	31
Uruguay	1990	...	12	28	1	...
	1997	...	13	27	2	...

**Source:** ECLAC, special tabulations from the household surveys in the respective countries.

<sup>a</sup> Asunción and urban areas of the Central Department.

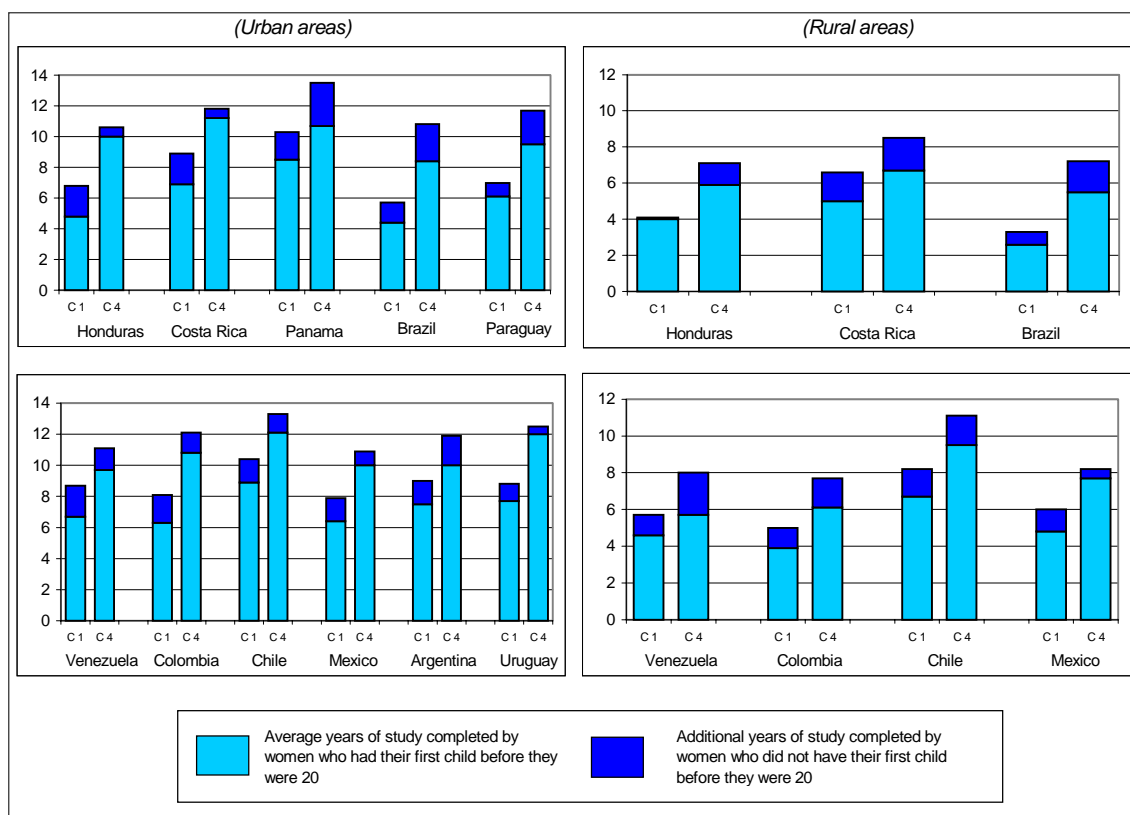
<sup>b</sup> Starting in 1993, the geographic coverage of the survey was extended to include almost the entire urban population of the country. As of 1992, the survey covered about half the urban population.

## (b) Adolescent maternity: acquisition of educational capital

Various studies have confirmed that one of the typical consequences of adolescent maternity is loss of the opportunity to continue acquiring educational capital. Usually adolescent mothers are forced to leave school early and give up the social relationships they had there in order to make time for their new role as mothers. Dropping out of school makes it more difficult for them to get a job and tends to exclude them from normal activities with their peers.

Figure V.3 shows the average level of education achieved by women between 20 and 24 years of age, distinguishing between those who became mothers in their teens and those who did not, and indicating the educational differential between each group.

**Figure V.3**  
**AVERAGE YEARS OF SCHOOLING OF WOMEN BETWEEN 20 AND 24 YEARS OF AGE**  
**ACCORDING TO WHETHER OR NOT THEY HAD THEIR FIRST CHILD**  
**BEFORE THEY WERE 20, BY SELECTED INCOME QUANTILES,<sup>a</sup>**  
**MID-1990s**



**Source:** ECLAC, special tabulations from the household surveys in the respective countries.

<sup>a</sup> Refers to the 25% of households with the lowest income (quartile 1) and the 25% of households with the highest per capita income (quartile 4).

As can be seen in figure V.3, the women who became mothers during their teens in both urban and rural areas averaged two years less schooling than those who did not. However, in most of the countries the educational differential among women in the richest 25% of households was less than among those in the poorest segment of the population (quartile 1), which reflects their greater capacity to find practical strategies that enable them to remain in school.

This difference in the girls' ability to stay in school in spite of their pregnancy is one of the factors that produces inequality. Those teenage mothers who try to go back to school after the birth of their child encounter a number of obstacles because of their limited resources: difficulty in arranging care for the baby, whether at a day-care centre or with a family member; the need to find a job quickly in order to have some source of income, and inability to command an adequate salary because of their low level of education.

In urban areas, the proportion of women who completed 13 or more years of study (the educational level one is expected to have at the end of adolescence) is much smaller among those who were teenage mothers —5%, on average, compared with 26% among those who were not (see table V.6). Although adolescent maternity clearly limits the mother's chances to continue her studies, at the same time, low educational level in itself is a factor that contributes to its frequency. Whereas only 9% of the women who were not teenage mothers completed between 0 and 5 years of schooling, this proportion is much greater, 22%, among those who were. This level of education is usually achieved before reaching adolescence; here early maternity is more a consequence of limited educational opportunities than a cause of them. In rural areas, although the educational levels are much lower and dropping out of school is more common, differences in this regard are also seen —45% for those who had been teenage mothers, compared with 31% for those who had not.

In other words, adolescent maternity is both a manifestation of socio-economic inequity and a cause of it as well. Beyond and apart from the high biological risks of pregnancy in these circumstances, it becomes a mechanism for the intergenerational transmission of inequity, not only because it affects the adolescent girl but also —indeed mainly— because it defines the conditions for the future development of her child. Although there are strategies for coping with adolescent maternity and remaining in school, being able to take advantage of these strategies is directly related to the capacity of the teenage mother and the household to allocate economic and social resources for this purpose.

Table V.6

**DISTRIBUTION OF WOMEN 20 TO 24 YEARS OF AGE BY EDUCATIONAL LEVEL AND  
ACCORDING TO WHETHER OR NOT THEY HAVE SURVIVING CHILDREN BORN  
BEFORE THEY WERE 20 YEARS OLD, MID-1990s**

(Percentages)

Country	Woman's status	Geographical area									
		Urban area					Rural area				
		Total	Mother's level of education				Total	Mother's level of education			
	0-5 years	6-9 years	10-12 years	13 years and over		0-5 years	6-9 years	10-12 years	13 years and over		
Argentina	Teen pregnancy	100	11	74	10	6	..	..	..	..	..
	No teen pregnancy	100	2	34	21	43	..	..	..	..	..
Bolivia	Teen pregnancy	100	31	26	32	11	..	..	..	..	..
	No teen pregnancy	100	9	15	35	40	..	..	..	..	..
Brazil	Teen pregnancy	100	55	33	10	1	100	85	12	3	0
	No teen pregnancy	100	28	33	31	8	100	68	20	11	1
Chile	Teen pregnancy	100	7	33	47	12	100	20	58	20	2
	No teen pregnancy	100	3	12	48	38	100	11	41	37	12
Colombia	Teen pregnancy	100	31	39	25	5	100	61	24	15	1
	No teen pregnancy	100	12	21	47	20	100	53	20	25	2
Costa Rica	Teen pregnancy	100	9	66	19	5	100	30	65	5	1
	No teen pregnancy	100	5	35	32	28	100	13	58	22	6
Honduras	Teen pregnancy	100	33	49	14	4	100	54	43	3	1
	No teen pregnancy	100	16	45	27	11	100	40	48	11	1
Mexico	Teen pregnancy	100	23	62	12	3	100	48	50	2	0
	No teen pregnancy	100	7	56	18	19	100	23	68	7	2
Panama	Teen pregnancy	100	7	52	34	7	100	24	59	15	1
	No teen pregnancy	100	4	22	40	34	100	13	39	32	16
Paraguay	Teen pregnancy	100	27	49	23	0	100	42	52	5	1
	No teen pregnancy	100	12	32	35	21	100	37	53	7	4
Uruguay	Teen pregnancy	100	9	55	32	3	..	..	..	..	..
	No teen pregnancy	100	2	35	42	22	..	..	..	..	..
Venezuela	Teen pregnancy	100	14	58	22	6	100	42	51	6	1
	No teen pregnancy	100	6	35	32	27	100	23	53	18	6
Simple average	Teen pregnancy	100	22	50	23	5	100	45	46	8	1
	No teen pregnancy	100	9	31	34	26	100	31	44	19	6

Source: ECLAC, special tabulations from the household surveys in the respective countries.



## Box V.6

**UNOPEC: AN ALTERNATIVE EDUCATIONAL SYSTEM FOR PREGNANT TEENAGERS AND ADOLESCENT MOTHERS**

UNOPEC (Operational Unit for Education and Training) is a pilot initiative being developed in Chile to address one of the main problems associated with teen pregnancy —namely, school desertion. This alternative educational model consists of a high school with nursery and preschool facilities attached. The teachers have training in sex education.

According to data provided by the Ministry of Public Education and the University of Chile's Centre for Reproductive Medicine and Integrated Adolescent Development (CEMERA), of the 13,500 girls enrolled in school who become pregnant each year in Chile, only 15% continue studying after their baby is born, and an even smaller fraction (7%) are still in school three years later. Dropping out of school greatly reduces their future chances for well-being —both their own and that of their children.

Research has shown that teenage mothers who drop out of school are more likely to have repeat pregnancies and higher rates of induced abortion than those who continue with their studies. There are also other risk factors that affect the children of teenage mothers with low levels of schooling: their growth and development indicators are lower; they are more likely to develop illnesses that require hospitalization; and they are more prone to be injured in household accidents.

Taking into account the cultural and biological factors that lead pregnant teenage girls to abandon their studies, plus the causes associated with the school system itself, CEMERA proposed an alternative system of education and daytime training to enable pregnant teenagers, as well as those who have already become mothers, to continue their studies. The UNOPEC high school has the following specific objectives:

- (i) To keep these teenage girls in an institution that offers a curriculum approved by the Ministry of Education, including regular secondary courses and training;
- (ii) To maintain a tie between the student mother and her child by installing adjacent nursery and preschool facilities that make it possible to combine school and maternal activities;
- (iii) To promote a functional curriculum that takes the problems of adolescents into account through participatory classes and inclusion of the family;
- (iv) To offer health care as an integral part of education for those enrolled in the school;
- (v) To contribute indirectly to the prevention of clandestine abortion, abandonment of the baby, and child abuse; and
- (vi) To evaluate the economic feasibility of this model and the possibilities of implementing it on a national scale.

A global evaluation of the UNOPEC experiment showed that the enrollees had an average annual attendance rate of 65% in 1995 and that 72% of them successfully completed their studies. The total enrolment was 185, and it was estimated that at least 250 would be needed in order for the initiative to pay for itself. The evaluation also revealed the following advantages, among others, of this alternative educational model: (i) it is flexible (it offers the option of job skills training along with the recovery of primary and secondary education); (ii) it is equitable (it reaches women mainly from the middle and lower strata, in which early pregnancy is more common, and it is financed in part by the State, through regular mechanisms, and in part by contributions from the students themselves, depending on their ability to pay); it is integrated (the teachers have training in sex education, and it provides health care for the mothers and their babies); it is non-discriminatory (it is open to teenage mothers and adolescent and adult women, pregnant or not, and it also offers educational alternatives for teenage boys who have become fathers).

It is considered that this model opens up positive alternatives in the face of a problem that is impossible to solve in the short term —namely, teenage girls becoming pregnant and dropping out of school, not only because of rejection in the regular school system but also because of the biological factors associated with pregnancy, maternity, and the development of the nursing infant, as well as the psychological, family, and social impact of an unexpected teen pregnancy.

**Source:** Ramiro Molina and others, "Liceo Unidad Operativa of Education and Capacitation (UNOPEC): una experiencia innovadora en educación", *Revista de la Sociedad Chilena de Obstetricia y Ginecología Infantil y de la Adolescencia*, vol. III, No. 3, 1996.



## **Part Three**

### **Public policy and equity**

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## Chapter VI

# An overall view

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### **1. Macroeconomic performance, external linkages and changing production patterns in the 1990s**

The process of structural reform oriented towards opening up economies to external competition and allowing greater participation by the private sector in development began in the 1970s in a few Latin America countries, but slowed in the first five years of the following decade. The process gained new impetus in the mid-1980s and spread throughout the region. It further intensified in the 1990s, although advances occurred at different rates in the different countries of the region in the areas of commerce, finance, labour, social security and State reform. From the mid-1980s on, structural reforms were accompanied by efforts aimed at re-establishing internal macroeconomic balance.

Nevertheless, structural reforms and macroeconomic stabilization processes were not sufficient to overcome the legacy with which the region is entering the twenty-first century. That legacy includes structural factors deeply rooted in the region's history, in addition to effects of the debt crisis that have not been fully surmounted, coupled with other social and political processes. All these features are present in a region that itself is heterogeneous in size, structure and degree of development, as well as in the degree of fragility of its economic, political and social institutions. This section presents a brief overview of the legacy of the 1990s in terms of

macroeconomic behaviour, external linkages and changing production patterns in Latin America and the Caribbean.

### **(a) Macroeconomic behaviour**

Without a doubt, the most prominent economic feature of the 1990s was renewed growth, which took place in a context of greater concern for internal macroeconomic balance. The resumption of growth has been especially evident in Latin America, where the average growth of the gross domestic product (GDP) surpassed that of the previous decade (3.3% annually between 1990 and 2000, compared with 1.0% during the 1980s, or 1.4% compared with -0.9% in terms of growth in per capita GDP). A similar increase was registered in the Caribbean, but the average annual growth rate remained relatively low (2.0% during the 1990s, compared with 0.1% during the 1980s).

The increasing concern about internal macroeconomic imbalances is reflected in the steady decline of the fiscal deficit to an average range of between 1% and 2% of GDP—with some exceptions and with an increase during the recent crisis—and in the stabilization of inflation in Latin America at the lowest levels in a half century. In the majority of the countries, the annual inflation rate had fallen to 10% by 1997 and dropped to single-digit figures after that. Considering the tremendous fiscal imbalances that had characterized the Latin American economy since the late 1970s and the long history of rising inflation in various countries—especially in South America—these achievements are decidedly worthy of note, and they have translated into greater confidence on the part of macroeconomic authorities, although they have not led to stability of capital flows.

Nevertheless, the average growth rate in Latin America not only continues to fall short of the level necessary to close the gap that separates the region from the most developed countries, but it is also lower than the rate that ECLAC has determined to be desirable and necessary to overcome the grave problems of poverty that beset the region (6%-7% per year). It is also significantly lower than the average rate that Latin America experienced between 1945 and 1980: 5.5% per year. This is true even if simple averages are compared (4.9% and 2.1%, respectively) in order to isolate the effect of the two biggest countries in the region, Brazil and Mexico, whose economic growth in the 1990s was slower than their historical pattern. This trend toward slower growth in relation to the three and a half decades prior to the debt crisis also characterized most of the other Latin American countries, the only exceptions being those countries whose performance was relatively poor during that period.

The fact that growth has slowed with respect to the levels that existed prior to the debt crisis casts doubt on the strong positive effects<sup>48</sup> that, according to some analysts, the reforms have had on economic growth. The heterogeneity of experiences—in terms of the intensity of reforms, the different macroeconomic policies that accompanied them, and the results of those policies—indicate, however, that it is not easy to make simple inferences about the effects.

The evolution of the investment rate corroborates the foregoing. Although the rate has tended to recover, not until 1997 and 1998 did its simple average reach levels similar to those of the 1970s, while the weighted average fell below 1970 levels. Moreover, the incremental capital-output ratio was far higher in the 1990s than in the 1970s (6.6 versus 4.8), which shows that investment rates have been less effective in terms of spurring economic growth.

The behaviour of the economy also reflects a pattern of extreme dependence on the ups and downs of external financing. This is manifested in the marked sensitivity of the balance of trade to the level of economic activity and the tendency to substitute external savings for internal savings

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<sup>48</sup> A recent ECLAC study indicates that these effects were positive, but only slightly so (Stallings and Peres, 2000).

that has characterized the period of growth resumption associated with the inflow of capital. An important internal manifestation is the frequency with which national financial crises occurred during the 1990s as part of a pattern that was, moreover, generalized. These crises absorbed considerable fiscal and quasi-fiscal resources in many countries, affecting the very operation of financial systems, sometimes for prolonged periods.

In addition to the trends described above, the rapid growth registered in some countries in the early years of last decade has waned. This is the case in Argentina, Chile, El Salvador, Panama, and Peru, the five countries that posted growth rates of over 5% per year between 1990 and 1994; of those countries, only Chile—which in the 1990s achieved notably high rates of capital formation—managed to maintain a rate close to that until the onset of the Asian financial crisis. The Dominican Republic is the only country whose annual growth rate has risen to above 5% since the mid-1990s.

The sensitivity of economic growth to capital flows, the propensity toward national financial crises, and the problems associated with restructuring of productive sectors have not been unrelated to the type of macroeconomic management practised. This reveals the existence of contradictions between the different economic policy objectives and instruments. In particular, the strong tendency toward currency revaluation that characterized the peak growth periods of the 1990s has been responsible for the serious adjustment problems that have affected the sectors that produce tradable goods and services in various countries; it has also created the potential for speculative attacks, which has increased uncertainty and raised the risk of financial crisis. At the same time, the trend toward the adoption of pro-cyclical monetary and credit policies—which allow easy availability of credit and marked declines in interest rates during periods of expansion, followed by monetary contraction and high interest rates during times of crisis—has been the underlying cause of national financial crises and unstable economic growth in many countries.

### **(b) External linkage**

Significant progress was made in the 1990s toward incorporating the Latin American and Caribbean economies into the global economy. During the decade, the region experienced the fastest growth in the volume of real exports in its history (8.9% per year between 1990 and 1999), even surpassing the growth in world trade. The extraordinary expansion of Mexican exports (13.7% per year) largely accounts for this dynamism. In contrast, Brazil stands out for the relatively slow growth of its exports (3.2% per year), which was not only lower than the regional average for the decade, but also fell below the country's own growth rate for the previous 60 years. The rest of the countries showed vigorous growth, with rates of close to 8% per year. Nevertheless, the share of Latin America and the Caribbean in total world exports continues to be small—only slightly more than 5%.

The diversification of exports has advanced at very different rates in the different countries and subregions. Again, Mexico is remarkable for the rapid change in the composition of its exports, although the Central American countries and the Dominican Republic have also experienced significant diversification. In the smallest countries, diversification has been closely linked to the development of an assembly industry geared toward the United States market. For this reason, in terms of the value-added of the exports, both the rate of growth and the diversification of exports have been less intense.

The change in the composition of exports has occurred much more slowly in Brazil—which nevertheless has quite a diversified export structure—and, especially, in the rest of South America, where exports of primary goods continue to make up a large share of total exports, as do manufactured goods that are intensive in natural or traditional resources. The English-speaking Caribbean is another subregion that experienced little noticeable change in the composition of its

exports during the decade. Hence, in most of the countries, the growth in exports has been tempered by still inadequate diversification of the export base, both in terms of products and destination markets (ECLAC, 1998c).

An important element in the expansion and diversification of exports has been substantial growth in intraregional trade, associated with the strengthening of existing agreements on economic integration and free trade or the establishment of new ones. The growth of trade was particularly marked within the two main subregional integration groupings, the Southern Common Market (Mercosur) and the Andean Community, between 1990 and 1998 (22% and 19% per year, respectively). As for the Central American Market Common and the Caribbean Community (Caricom), the growth has been much less dynamic and, in the case of the former, it was concentrated in the early years of the 1990s.

As concerns the tailoring of production to international markets, two basic patterns of specialization have emerged in the region. The first is characterized by growth in exports of manufactures with large proportions of imported inputs, destined mainly for the United States. This pattern prevails in Mexico, Central America, and some countries of the Caribbean. It is associated, in the case of Mexico, with the development of greater domestic linkages in the non-maquila sectors; in Central America, with traditional or more diversified agricultural exports; and, in the Caribbean, with the export of services (especially tourism). The second pattern features a predominance of natural resource-intensive primary or industrial products targeted to the world market, combined with much more diversified intraregional trade. This is the model that prevails in the South American countries. In Brazil, it also includes a few high-technology exports and, in that country and several others, it is accompanied by exports of labour-intensive manufactures and substantial industrial production for the domestic market. A third pattern of specialization also exists. Seen mainly in Panama and some small economies of the Caribbean Basin, it is characterized by the prevalence of service exports (in the financial, tourism, and transport sectors).

Greater openness and access to external financing have led to even faster growth in imports. For this reason, the trade deficit has tended to increase, reaching levels similar to those of the 1970s (higher if they are estimated as simple averages). This situation is cause for special concern, since the deficits have coincided with rates of economic growth that were two or more percentage points below the rates registered in the 1970s. It thus reflects a deterioration in the relationship between economic growth and external accounts, which is linked to both the structural changes generated by economic liberalization and the trend toward real exchange rate revaluation that characterized the 1990s.

A second manifestation of the region's progress toward integration into the world economy is the upsurge in foreign direct investment. This trend has been fuelled by a combination of forces: deregulation of natural resource-intensive sectors, privatization of activities traditionally reserved to the State, use of free trade or preferential trade agreements by more industrialized countries or regions (in particular the North American Free Trade Agreement and the Caribbean Basin Initiative), and restructuring of productive sectors in the framework of regional integration process. Given the instability of financial flows into the region, foreign direct investment has also become the primary vehicle for returning to a situation of positive net transfers of resources from abroad, thus reversing the negative transfers that marked the 1980s (ECLAC, 1998d).

This increase in foreign direct investment has not translated wholly into increased productive capacity, since its most dynamic component has been mergers and acquisitions of existing assets, first public (privatizations) and more recently private. In the last years of the decade (1997-1999), in particular, mergers and acquisitions accounted for around 40% of foreign direct investment. Its rapid growth has resulted in an accelerated increase in the participation of foreign companies in production and sales, especially since the middle of the decade. A new phenomenon, though of



lesser importance, has been the emergence of active intraregional direct investment, accompanied by mergers and acquisitions and a wave of strategic alliances between major national companies, possibly as a transitional step toward becoming multinational companies of subregional or regional scope.

### **(c) Changing production patterns**

The weakness of average economic growth in the region is indicative of macroeconomic as well as sectoral and microeconomic problems. At the aggregate level, it reflects deterioration in the relationship between growth and external accounts, insufficient recovery of investment rates, and unfavourable marginal capital-output ratios. At the sectoral level, it reflects the inability of the different sectors to contend with external competition and the breakdown of chains of production, especially in the manufacturing sector. At the microeconomic level, it reflects the predominance of "defensive" strategies employed by companies to adapt to the new context (organizational and productive restructuring and revamping of marketing strategies, coupled with low investment), over "offensive" strategies (in which the aforementioned restructuring is combined with substantially increased investment in new equipment and technologies and strategic alliances of all types).

One of the major paradoxes of the process of opening the economy to international trade is that the sectors that have experienced the most dynamic growth have been those that produce goods and services that are not tradable internationally, while those that do produce such goods have seen their participation in global economic activity diminish. In relative terms, the transportation, communications, energy, and financial services sectors have been most dynamic, as has construction, during boom periods. Among the tradable-goods sectors, generally speaking, the manufacturing industry has been the most affected vis-à-vis its own history, especially the more traditional, labour-intensive industries (garments, footwear, leather goods, furniture, etc.), with exception of those in the maquila sector. In fact, one of the industrial sectors that has performed well is the maquila sector; others include the automotive industry—helped in Mexico by access to the United States market and in South America by special protection mechanisms in the framework of integration processes—some natural resource processing industries, and sectors oriented toward production for the domestic market during periods of high demand (construction materials, beverages, some foods, etc.).

Agriculture has also grown at slower rates than before the debt crisis, although regional patterns have varied widely. Mining has tended to grow rapidly, especially the extraction of minerals, as opposed to activities that add value (such as refining). This sector, the communications sector, and, to a lesser extent, the energy sector have benefited from institutional changes aimed at opening up greater opportunities for private participation and foreign investment, including—in the case of mining and foreign investment—added protection for property rights.

The more competitive atmosphere and the expansion of opportunities for private activity have also led to progress in terms of efficiency and contestability of markets, which has worked to the benefit of users and resource allocation. Nevertheless, growing economic concentration has exerted pressures in the opposite direction, even in sectors producing internationally tradable goods. The problem is even more complex in the infrastructure services sectors, particularly in cases in which policies designed to encourage private investment have not been oriented explicitly toward increasing competition and may even have replaced public monopolies with private monopolies, at least temporarily, especially when there has been a delay in establishing regulatory frameworks—a phenomenon that has been quite widespread. Moreover, where privatization processes have been badly designed and no prior regulatory process has existed, privatization has led to transfers of wealth. These results reflect the problems that the region has experienced as a

result of delays in developing standards for competition and putting in place appropriate regulatory schemes.

One of the most important repercussions of the relative lack of dynamism is the inadequate performance of the Latin American and Caribbean economies in terms of the growth of productivity. Even in sectors in which productivity has increased, for most countries the gap between their productivity levels and those of the industrialized economies —especially the United States— tended to widen during the 1990s. This was especially true of the manufacturing industry. In many countries and manufacturing subsectors, the productivity gap vis-à-vis the North American economy had been closing more rapidly during the 1970s and the 1980s than was the case in the 1990s. Indeed, the gap tended to widen during the latter decade as a reflection of the rapid technological change that occurred in the United States.

Productivity trends reflect the enormous disparity between the increase in productivity among a group of successful companies and sectors and their poor performance on an aggregate level. This contrast demonstrates that the labour, capital, technological capabilities, and, sometimes, land displaced from sectors and companies affected by productive restructuring processes have not been appropriately channelled toward the sectors that are experiencing growth. Indeed, the increase in mean labour productivity during the 1990s was lower than that experienced by the economies of the region between 1950 and 1980, except in three countries of the Southern Cone: Argentina, Chile and Uruguay. The increase in the total productivity of the factors during the 1990s was 1.3% per year, a figure that compares unfavourably with the 2.1% achieved in the three decades prior to the debt crisis (Hofman, 1999).

The pattern of uneven productivity growth reveals one of the most striking features of the productive restructuring processes that have taken place in the region: the increase in the internal heterogeneity of production sectors, or "structural heterogeneity", as it has been labelled by ECLAC. This trend indicates that restructuring has not been neutral in terms of its effects on the different economic agents. The principal winners have been multinational companies and some large national companies, which has given rise to a process of economic concentration that, in keeping with the international pattern, is evident in almost all the countries. On the other hand, the history of small and medium-sized companies, both urban and rural, is much more diverse and has been characterized by high rates of failure in various countries (ECLAC, 2000a).

## 2. Traditional characteristics of social policies

Social policies alone cannot achieve equity and overcome poverty. **Social development cannot rely exclusively on social policies** because it is a task that is beyond their reach. If there is growth, jobs will be created that will enable people to meet their needs on their own. The State, also, will have greater resources —obtained basically through taxes— to implement programs of a social nature.

The foregoing is not meant to minimize the crucial role of social policies in reducing poverty and improving living conditions for the population, both directly and indirectly, through their influence on economic growth. They fulfil functions of **investment in human capital** by endowing people with the capabilities necessary to enable them to gain a better position in the labour market. Social policies thus constitute a prerequisite for economic growth, especially in the current context in which the principal factor of production has become knowledge. Another function of social policies is **social compensation**, through which they help maintain minimum living conditions for those affected by crisis of any type, assuring the maintenance of society's human capital. Finally, they play a role in social integration when they are oriented toward overcoming the exclusion of the rural population and

those affected by discrimination due to various factors (ethnicity, gender, generation, geographic location, etc.).

An analysis of the evolution of the Latin American and Caribbean countries over the last 50 years reveals that significant progress has been made toward improving the living conditions of the population, as evidenced by lower infant mortality rates, longer life expectancy at birth, increased duration of formal education, and reduced illiteracy, as well as greater coverage of basic sanitation and drinking water services. At the same time, however, it is clear that there are serious problems of equity, as exemplified by the existence of structural poverty, the fact that a majority of workers are employed in the informal sector, and the persistence of mechanisms of social exclusion.

Social policies, which, as noted above, should contribute to both economic development and the achievement of equity, have been characterized by segmented access; theoretical universality which has not been realized in practice; the provision of social services through fragmented systems frequently marked by duplication of functions and services, which leads to waste of resources and inter-agency competition; bureaucratic inertia, which keeps ineffective programmes in operation; or, alternatively, the discontinuation of programmes whose aims cannot be achieved in the short term. They have also been permeated by a component of corporatism, which explains the concentration of benefits among certain groups.

Many social programmes do not reach the neediest members of the population, owing to cultural barriers, illiteracy, lack of information about the programmes, or the fact that the intended beneficiaries live in remote areas or the services are designed to meet the needs of other social groups, etc. Likewise, although the services may be free, they involve transaction costs (transport, time, etc.), which generally are not taken into account when the programmes are designed, so that eventually they prove to be beyond the reach of those who have the least resources.

In the face of this situation, a number of differing proposals as to how social policies should be designed and implemented have emerged since the 1970s. Generally speaking, these views are related to several basic factors: institutional framework, public-private mix, sources of financing and resource allocation, and identification of beneficiaries and of the means and ends being pursued.

As regards **institutional framework**, traditional social policies assigned all functions (financing, design, implementation, oversight) to the State, while today it is commonly recognized that other social actors play a role, including local governments, philanthropic or volunteer organizations, the commercial subsector, and families and communities. It is assumed that these stakeholders may be better equipped to carry out certain functions or activities, which can be separated and need not necessarily all be executed by the State.

A change has also occurred in the centralist conception of the State that has historically prevailed in the region, paving the way for decentralization of responsibilities and resources. At times, decentralization has been seen as a panacea, although some are now calling attention to the difficulties associated with the process or with the mode, form, and timing of decentralization.

In the traditional model, the public sector decides which problems to address and how to address them. Users are left with few options; they can choose only to accept or not accept the benefit. The alternative, which has been lent considerable support by the experience with social investment funds, maintains that a project approach is preferable, as a means of taking advantage of society's capacity for innovation.

With respect to **sources of financing** for social policies, the main one has been government coffers. Today, **co-financing** is sought, not only to recover costs, but also to strengthen the

community's commitment to social programs, although experience has shown that a risk of such obligatory co-financing is that more of the poor may be excluded.

As for the **allocation of resources**, the issue is whether they should finance supply by the State or, on the contrary, subsidize demand. In the latter case, the financier gives the beneficiary (by means of coupons or "vouchers ") the ability to "buy" whichever good he deems best in the (quasi) market, for which a basic requirement is the existence of more than one supplier.

The principle of equity advocates unequal or special treatment for those who are socio-economically unequal (affirmative action or positive discrimination). A homogeneous response to heterogeneous situations can only serve to perpetuate previously existing differences. It is therefore necessary to devise different alternatives that are suited to the needs of diverse groups.

Systems of social protection in most cases are gradually expanded to incorporate underserved sectors as more resources become available. Coverage is generally extended first to those who are least needy but who have greater capacity to defend their interests. When the objective is poverty alleviation—as was the case with the World Summit for Social Development—other approaches are required, whence the emphasis on **targeting**. Targeting is the practice of identifying the potential beneficiaries as accurately as possible and designing programs with the objective of assuring a high per capita impact in the selected group through monetary transfers or delivery of goods or services. The idea is that more precise identification of problems (needs to be met) and of those who suffer from those problems (target population) will make it easier to design differentiated and specific measures for solving them. At the same time, scarce resources will be used more efficiently, and the program will have greater impact by concentrating resources in the population at highest risk.

The need to expand coverage is always stressed, and there is no doubt that this is very important. Doing so, however, may lead to distortions, since it is easier to extend coverage in concentrated urban populations than in scattered rural populations, even though the level of need is greater in rural areas. In addition, high levels of coverage may not produce results, as occurs with nutritional programs that seek to assist the greatest number of people but, in so doing, end up providing calorie and protein amounts that are below minimum standards. Coverage can also be increased without generating any impact when programs are implemented among those who do not have unmet needs. Such programs also often increase the need for investment in social infrastructure (construction of schools, health posts, hospitals), and they sometimes also have led to higher salaries for personnel, regardless of whether they perform their jobs effectively or whether the program actually benefits the target population.

Rather than focusing on the means, it is preferable to be concerned about impact, which is understood to mean the extent to which the target population benefits, based on the objectives pursued by the program. This means utilizing approaches that make it possible to identify the group that the program seeks to reach (targeting) and also measuring success by means of an appropriate evaluation methodology.

The next section will examine some of the key social policy sectors (education, health, pensions, housing) with a view to identifying some of the reforms introduced in recent years.



## Chapter VII

# A review of reforms

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## 1. Employment and labour reforms

### (a) The scope of reform

In 1990-1998, a number of countries in Latin America reformed their labour laws, especially the sections thereof dealing with employment contracts, dismissal and collective bargaining (see table VII.1).

These reform efforts have taken different directions, with no one single trend predominating, although the idea of making hiring and firing procedures more flexible has been in evidence in most recent amendments. Labour reforms have sought to boost hiring by making it easier to dismiss workers or to hire them on a temporary basis and by establishing regulations governing collective bargaining. In some countries, there have been attempts to reduce labour costs and revamp unemployment funds (e.g., the elimination of "double retroactivity" in Colombia); furthermore, in cases where workers are dismissed without just cause, the amount of severance pay has been reduced or the grounds for dismissal have been broadened. Some of the reforms carried out in Argentina, Bolivia, Chile, Colombia, and Peru fit into this general pattern. In some countries, the existence of strong labour unions has hindered efforts to make labour laws more flexible.

On the other hand, legislation has also been enacted to improve working conditions for workers as a whole, as well as to protect particular types of workers by, for example, regulating the hiring of temporary workers, wage earners in small and medium-sized enterprises, and domestic employees. In addition, laws have been passed to defend union rights, protect women from discriminatory practices, abolish child labour, and regulate youth labour (Brazil, Chile, Costa Rica, Peru, and Venezuela).

It is generally agreed that the increased flexibility of the labour market in most countries of Latin America has primarily been a response to de facto situations rather than the result of explicit regulations, and that the changes that have taken place in the job market are out of step with labour regulations. Regulations have been introduced which modify certain aspects of labour relations, but, except in a few cases, comprehensive legislative reform efforts that would systematically address the many different facets of those relations in their entirety have not been mounted. Thus, the region encompasses a panorama of stark contrasts between minority groups of workers who enjoy extensive protection and large groups that are not covered by labour legislation, as is the case of employees in small-scale and microenterprises, and independent, subcontracted, and seasonal workers.

Furthermore, non-compliance with existing labour standards on the part of many employers is a persistent, widespread problem, as is the difficulty that workers experience in obtaining better working conditions. During the first half of the 1990s, new legislation was introduced which resulted in trade unions being strengthened in Brazil, Chile, Colombia, and Costa Rica, and their being weakened in Argentina and Peru. Around 2000, the improvement of democratic systems has led to a trend—with some differences from country to country—towards the modernization and strengthening of trade unions.

There has been much debate about the potential impact of the increased labour flexibility and its implications in terms of job creation, labour costs, and working conditions. These issues, along with others concerning the abolition of child labour, the setting of minimum wages and, in particular, unemployment insurance, make up the agenda of labour reforms that are under discussion in the countries' legislatures or in tripartite talks (see box VII.1). The most controversial issues have to do with setting limits and striking a balance between employers' need for flexibility in dealing with the new realities of global competition and integration, on the one hand, and workers' needs for job stability or protection in situations of growing unemployment, on the other.

In sum, relations between employers and their employees are in vital need of modernization, since, as it becomes increasingly important to gain workers' allegiance, it will become more and more necessary to view them as collaborative partners rather than as adversaries or as a mere factor of production. Modernizing labour relations within individual firms and making the transition from a confrontational to a cooperative stance involves many aspects, one of the most important of which is the recognition of the need for participation as a means of achieving higher levels of productivity and, hence, better pay.

### **(b) Job creation programmes**

In the early 1990s, most of the countries in the region have implemented a variety of reforms and programmes designed to generate employment, increase organizational efficiency, boost productivity and facilitate the processes of modernization and adoption of new technologies. Most of the countries have also made changes in their labour laws, created new training models, and modified their labour management modalities through the use of new wage incentives.

For purposes of analysis, job creation programmes can be grouped into five categories: the creation of temporary jobs; incentives for private enterprise; on-the-job training and internships; skills training and relocation of workers in declining industries; and training and credit for owners of small-scale and microenterprises.

Programmes of this kind have been implemented in various combinations in most of the countries of the region. As a general rule, their aims are to train unemployed youth (as is occurring in Chile, Argentina, Peru, and Venezuela); create opportunities for self-employment by upgrading business skills and providing loan assistance to owners of small businesses and microenterprises (revolving fund-type programmes, Brazil's pro-employment scheme); and use tax incentives to encourage private firms to take on workers and provide them with training. These programmes are targeted at specific groups such as small-business owners, women heads of household, the unemployed, and young people. Some are financed by social investment funds created specifically for that purpose; others are funded out of the countries' national budgets, with inputs taking the form of reimbursable loans and tax revenues. Institutional coordination is the responsibility of various ministries (labour, agriculture or education, depending on the nature of the programme) or the national employment service (see table VII.2).

At present, the focus is on expanding employment programs, with a view to training workers so as to enable them to adjust to the many changes that have taken place on the labour front, and on improving financing and training schemes for operators of small businesses and microenterprises.

These job programmes highlight such aspects as a better understanding of the relationship between the labour supply and the needs of the labour market; the training of target groups and the creation of jobs for the more vulnerable groups in society; participation by non-governmental organizations; trainer training; consideration of the gender dimension in training; increasing the self-esteem of those undergoing training; and the design of flexible programmes that can be tailored to different social and labour contexts. The factors that make for the success of a programme in one particular country may not necessarily work the same way in others, however.

One of the areas requiring further attention is the lack of prospective data on the labour market, including the type of information needed in order to provide skills training that more fully meets the actual needs of business firms. The processes used to select target groups and provide inter-sectoral coordination should also be improved in order to avoid the dispersion of resources and promote more systematic programme monitoring and supervision. Finally, another major challenge is that posed by the current regional integration processes, which either call for compliance with certain rules (NAFTA) or require full standardization, as in the case of Mercosur.

### **(c) Unemployment insurance**

If workers who have been laid off are assured a sufficient income to cover their basic needs for a reasonable period of time, they not only will enjoy a higher standard of living for both themselves and their families, but will also be better equipped to look for a new job, with the result that resource allocation will be improved and productivity will increase. This is the rationale for unemployment insurance schemes, which are practically unheard-of in Latin America, where at best, they cover only a small number of workers or provide absurdly low benefits.

Table VII.1  
ISSUES ADDRESSED BY LABOUR REFORMS, BY COUNTRY, 1990-1995

Issue	Argentina	Bolivia	Brazil	Chile	Colombia	Costa Rica	Paraguay	Peru	Uruguay	Venezuela
Contracts	X	X	X	X	X			X		
Dismissals	X			X	X	X	X	X		
Collective bargaining	X		X	X				X		X
Minimum wages			X							X
Amount of pensions				X	X					
Vacations							X	X		
Maternity leave						X				X
Rights of nursing mothers						X	X			
Gender-based discriminatory practices	X		X							
Sexual harassment						X	X			
Work by minors						X		X		
Trade unions				X				X		
Trade union privileges			X	X		X	X			
Strikes				X				X		
Social security				X	X	X			X	X
Accident insurance	X			X						
Unemployment insurance					X					
Job safety				X					X	
Forced labour			X							
Use of tobacco on the job						X				
Special regimes									X	X
Civil servants' association				X						X

**Source:** ECLAC, *Social Panorama of Latin America, 1996* (LC/G.1946-P), Santiago, Chile, 1997. United Nations publication, Sales No. E.97.II.G.4 and Jurgen Weller, *Reformas económicas, crecimiento y empleo: los mercados de trabajo en América Latina durante los años noventa*, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2000, in preparation.



**Table VII.2**  
**LATIN AMERICA: TYPES OF JOB PROGRAMMES IMPLEMENTED**

Country	Type	Objectives	Target population	Institution	Successes	Difficulties	Financing
Argentina Bolivia Brazil Costa Rica <sup>a</sup> Mexico Nicaragua Venezuela	I. Emergency measures	To generate temporary jobs in infrastructure works and community services	Extremely poor unemployed population	Emergency/ social investment funds	Generate jobs for poorest among the unemployed	Jobs are temporary, low quality	External financing and non-reimbursable loans
Argentina Brazil Uruguay	II. Incentives to private enterprise	To encourage the private sector to hire and upgrade skills of workers	Youth and middle-aged population with potential for receiving training	Ministry of labour	Involve private enterprise	Amount of jobs generated	Budget, development banks
Argentina Chile Colombia Mexico Peru Uruguay Venezuela	III. On-the-job training and internships	To train workers and promote employment through apprenticeship contracts	Youth who neither study nor work	Ministries of labour and planning, employment services, youth institutes	Training develops the potential of youth	Skills not relevant to market demand	Budget and reimbursable loans
Argentina Bolivia Costa Rica Chile Peru Uruguay Venezuela	IV. Retraining of workers in declining sectors	To improve workers' prospects of finding productive jobs	Population displaced by industrial re-engineering or downsizing of civil service	Ministries of labour, employment services	Training and retraining of workers	Skills not relevant to market; high cost	Budget and reimbursable and non-reimbursable loans
Brazil Colombia Mexico Uruguay	V. Training and loans for owners of small businesses and microenterprises	To improve creditworthiness, and entrepreneurial and management skills	Owners of small businesses and microenterprises	Ministries of labour, National employment services	Develop entrepreneurial skills	Difficult to maintain without credit support	Reimbursable loans from national and international banks

**Source:** Country replies to the survey on employment programmes.

<sup>a</sup> Costa Rica finances the programme with tax on corporate payrolls and a percentage of the sales tax.

Only seven Latin American countries have unemployment insurance schemes. Two of them provide what actually amounts to a pension for older workers who are dismissed (Ecuador and Mexico); Brazil has a non-social-security unemployment assistance programme. Only four countries (Argentina, Chile, Uruguay, and Venezuela) have conventional social-security-based unemployment programmes. Furthermore, no other such programme has been created in the region since the implementation by Venezuela of its programme in 1989. This situation may be explained by the fact that while unemployment insurance is designed to mitigate the effect of cyclical unemployment in developed market economies, unemployment in Latin America tends to be either seasonal or chronic and structural; in fact, underemployment and labour informality pose more serious problems. In the long term, the only solution is to create productive employment; in the short and medium terms, low-cost social welfare programmes can be used (Mesa-Lago, 2000).

Table VII.3 shows the main features of the unemployment insurance schemes of Argentina, Chile, Mexico, and Uruguay. In the case of Mexico, the programme actually amounts to a severance pension for employees between the ages of 60 and 65, who have been contributing to social security, and who become eligible for old-age pensions upon retirement. In the three remaining countries, the plan excludes part of the workforce, i.e., civil servants in Argentina, and farm workers, domestic servants, and bank employees in Uruguay. Only in Argentina is the insurance scheme financed with contributions from employers and insured workers (2.5%); in Chile and Uruguay, it is financed by the State, and is thus more a welfare than an insurance plan. In Argentina and Chile, entitlement is subject to one year's contributions, and in Uruguay, only six months, which is very little when compared with the industrialized countries. In Argentina and Uruguay, the plan pays 50-60% of wages, which is similar to the level paid in industrialized countries. The maximum payment period is 26 weeks in Uruguay—the same as in the United States and the United Kingdom—and 52 weeks in Argentina and Chile.

Table VII.3  
MAIN FEATURES OF SOCIAL SECURITY UNEMPLOYMENT PROGRAMMES  
IN FOUR LATIN AMERICAN COUNTRIES, 1997

Country	Coverage of employed wage earners			Contributions (% of wage)			Benefits		
	Original law and current law	Total	Part	Insured workers	Employers	State	Conditions (months of coverage or of contribution)	Percentage of wage	Payment period (weeks)
Argentina	1967, 1991	X <sup>a</sup>		1	1.5	0	12	60	17-52
Chile	1937, 1981	X		0	0	<sup>b</sup>	12	<sup>ce</sup>	26-52
Mexico	1943		<sup>d</sup>	0	0	<sup>b</sup>	-	95	12-30
Uruguay	1944, 1981		<sup>e</sup>	0	0	<sup>b</sup>	6	50-60	26

**Source:** Mesa-Lago and Bertranou 1998, updated on the basis of US-SSA 1997.

<sup>a</sup> Excludes civil servants.

<sup>b</sup> Severance pension for workers aged 60-65.

<sup>c</sup> Private-sector wage earners; excluding the banking sector, agriculture and domestic servants.

<sup>d</sup> Full cost; in Uruguay, this is financed in theory, with general contributions; in fact, it is financed with State transfers or taxes.

<sup>e</sup> Fixed monthly amount which decreases according to the time a person remains unemployed.

In practice, the only real protection that a worker in Latin America has in the event of dismissal is severance pay, which is normally equal to one month's pay for every year of service with the firm. This is an inadequate form of unemployment insurance, however, because, even though it does afford some coverage in the event of dismissal, the sum provided is adequate only after an employee has been with a given firm for a considerable number of years. Since 40% of all workers who are laid off or dismissed have less than two years' service, severance pay provides very little protection to a substantial portion of the labour force.

Moreover, severance pay entails three types of costs:

- (i) it prevents the voluntary transfer of workers to other firms, since workers who leave voluntarily are not entitled to compensation, and even though they might receive better pay at a different firm, they would run the risk of receiving little or no compensation in the event of dismissal;
- (ii) should there be an economic crisis requiring mass lay-offs, firms would have to meet severance-pay obligations just when they are least able to do so; and
- (iii) severance pay creates perverse incentives, in that it induces some long-time employees to deliberately set out to be fired in order to qualify for compensation, while encouraging firms to threaten dismissal on other grounds with a view to negotiating a lower amount of compensation.

In view of the need to safeguard a worker's income in the event of dismissal and facilitate a more fruitful job search, many observers propose the creation of a genuine unemployment insurance scheme of the kind that exists in developed countries. Objections to this proposal are primarily based on practical considerations rather than on theoretical ones. The concern is that such a scheme would prove to be excessively expensive because it would not deal satisfactorily with the problem of "moral hazard", which would involve distinguishing between genuine dismissals and dismissals that have been engineered for the purpose of obtaining unemployment insurance. For example, workers may choose to leave a firm of their own free will —e.g., to seek a better job— and then state that they were dismissed (in collusion with their employer, since in this case the payment would come out of the "fund" rather than the employer's pocket). Similarly, many temporary workers who are voluntarily thus employed may state that they are seeking work and thus qualify for unemployment benefits. In addition, many people whose actual period without work might be brief —most find work within three months— may extend the duration of their eligibility by working in the informal sector while continuing to draw benefits. Such "leakages" may cause the real cost of an unemployment insurance scheme to be several times greater than the actual cost of covering the genuinely unemployed whom the law is intended to assist.

In view of these pitfalls, several alternative proposals have been put forward: (i) offering any worker who is jobless a loan equivalent to a portion (e.g., 50-70%) of the worker's usual earnings for several months, with the obligation to repay the loan upon finding work, through automatic deductions from the worker's wages; and (ii) creating an individual fund, financed by workers and their employers, from which a worker may draw compensation in the event of unemployment, voluntary retirement, mandatory retirement or death (survivor's benefits).

Both alternatives involve a measure of self-control that curbs abuse. Both envisage shortening the period during which benefits are paid (e.g., to five months, thus adequately covering the majority of the period of joblessness) in order to reduce the indirect costs of employment and eliminate most of the perverse incentives associated with the payment of unemployment benefits indefinitely.

The chief advantage of the first option is that it adequately meets the needs of the genuinely unemployed, irrespective of the contribution period. The advantage of the second option is that it is

simpler to administer than the first, although it does fail to provide adequate coverage for workers who are laid off after less than two years' service with a firm.

**Box VII.1****LATIN AMERICA: PROPOSALS FOR UNEMPLOYMENT INSURANCE PLANS**

Experiences, alternatives and proposals for unemployment insurance schemes are being discussed throughout the world. In Latin America, as elsewhere, problems relating to job instability and high levels of unemployment have given rise to discussions on different modalities of unemployment insurance.

**Insurance modality and saving modality.** In an insurance system, the risk of unemployment is shared by all the workers who contribute to the system. The benefits received by unemployed workers are covered by contributions from employed workers, and no previous accumulation of funds is required. The main disadvantage of this modality is that there is less incentive to avoid dismissal and the worker is not encouraged to seek a new job, since benefits are contingent on the duration of the period of unemployment. Comparisons of the situation in different countries show that it has the effect of increasing unemployment in the overall economy and lengthening periods of unemployment, and that it is abused to the point where the continued operation of the system is jeopardized. This could be corrected by moving towards a saving-type system, so that the duration of benefits would depend on the number of contributions a worker had made, but the problem then is that workers would not be entitled to benefits unless they had already built up a certain level of resources.

**Severance pay modality.** The payment of compensation for years of service and for termination not related to the worker's performance also provide some coverage in cases of unemployment. The advantage of such systems is that they help reduce the potential for abuse on two fronts. In the first place, since they entail a cost to the employer every time a worker is dismissed, they prevent workers and employers from negotiating temporary dismissals or resignations in the guise of dismissals for the purpose of obtaining benefits. In the second place, since the worker receives the full amount of compensation independently of how long he remains unemployed, he still has an incentive to seek a new job. The main disadvantages of these systems have to do with the duration of the worker's employment. If he/she has held the job for only for a short period of time, he/she will not have enough resources to last through until he/she finds a new job; if the worker has been with the company for a long time, he/she is encouraged to find a way to get fired so as to obtain an attractive compensation. By the same token, the employer could try to provoke the worker to resign in order to avoid paying compensation. Finally, from the standpoint of the company, mass dismissals can aggravate its problems during a recessive cycle, jeopardizing its very survival and, ultimately, even its ability to pay compensation. The fact that severance pay represents an obstacle to dismissal is an advantage for workers because they are less likely to be fired, but it is a disadvantage for employers, who will take these costs into account in hiring and reduce workers' net remuneration.

**Welfare modality.** When unemployment compensation systems are insufficient to cover subsistence expenses, the State may grant subsidies to unemployed workers. Such subsidies fall within the context of social policies aimed at meeting basic needs; the amounts provided are very limited, and represent a mere fraction of the minimum wage.

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**Source:** Graduate Program in Economics of ILADES/ Georgetown University, *Trabajo de Asesoría Económica al Congreso Nacional (TASC)*, No. 73, Santiago, Chile, October 1996.

## 2. Education

### (a) A turning point for education

Growth with social equity requires competitiveness based on better trained human resources with the potential to add progressively more intellectual value and technical progress to the natural resource base. Without investment in education, the economy will have at its disposal only poor and relatively untrained workers and will be unable to incorporate technical progress.

Education is thus a key area in which to reconcile equity, competitiveness, and citizen participation. A quality education that is completed at the right age and is designed to meet productive and social needs is crucial to the achievement of higher productivity, greater social efficiency, increased opportunities for access to well-being, and greater cultural and political participation.

All of this points to the need for a redoubling of efforts. People need to learn more and learn differently. They need to acquire skills that will enable them to play a creative role in the new forms of production and to participate constructively in the various areas of public life. Education can generate the required synergy between productive dynamism, social well-being and democratic institution-building.

### (b) The regional situation

Education systems in the region are deficient in terms of quality, efficacy, and efficiency in the use of resources, and these deficiencies perpetuate social inequities.

- (i) **Quality.** Despite significant differences between countries in the region, only half the children who begin primary school actually complete it. The region's students perform far worse than their counterparts in the industrialized countries, and also fail to meet minimum standards in reading, mathematics, and science tests. Many children fail to acquire a basic mastery of their mother tongue and of mathematics, and the secondary education provided does not as a general rule equip students to integrate effectively into the modern sector of the economy. Furthermore, nearly 50% of students enrolled in the different school systems do not achieve the minimum objectives set forth in the national curricula.
- (ii) **Coverage and repetition rate.** Over the last decade, Latin America has achieved high levels of school enrolment, to the point that the problem is close to being solved at the primary level. At this level, the net rate of schooling of the 8-year-old population is 96.3%, while the regional rate for pre-schoolers is 23% (OAS, 1998). As far as secondary education is concerned, the rates vary from country to country—from 75% in Cuba to 22% in Haiti, according to UNESCO data for 1991-1994.

While the coverage of educational systems is high with respect to the level of development, there is also a high rate of repetition. Of the 9 million children who enter the first level every year (90% or 95% of the cohort), approximately 4 million fail in the first year. Roughly one third of all students repeat a grade each year—even in first grade, 40% of students enrolled repeat the grade—and it is estimated that the additional cost of teaching repeaters amounts to US\$ 4.2 billion annually. Based on Rivero (1995) and Puryear and Brunner (1994).

- (iii) **Equity.** The systems for measuring quality of education that have begun to be applied in recent years show a clear segmentation in educational performance, in which students from low-income families are at a disadvantage (see tables VII.4 and VII.5). Inequality also appears in the way in which education expenditure is distributed; in the late 1980s, more than 25% of such spending was allocated to higher education, and currently the highest socio-economic quintile benefits from about 50% of this subsidy, while the lowest quintile benefits from only 5%.<sup>49</sup> The length of school days varies between public and private schools; in public school, children are in school between 3 and 4 hours a day, while in private schools, the school day lasts between 5 and 6 hours. Finally, curricula are often irrelevant to the sociocultural context of students, and this has a negative effect on those who belong to indigenous people groups whose mother tongue is not Spanish, most of whom live in poverty.

Table VII.4  
**AVERAGE EDUCATION PERFORMANCE BY SOCIO-ECONOMIC STRATUM  
 (GRADE 4 OF BASIC EDUCATION)<sup>a</sup>**  
*(Percentages)*

Performance	Low stratum	Medium stratum	High stratum
Language	47.9	58.4	71.9
Mathematics	43.8	49.8	59.0
Total	46.0	54.1	65.5

**Source:** UNESCO Regional Office for Education in Latin America and the Caribbean, "Medición de la calidad de la educación: resultados", Estudios series, vol. 3, Santiago, Chile, Regional network for training, innovations, and research in the fields of planning and educational management and for literacy programmes (REPLAD), 1994.

<sup>a</sup> Argentina, Bolivia, Chile, Costa Rica, Dominican Republic, Ecuador and Venezuela.

Table VII.5  
**PERCENTAGE DISTRIBUTION OF STUDENTS ACCORDING TO SOCIO-ECONOMIC  
 STRATUM AND OVERALL PERFORMANCE QUARTILE<sup>a</sup>**

Stratum	Performance quartiles			
	0-25	26-50	51-75	76-100
Low	8.9	60.6	26.4	2.2
Medium	3.1	40.0	48.0	8.9
High	1.4	15.3	55.1	28.1

**Source:** UNESCO Regional Office for Education in Latin America and the Caribbean, "Medición de la calidad de la educación: resultados", Estudios series, vol. 3, Santiago, Chile, Regional network for training, innovations, and research in the fields of planning and educational management and for literacy programmes (REPLAD), 1994.

<sup>a</sup> Argentina, Bolivia, Chile, Costa Rica, Dominican Republic, Ecuador and Venezuela.

<sup>49</sup> Countries such as Bolivia and Venezuela are currently embroiled in sharp political conflict because their reform agendas envisage a redistribution of social expenditure from tertiary to primary education, in an effort to introduce a greater measure of social equity into public spending on education.

A review of the average educational level of both heads and members of households of employed workers shows there is a close relationship between income distribution and distribution of education. The higher the educational level of workers, the higher their income level. Unfortunately, “80% of urban youths come from households where the parents’ educational capital is inadequate (less than 10 years of schooling) and 60% to 80% of those youths do not attain the basic educational threshold required for achieving well-being, which, while varying from country to country, is in general currently assessed at around 12 years of schooling” (ECLAC, 1998a, p. 59).

This means that a high percentage of Latin American young people have inherited an inadequate education. As a result, they will have to take poorly paid jobs that limit their own and their future families’ opportunities for well-being.

A distinction can be made between **pre-system equity**, **intra-system equity** and **post-system equity**.

**Pre-system equity** has to do with the overall differences in student performance that stem from their sociocultural background and, in particular, the educational climate in their homes, which is unquestionably determined by their parents’ educational level.

**Intra-system equity** has to do with the even distribution of good-quality educational establishments among different socio-economic strata and geographic areas. Evaluations of the quality of education have shown the existence of segmentation and differences in performance among establishments, according to the socio-economic level of students and the socio-economic level of the geographic area in which they are located.

Finally, **post-system equity** has to do with how well young people are able to enter the production system, improve their social status, and develop their potential once they leave the educational system. The longer students stay in school, the better are their chances of putting poverty behind them or not falling into poverty (see table VII.6).

The educational reforms now in progress are aimed essentially at improving intra-system equity, which is an easier area for educational policies to tackle. Some progress has been made, however, with regard to pre-system equity, primarily in the form of bilingual education programmes, expanded coverage of pre-school early stimulus programmes to improve access to education for the rural population, and community involvement. As regards post-system equity, efforts are being made in some programmes to provide alternatives involving non-final interruption of schooling and a continuation of studies in vocational education alternatives.

Table VII.6  
**EDUCATIONAL LEVELS NEEDED TO IMPROVE PROSPECTS OF NOT  
 FALLING INTO POVERTY**  
*(Latin America, urban areas in selected countries, early 1990s)*

Country	Year	Educational level	Average income expressed in terms of the poverty line	Percentage of non-poor
Argentina	1997	12-14	7.5	95
Brazil	1996	10-11	7.1	92
Chile	1998	12-14	6.3	91
Colombia	1997	12-14	4.8	87
Costa Rica	1997	13-14	8.1	96
Ecuador	1997	12-14	4.1	70
El Salvador	1997	11-12	5.9	89
Panama	1997	12-14	7.0	93
Paraguay	1996	12-14	4.9	88
Dominican Republic	1997	13-14	6.2	88
Uruguay	1997	10-11	6.1	98
Venezuela	1994	13-14	4.1	79

**Source:** ECLAC, based on special tabulations of data from household surveys in the countries concerned.

### (c) Educational reform

As a result of the educational reforms implemented in the region during the 1990s, changes were made in regard to the financing, management, and administration of the educational system. However, there are still serious deficiencies in the quality of formal education and inequities in the supply thereof.

- (i) **The challenge of equity in educational reform.** The matters of performance and the prospects of students for entering the production system represent the main challenge remaining in the area of education. If greater equity is to be achieved, educational achievement among the poor must be improved, and that entails improving the match between the supply of and the demand for educational services.

It would appear, therefore, that several different types of policies need to be implemented on behalf of the more vulnerable groups, such as extending compensatory measures to benefit those areas where school performance is poor; creating inter-sectoral and community programmes to influence the system as a whole and improve opportunities for the poor to gain access to formal education; strengthening and expanding targeted programmes to support educational performance of the more vulnerable groups and achieve long-lasting effects; adapting the curricula of pre-school and primary education to the sociocultural circumstances of students; and ensuring the proper use of subsidies as a tool for improving the supply of public education and access to it for low-income families.

Educational achievement among the poor is measured primarily by **continuance in school**, which is reflected in three ways: actual class attendance, actual progress through the system (a minimum of repetition), and completion of the course of study (a minimum of drop outs).

In many countries, there is a contrast between high rates of entry in the system and low rates of completion of secondary education; at the same time, high repetition, drop-out and absentee rates are concentrated in the more depressed or scattered areas, and among families in the low-income brackets. This becomes even more of a problem when it is borne in mind that, as shown in table VII.6, an average educational level of at least 10 or 11 years of formal schooling is required in



the region in order to have a 90% or higher probability of not falling into poverty (or not continuing in poverty). Moreover, just two years less of schooling entails a 20% drop in income for the rest of a person's active life.

Any effort or investment that is made in order to improve continuance in school will be efficient and effective in more than one way.

Firstly, because the investment in educational coverage is optimized as improvements are achieved in average performance, in the actual use of schools throughout the year, and in annual spending on education. As a result, the entire educational system becomes more efficient.

Secondly, because the more vulnerable groups (the poor, especially in rural areas) are more prone to drop out of school, and thus, programmes aimed at promoting continuance in school benefits these groups and thus has a progressive bias in terms of redistribution.

Thirdly, because improved continuance rates produce significant intergenerational returns, since the educational level of parents has a strong influence on the educational performance of their children. Thus, by improving the educational environment of future households can be improved. Since today's students will be tomorrow's heads of household, they can have a positive influence on the educational performance of the next generation of children and young people; drop-out and repetition rates can be reduced, and the number of years of schooling can be increased and more opportunities can be made available.

Fourthly, because there is a clear correlation between improvements in the educational levels of poor women and improvements in the health of their future families, since the educational level of women is a decisive factor in reducing infant mortality and morbidity, improving family health and nutrition, and reducing fertility rates.

- (ii) **The reform agenda.** During the 1990s, the educational reforms carried out by the governments of the region brought to light the need for institutional and administrative reorganization. These reforms have addressed such areas as the content and process of education, education funding and mechanisms for allocating resources, the roles of the State and the market in education, teacher retraining, modernization and decentralization of education administration, the monitoring of quality in education, and the adaptation of curricula to the sociocultural circumstances of beneficiaries and the subsequent demand for skills in the job market. All components of the educational reforms that are currently underway are designed to improve the learning process in primary and, to a lesser extent, secondary education; to enhance efficiency and efficacy in the use of resources for education; and, via different routes, to guarantee more equitable access to quality education and improved performance.

Authorities, educators and public opinion view educational reform as both positive and necessary. This is why educational reform has been the most widespread of all reforms, has attracted additional public resources and international loans and is of interest to citizens, who are willing to participate in educational programmes and even to invest a portion of their incomes in them.

In spite of this, educational reform is not free of conflict. Disputes between governments and teachers jeopardize prospects for success, as do controversial moves towards administrative and financial decentralization and resistance by vested interests in higher education to a redistribution of public-sector resources in favour of other levels. The persistence of problems in these areas has raised the issue of whether the reforms are viable.

- (iii) **Educational reform in selected countries.** Although educational reform is a central issue on the government agenda in every country in the region, the priority assigned to different components varies from country to country (see table VII.7). It will be helpful

to consider the progress made recently in certain areas of reform that have a greater potential for impacting equity and improving practices in educational policy. Thus, we shall discuss the following areas: evaluation of education, decentralization of educational management, demand subsidies, multicultural programmes for ethnic groups, support programmes, and strengthening of teacher skills.

#### - **Evaluation**

Good diagnostic tools are essential to the design of reform measures that have a positive impact on quality and equity in education. Many governments and, in particular, the international agencies, attach great importance to **evaluation**, i.e., the regular use of tools for measuring quality and achievement in education. The application of reliable measurement systems makes it possible to optimize the use of resources so as to provide support for the most needy schools (as is already being done in some countries), to ensure that proposed reforms are compatible with the existing situation (curricula, textbooks, teaching methods), and to reward schools that improve performance.

Almost all national evaluation systems focus on educational performance after a certain number of years of schooling, in order to determine students' progress and changes in their cognitive capacity. The purpose of these systems is to assess the degree to which students have developed skills and acquired knowledge, improved their ability to solve problems and learn skills, and changed their attitudes and preferences. The idea is not only to measure student performance, but also to determine how much progress schools and school districts have made towards the achievement of standard goals for the educational system, and to identify the problems they have encountered in regard to curricula and teaching methods.

They can also help to improve education in a variety of ways: by establishing benchmarks for setting standards and monitoring performance; by identifying those inputs that are most effective and methods that enable measurable progress to be made in student performance; by mobilizing public opinion in support of education; by providing educators with information that will enable them to re-evaluate teaching programmes; by instituting mechanisms that provide incentives for good performance by teachers and schools; and by contributing to the analysis of students' difficulties in comprehension and application of knowledge.

A study of advances made in evaluating education in six countries of the region that was published recently by the Partnership for Educational Revitalization in the Americas (PREAL) shows that Argentina, Chile, and Mexico have made the greatest strides in consolidating their evaluation systems. These countries have also made the best use of their evaluations in the subsequent design of policies, curriculum reform, and school improvement (Wolff, 1998). Over time, the systems that have developed the strongest evaluation systems have been Chile and the English-speaking Caribbean countries.

Table VII.7

## EMPHASIS OF EDUCATIONAL REFORM IN SELECTED COUNTRIES OF THE REGION, 1996

Rationale and emphasis of measures		Argentina	Bolivia	Colombia	Costa Rica	Chile	Paraguay	Peru	Uruguay
Structure of sectors	Increase coverage of educational system: (a) preschool; (b) primary; (c) secondary	X	X	X	X		X	X	X
	Restructure grade levels	X					X		
	Establish linkages with technical education				X		X		
	Extend school day			X	X	X			X
	Reduce drop-out and repetition rates	X		X	X		X		
Content of education	Reform primary and secondary school curricula	X			X	X		X	X
	Bilingual education (combination with indigenous languages)		X				X		
	Strengthen learning of second language (English)	X			X				X
	Use computers as teaching tools in primary and secondary schools	X			X	X			X
	Improve teaching materials (books and others and infrastructure)	X		X	X	X	X	X	X
Evaluation	Use systems for measuring the quality of education	X	X		X	X	X	X	X
	Conduct regular evaluations of teaching staff		X						
	Increase number of graduate teachers and level of training					X			X
Teaching staff	Teachers participate in reform						X		
	Raise pay			X		X	X		
	Conduct training programmes	X	X		X			X	X
Selection of beneficiaries	Take steps to improve equity in terms of access and quality	X			X	X		X	X
	Implement supplementary targeted programmes	X			X	X		X	X
	Establish mechanisms for subsidizing demand, or for subsidizing supply based on demand criteria			X		X			
Decentralization	Increase competencies of educational units	X	X			X	X	X	
	Delegate administration to subnational bodies			X		X	X		
	Decentralize by sphere of learning					X		X	
	Promote community involvement in reform		X	X			X		

Source: Based on ECLAC, *The Equity Gap: Latin America, the Caribbean and the Social Summit* (LC/G.1954/Rev.1-P) Santiago, Chile, p. 120. United Nations publication, Sales No. E.97.II.G.11.

The study mentions some innovative approaches, such as Brazil's efforts to evaluate institutions of higher education; Costa Rica's evaluations of learning ability of children entering primary school and its testing of students completing secondary education; Mexico's evaluations aimed at measuring teachers' knowledge and skills; Chile's use of evaluations to determine resource allocation, particularly in targeting low-performance schools, and Argentina's use of evaluations as an input for curriculum reform. In Peru, the Ministry has put underway a nationwide quality measurement system that entails testing student performance and promoting the participation of the education community, inter alia through surveys of school principals, teachers and parents. Uruguay has implemented a system for regularly evaluating learning at two levels, i.e., in terms of the knowledge actually acquired by students, and in terms of the institutional and sociocultural context in which teaching and learning takes place.

#### **- Decentralization of management and administration**

Another key element of educational reform is the decentralization of management and administration of the educational system. Under the new paradigm, it is argued that governments should no longer have direct control over how the schools are managed, but should focus on finding funds, setting standards, promoting equity, monitoring progress, and evaluating results. At the same time, they should allow schools to exercise greater control over their own activities, encourage communities to become more involved in school administration, and gradually turn over to departmental or municipal authorities the management of certain financial aspects that have traditionally been handled at the central level.

Chile began its decentralization process during the 1980s, and has combined decentralization to local governments with demand-oriented subsidies. From the second half of the 1990s onward, decentralization was extended to the actual content of education, with schools being granted greater autonomy in curriculum development. Resources are assigned based on the merit of projects proposed, and schools are given greater freedom in drawing up their own educational plans within the context of local objectives and minimum content requirements.

In Bolivia, although there is no plan to decentralize education, consideration has been given to the possibility of transferring decision making to the community via the National Education Council, a consultative board on which all sectors of society are represented. In Peru, the delegation of duties is not implemented through decentralization to local authorities but rather through the granting of greater autonomy to schools, which means that school principals need to be trained in the management of educational services. While overall responsibility for public education remains centralized, schools have been granted more autonomy in curriculum development, and teachers and principals are given training in management and administration.

In Colombia, the reform put underway in 1994 entailed decentralizing the educational system itself and breaking administrative functions down into subnational units. The Ministry of Education sets guidelines and promotes initiatives, but does not execute them; that is the responsibility of the departments, which plan, administer and coordinate educational services, and of the municipalities, which administer schools. In addition, mechanisms have been put in place to facilitate community participation, while the Government establishes guidelines so that the schools can organize and allocate financial resources for improvements (their own resources as well as funds from enrolment fees, subsidies, loans, government contracts, and private-sector donations), for building, and for purchases of textbooks and materials. It also opens lines of credit to enable the private sector to finance libraries, sport facilities, and technical improvements. It recognizes that the family, the society and the State share responsibility for education; the Constitution stipulates that the educational community shall participate in the management and administration of schools, as well as in the design, execution and evaluation of the institutional plan for education.

In Central America, decentralization has been carried out at different territorial levels (regional, departmental, municipal and/or local); in some cases, the measures have been broader, as in the cases of the “school autonomy” provisions and the directing councils of educational centres set up in Nicaragua and the school boards set up in Panama. In Brazil, the Ministry of Education and Sports reports that some of the current reforms are geared towards decentralization and the granting of autonomy to schools, universities, and educational establishments.

- **Demand subsidies and demand-oriented subsidies to the supply side**

The idea of **subsidizing demand or providing demand-oriented subsidies to the supply side** has been a particularly controversial element in educational reform programmes. The idea is that “the funds follow the child”. Thus, a voucher system is used whereby governments grant subsidies to “schools of choice” based on the number of students that are enrolled. This system has been implemented in Chile, Colombia, Guatemala, and Puerto Rico, and in industrialized countries such as Sweden, Poland, the United Kingdom, and the United States.

The purpose of all voucher plans is to allow families as much choice as possible in a decentralized and competitive school system. They are based on at least five principles or objectives:

- The consumer’s right to choose (parents’ right to choose regarding their children’s education).
- Personal development (people want to build their own destinies, and having a choice arouses their interest and encourages participation, enthusiasm, and dedication).
- Encouragement of competition, diversification, and quality of supply (vouchers challenge schools to compete by reducing costs, improving quality, and introducing innovations).
- Equality of opportunity (the outcome of the above 3 principles, this is reflected in the objective of increasing access to private schools, particularly through selective voucher systems or those targeting a specific segment, i.e., in order to offer low-income families greater access to private schools).
- Overcoming the monopolistic and bureaucratic features of centralized educational systems.

There are, of course, national variations on this theme, such as selective vouchers based on family income or universal vouchers; checks issued to parents to pay for the schools of their choice, or direct subsidies to schools based on enrolment (in both cases, the funds follow the child); vouchers for private schools only or for public and private schools, and intermediate types of schools (such as the subsidized schools in Chile).

There is still much debate about the results of these schemes. In Chile, for example, after subsidized private education was introduced in 1980, enrolment in private schools increased substantially. Moreover, quality measurement tests show that in most cases, the quality of education is much better in subsidized schools than in municipal schools. Since 1993, the subsidized schools have been allowed to charge fees for their services, so that parents can make additional payments, on a voluntary basis, in order to enable them to maintain or improve the quality of the education they provide. On the other hand, however, there is still a wide gap, in regard to quality and performance, between private and subsidized education; thus, social inequity is reproduced in terms of future opportunities. The information used by schools to compete for students is not appropriate, and thus causes failures in the market mechanism. There are irregularities in the evaluation of quality and achievement which are not easy to correct, and entry

requirements are discriminatory, as students who obtain low scores on entry examinations are excluded in order to enable the school to maintain a high overall average.

In Colombia, a voucher system for students entering sixth grade was introduced in 1992. In 1994, it was being applied in 216 municipalities covering 90,807 low-income students in 1,789 schools. The system was introduced primarily to address the shortage of space in public high schools. The vouchers help poor students gain access to private schools, and at the same time, they benefit the public high schools by reducing the excess student population.

In late 1993, a voucher plan for low-income families was approved. These vouchers can be used to transfer students from public to private schools. Contrary to expectations, there was not a massive movement in that direction. Of the 1,809 vouchers that were granted in 1993, 1,181 were used by students to transfer from one public school to another, 317 to move from a private to a public school, and 311 for transfers from public to private schools.

Experience so far suggests that it is important to bear in mind the risks and benefits of demand subsidies and of demand-oriented subsidies to the supply side. The subsidy mechanism does not always produce the results expected by those who advocate such policies, and can generate certain effects that economic theorists consider unimportant or simply ignore. One example is that of the Chilean case, i.e., the problem of schools that practice discrimination in student admittance in order to maintain high standards as part of their “capital” in competing with other schools (Medlin, 1997). What about the rights of slower students and the great social objectives of education?

Another matter that must be borne in mind is the fact that the market analogy which is used as an argument in regard to educational subsidies has some limitations. In the first place, schools do not necessarily behave like private companies. In the second place, not all parents behave like “rational” consumers. In the third place, this is a market in which information and transparency are not guaranteed. And finally, education is not just another consumer good.

It has been taken for granted that the subsidy mechanism, which is the main State + market tool available to the educational system, is the key to raising standards. But in order for the public-private mix to truly improve the working of the system, the State must play a clear regulatory role, in order to ensure greater transparency in the information that is provided by the supply side for users and their families; clear sanctions against establishments which, in order to compete on the market, discriminate against students who are low achievers; public controls over the relevancy of curricula and the quality of teaching; and targeting of support for schools that perform poorly and have a high percentage of low-income students.

#### - **Educational policy and multiculturalism**

One issue relating to reform programmes that is more important in some countries than in others is that of **adapting the system to specific cultures of ethnic groups**, either minorities or majorities. **Bilingualism** is the main focus of such adaptations, particularly in countries where Spanish is not the mother tongue of a significant part of the student population. Bilingualism is important for the achievement of reading and writing skills and for comprehension in countries with many different ethnic cultures, since students who learn in their mother tongue at the primary level are better able to learn a second language, which in this case is Spanish.

Some notable progress has made in this regard. Bilingual education systems have been established in Paraguay (for the population whose mother tongue is *guarani*) and in Bolivia (for the

*quechua*- and *aymara*-speaking populations).<sup>50</sup> In 1994, Bolivia enacted the framework law on reform of the educational system, which assigns priority to multiculturalism and bilingual education.

In Central America, the intercultural and bilingual education programmes established in the context of the peace agreements are particularly interesting. In Honduras and Nicaragua—with the Miskito and Sumo populations—and in Panama—with the Emberá, Wounaan, Kuna-Yala and Ngobe-Buglé communities—significant, although incipient, educational and teaching innovations are being implemented.

In Mexico, the educational programme for the indigenous population carried out by the National Council for Educational Development (CONAFE) is aimed at gradually constructing an intercultural and bilingual model for early and primary education for indigenous students. The goal is to provide an adequate education at the nearly 8,500 indigenous primary schools in the country and at a similar number of pre-school establishments by adjusting both the academic and the operational aspects of the national early and primary curriculum (PREAL, 1999a). This plan, which was begun in 1994 in 14 states, provides for teaching both in Spanish and in 52 languages and dialects, so as to consolidate bilingual skills. During 1997-1998, textbooks were prepared for first and second grades, covering over 740,000 children. Eighteen titles have already been adapted for third and fourth grades, and more than one million free textbooks in 52 dialects of 33 indigenous languages have been distributed for first to fourth grade students.

#### - **Support for improvements in teaching**

The different countries of the region recognize the need to create the necessary conditions so that teaching personnel can implement the changes that are required by the different educational reform programmes. In order to make this possible, projects have been drawn up that are designed both to improve basic skills and provide ongoing training for teaching personnel.<sup>51</sup>

In Argentina, the federal network for continuous teacher training project carried out by the Ministry of Culture and Education is aimed at providing continuous teacher training in accordance with the national policies designed by the Federal Council for Culture and Education. In 1994, this project provided first-hand training for nearly 49,000 and benefited 286,000 in each administrative division more thanks to its multiplier effect. More than eight million fascicles were distributed in 47,000 schools throughout the country.

In Brazil, the Ministry of Education and Sports, together with the Centre for Educational and Cultural Research (CENPEC) launched the project known as “Roots and Wings” in 1995. Through the municipal and state secretariats, a series of fascicles and video programmes and a book containing 16 articles were distributed to the public schools throughout the country, for use as support materials for teachers and managers in the public education system, with a view to designing and introducing improvements in pedagogical mechanisms.

In Colombia, the Ministry of National Education has promoted, since 1980, the project known as “Micro-centres: A national teacher-training strategy”. In the context of this programme, alternative teacher-training strategies have been tested with a view to preventing failure in school and improving teacher performance. This is done by creating working groups made up of teaching personnel throughout the country. These groups identify local needs and seek solutions to problems within the classroom, the educational institution, and the community.

<sup>50</sup> In Bolivia, the 1992 census showed that 70% of the population speak a mother tongue other than Spanish. Therefore, the reform strongly emphasizes intercultural and bilingual education programmes. In Paraguay, the reform includes a bilingual education policy which provides for strengthening teaching in the students’ mother tongue, which is guarani in most of the rural areas.

<sup>51</sup> This information is based on: “Mejores Prácticas de Política Educacional y Reforma Educativa” [http://www.preal.cl/].

In Mexico, the national programme for the permanent upgrading of active primary school teachers (PRONAP), which was developed in 1995 by the Under-Secretariat for Basic Teacher Training and state educational agencies, is designed to provide flexible programmes to enable teaching staff to update and upgrade their skills on an ongoing basis. To this end, teacher centres, national updating courses, and general updating workshops were created. More than 320 centres have been set up in 32 federal bodies; 275 of these are in operation, and in 1998, they benefited nearly 312,000 teachers (38% of all teachers in Mexico).

In Uruguay, the national public education authorities recently put underway, through the secretariat for teacher training, a project on the establishment of regional teacher-training centres. This project is aimed at overcoming the shortage of qualified high-school teachers, which is especially serious in the interior regions of the country. The programme is designed to improve training in curriculum development; three training centres had been set up by the end of 1998, and a number of economic and labour benefits have been put in effect for graduates. Instead of providing economic incentives for teachers based on performance (which is always hard to evaluate), the programme gives them additional pay to cover training expenses.

In Chile, the Ministry of Education has put underway a number of teacher-training programmes. The project entitled “Fundamental training of teachers in service: Professional work groups” is aimed at promoting team work among teachers and increasing their know-how and their enjoyment of teaching. In 1997, a total of 3,500 professional work group had been set up; 84% were actually in operation. The programme entitled “Fundamental training of teachers in service: Rural micro-centres” promoted the same working strategy, in this case, among rural communities. Begun in 1992 with 104 centres, it had nearly 500 centres by the end of 1998, and they have improved student learning by nearly 40%.

In Bolivia, the framework law on reform of the educational system which was enacted in 1994 provided for the establishment of an ongoing teacher-training system. Promotions are contingent on the results of regular evaluations.

In Peru, efforts have been made to upgrade teaching and learning through a training programme that covers nearly 20,000 primary-school teachers.

### **- Support for learning**

Efforts to improve learning on the part of students include the implementation of reforms in teaching style, the provision of supplementary infrastructure, lengthening of the school day, and strengthening of students and schools that perform poorly. Some countries have also begun to promote infrastructure programmes and computer training.

In Colombia, the “educational leap” promoted by the State is aimed at improving the quality of basic education through measures such as lengthening the school day from 3.5 to 6 hours, supplying textbooks to students in public schools, and setting up 2,100 libraries and teaching aid centres.

In Chile, the programme for the improvement of primary schools in poor areas (PME) has been underway since the early 1990s. This programme targets resources for the 900 schools with the lowest performance records in the country, based on SIMCE test scores (the number of schools was subsequently increased to 1,200). Work has also begun on the use of computers for educational purposes in schools; this plan currently covers all the high schools and at least half of the primary schools in the country. More active and participatory learning methodologies are also being introduced on a large scale. Lastly, a programme to lengthen the school day is being gradually implemented, which would result in increasing hours of instruction from 900 to 1,200 annually.



In Costa Rica, a programme providing for teaching a second language has been implemented, and the initiative of including computer skills in school curricula has been expanded.

In Peru, during 1995, early education centres and single-teacher establishments received almost 800,000 textbooks and notebooks, 200,000 teachers' handbooks and 15,000 kits containing teaching materials. New curricula for primary schools are also being adopted.

In Uruguay, class hours in high schools were increased from 648 to 810 hours of instruction annually, so that students are required to be at school for 972 or 1,170 hours, if make-up hours are included. Future efforts will focus on strengthening basic education in English, adding computer infrastructure, providing textbooks and teaching libraries, distributing teaching materials and funding projects for improving quality. The project to modernize secondary education and provide teacher training is aimed at expanding high-school infrastructure; supplying textbooks, books, materials, and equipment; and promoting the development of a new curriculum.

#### Box VII.2

#### ROBIN HOOD IN REVERSE: UNIVERSITY EDUCATION IN BRAZIL

At present, total spending on education in Brazil by the three levels of government—federal, state and municipal— amounts to approximately 6% of GDP. That is not a small amount. The budget of the Ministry of Education alone is equivalent to 1% of GDP. Sixty per cent of those resources are used to finance free public universities. Since very few poor people go to these universities, 90% of public spending is appropriated by the wealthiest 40% of the population; the poorest 40% receive a mere 2.4% of these resources. In other words, 0.7% of the country's GDP is transferred every year to the non-poor population. The same thing happens with the government-funded scholarship programme. The poorest 20% receive only 0.3% of those resources, while the wealthiest 20% appropriate 33.8%.

This has been the problem with Brazil's social spending throughout the country's history, and explains how poverty is perpetuated, i.e., a substantial part of the resources are spent on the non-poor population. Since the poor pay taxes, this means that money is taken from those who have the least and transferred to those who have the most.

**Source:** Vilmar Faria and Eduardo Graeff, "Preparando O Brasil para o Século XXI. Uma experiencia de governo para a mudança", Brasilia, Office of the Special Advisers to the President, November 1999, p. 25.

In Brazil, the implementation of regional teacher support programmes has helped reduce repetition rates.<sup>52</sup> Among the initiatives currently underway, it is worthwhile mentioning the project that provides for reorganization of school programmes through accelerated learning programmes, which was developed by the Sao Paulo Secretariat of State for Education and Sports (SEED) for students who are two or more years behind for their age group. In 1998, 65% of primary students throughout the country were in this situation. The programme has been applied in municipalities and schools since 1995, and to date has benefited 200,000 students in 8,000 courses, and over 8,000 teachers. In the state of Minas Gerais, the Secretariat of State for Education and Sports (SEED) has promoted, since 1995, a project designed to improve the quality of primary education in that state (PROQUALIDADE). The aim is to improve learning levels of grade-school students by promoting greater autonomy in the school community, the decentralization of purchasing of goods and educational services, continuous training of teachers, and accelerated learning programmes. According to reports issued by the World Bank, repetition rates have dropped among 32% of students starting fifth grade.

<sup>52</sup> Based on [<http://www.preal.cl/>].

### **3. Health**

#### **(a) The situation with regard to health**

Limitations in coverage are still a crucial problem in health care. A recent study (ISALUD Foundation, 1999) shows that 217.8 million people are not covered by social security; thus, in most cases, their medical needs must be met by the public sector. The extent of actual exclusion can be estimated on the basis of certain indicators relating to health system structures and processes. It has been found that no trained personnel are available in 17% of childbirth situations; based on this figure, it is estimated that 83.6 million people have no access to healthcare services. A similar figure is obtained on the basis of the vaccination rate for infants under one year old, i.e., 82 million people are excluded.

Changes have occurred in the distribution of demand for medical services in the public and private subsystems, both in regard to benefits and to the financing of services. In the latter sphere, the following points should be noted: (i) the increase in health expenditures of households; (ii) the increase in the relative weight of such expenditures by the business sector, and (iii) the increase in financing by non-governmental organizations for health-related activities, particularly in the poorest countries of the region.

Spending by households is the most significant source of financing of the health sector in Latin America (CLAISS, 1999). The governments of the region want to guarantee universal access, but that is far from becoming a reality. Spending by households has increased at a higher rate among the population in the first and the last quintile. In the latter, most of the expenses are for medicine purchases, the price of which seems to have risen relatively fast. On the other hand, spending by the highest quintile goes mostly for payment of hospital services and medical treatment, probably as a result of the increase in rates that has occurred in the private sector over the past decade.

Companies contribute to health care in a variety of ways, ranging from their own coverage programmes to membership in a prepaid private-sector programme, or social coverage provided by the trade union, or participation in a nation-wide social security system. In many cases, they are affiliated both to social security and to a private health programme.

#### **(b) Healthcare systems**

Healthcare systems vary according to source of financing, type of management, and supply of services. Financing comes from general taxes and from mandatory or voluntary contributions; management may be the responsibility of the State system, para-State bodies, such as social security institutions, or private institutions; services may be provided by public or private agencies, and the latter may operate on a profit or non-profit basis. Within this range of variables, a continuum can be established, with the State/organizational model at one end and the strictly private model at the other. The systems that actually exist in the region are usually in the middle of this range, and tend to operate under a mix of models (ECLAC, 1997a).

Table VII.8  
**EXCLUSION FROM HEALTHCARE PROTECTION**

Indicators	Reference year	Estimated population excluded, according to the indicator shown	
		Percentages	Thousands
<b>Coverage</b>			
Population not covered by social security health programmes	1995	46.0	217,779
<b>Access</b>			
No access for financial reasons	1989-1994	27.0	121,245
No access because of geographic location	1995	22.2	107,013
<b>Structure</b>			
Deficit in overall supply of medical services	1997	4.8	23,643
Deficit in adjusted medical services	1997	3.2	15,661
Deficit in supply of beds	1996	55.3	267,537
<b>Processes</b>			
No trained personnel for childbirth	1996	17.0	83,558
Percentage of desertion between BCG vaccination and vaccination with lowest coverage	1998	16.5	82,023
Population with no access to potable water and/or sewerage services	1995	32.1	152,675

**Source:** ISALUD Foundation, "Elementos para el análisis comparado de la extensión de la cobertura social en salud en América Latina y el Caribe", paper presented at the ILO regional tripartite meeting on Extension of social protection in health to excluded groups in Latin America and the Caribbean, held with the collaboration of PAHO, Mexico City, 29 November to 1 December 1999.

Under the strictly State-run system, financing is provided by the public budget, and the public sector also manages operations, although with different degrees of centralization. The doctors are wage-earning civil servants. Coverage is supposed to be universal and access, at least in theory, is equitable. Traditionally, hospitals have had an overall budget, and the price system has only a marginal effect on fees. This means that there is not much incentive to reduce costs. When problems arise with the budget, quality of services becomes the main variable for adjustment. Consumers have very few options and technological changes are subject to the availability of resources from the public sector. The health systems of Cuba and the English-speaking Caribbean operate more or less according to this model.

In the mixed models, public and private agents coexist. Resources are provided from the regular budget, from mandatory contributions to the health system, and from voluntary contributions used to expand benefits. There is no definite pattern for transfers of financial resources, although they are usually based on previous budgets; payments to providers are made on a fee-for-service basis. The social security institutions are mainly responsible for administration, although there are also private agencies, and competition among them is not fully regulated. Services may be provided by either public or private agencies, although the more diversified the model is and the larger the non-State agencies, the greater will be the role of private providers.

Two trends may be identified in recent reforms. On the one hand, the private sector has become increasingly involved in the overall supply of services in many countries of the region.<sup>53</sup> On the other, efforts have been made, through quasi-contracts and management arrangements, to introduce competition in the operation of public systems, in order to improve economic efficiency and encourage cost control.

<sup>53</sup> The growth of the private sector has occurred in programmes in which premiums are calculated in terms of actuarial risk, with variations depending on the age and biomedical condition of users.

**(i) Changes in the public-private mix**

As shown in table VII.9, in some countries, despite the changes that have been made in the structure of healthcare, it is still characterized as a *quasi-monopoly or primarily public programme*. In **Costa Rica**, a process of integration of the health system was begun in the 1970s, when all public hospitals were turned over to the Caja Costarricense de Seguro Social (CCSS), which assumed responsible for therapeutic services for virtually the entire population. Insured workers and welfare cases receive services in the social security facilities; the Ministry of Health continued to operate primary-care units in rural and marginal urban areas, and maintained responsibility for prevention and overall health policy. During the 1980s, the social security system implemented a number of programmes in conjunction with the private sector, but administration and financing are still the responsibility of social security. During the 1990s, the integration of the health sector was completed, and primary care services were unified under the responsibility of social security (which is also in charge of prevention, recovery, and rehabilitation), and administration was decentralized. The Ministry has only maintained responsibility for health policy design and oversight of the system, and for health promotion (ECLAC, 1997a and Mesa-Lago, 2000).

Nevertheless, as mentioned above, the emphasis in the health reform process that has been carried out in the region has been on promoting *freedom of choice and private-sector participation*, both in regard to management of resources and supply of services.

Some countries have given insured people freedom to choose between the public system and prepaid plans which are either totally or mainly run by the private sector. Others allow more options and authorize both companies that administer health benefit funds and companies that supply services.

**Chile** implemented its reform in 1980, when it created a private prepayment system administered by health benefit institutions (ISAPRE). The public system consists of a national health fund (FONASA) and the national healthcare services system (SNSAS), which has 26 healthcare services areas (ASAS) that operate as autonomous regional units, with their own legal status and ownership of assets; they administer public hospitals in their respective territories, and control their own primary care systems. They provide preventive, therapeutic, and promotional services. FONASA operates two modalities, i.e., institutional and optional systems. In order to gain access to the institutional system, users go first to free primary care centres, and these refer patients, if necessary, to the hospitals, which require copayment, depending on the type of service required and the patient's income. The optional modality—which is not available to indigents—is based on a preferential system of providers (doctors), who offer their services at prices set by FONASA, which partially reimburses the cost of services, with the patient paying the balance.

Table VII.9  
HEALTH-SECTOR REFORM IN SELECTED LATIN AMERICAN COUNTRIES, 1997

Rationale and emphasis of measures		Arg	Bol	Bra	Col	CR	Ch	Ec	Sal	Gua	Hon	Mex	Nic	Pan	Par	Per	DR	Ven
Sectoral morphology	Coordination of national health system	X	Y	E	X	E	X	Y	Y	Y	Y	Y	X	y	X	X		Y
	Strengthening of directing role of Ministry	X		X	X	X	E	X	Y	Y	Y		X	X	Y	Y	Y	Y
	Promotion of local health systems		E			E		Y	Y	X	X		E	y	Y	E		
	Strengthening of subnational and decentralized bodies	E	E	X	E		E	Y	Y	Y	Y	y	X	y	X	E		Y
	Changes in public-private combination	E		y	E	E	E		Y	Y		y	E		Y	Y	Y	
Management	Regulation of private health markets; regulation of social security	E		y	E		E								Y	Y		Y
	Restructuring of hospital management	E		E	X	E	E	Y	Y				Y	y		Y		Y
	Separation and specialization of financial, insurance, regulatory, evaluation and service functions; promotion of quasi-markets	E		X	E	E	E	Y				Y	Y		Y	Y	Y	Y
	Performance contracts with public health-service providers			E		E	E	Y					Y			Y	Y	
	Incentives and sanctions related to individual and institutional performance	X		E		E	E	Y					Y	Y		Y	Y	Y
Financing	Improvement of human resources management				X	E	E	E		X	Y		Y			Y	Y	
	Use of capitation payments	E			E		E	E								Y	Y	
	Use of prospective payments according to diagnostic or treatment groups	E		E	E		E					Y				Y		
Equity	Increased solidarity and equity of financing	E	Y	E	E		E	Y			Y	X		Y	Y	Y	y	Y
	Universal basic benefits; unified benefits	X		Y	E	E	y	Y	Y	X	Y	X	E	Y	Y	Y	Y	Y
	Extension of coverage through universal targeted programmes	X	E	E	E	E	E	E	X	X	X	E	E	Y	X	E	Y	

Source: ECLAC, based on official reports and reports by consultants.

E= measure being executed; X= measure at initial stage of execution; Y= measure announced, not yet executed.

Under the private system, there are *open* ISAPREs, which operate as independent private companies (18), although some have already merged, and *closed* (11) ISAPREs, which originated with companies that already had health services at the time the ISAPRE law was enacted. In 1997, 27% of the population was covered by the ISAPREs, 64% by the public system, 4% by the armed forces system, and 5% used their own resources or had commercial or mutual insurance plans.

Wage earners are required to contribute 7% of their wages to their health plan, and they may choose between FONASA and an ISAPRE. The latter offer more than 8,000 plans, all with different benefit and payment structures; this makes it different for users to choose, since they do not always have all the necessary information. The ISAPREs receive 80.5% of their income from these obligatory contributions; 15.3% from supplementary voluntary contributions; 2.3% from subsidies for low-income wage earners, and 2.3% from other sources. FONASA receives a more or less equivalent contribution, which comes from central government and from wage earners (40% of the total from each); sales of orders for service to affiliated workers belonging to the optional programme amount to 7%, and the sale of services in public agencies account for 13% (Pessis, 2000).

One of the problems encountered in this system is that of the selection of risks by insurers, which assume those that are least likely to occur or those which, if they do occur, will entail the lowest cost. Insurance plans tend to operate on a short-term basis (usually annual), and this enables insurers to adjust their plans according to the risks involved as the insured grow older, so that actual protection is reduced throughout the life of the individuals concerned (ECLAC, 2000b; Titelman, 1999). Some reports show that approximately 24% of those who are affiliated to ISAPREs use public hospitals and clinics when they are not able to make the copayments, which tend to be quite high, required by their plans (Pessis, 2000).

**Peru** has implemented three reforms in health legislation (1991, 1995 and 1996), as follows:

- (i) social security continues providing its coverage, but its basic benefits can be supplemented with other better ones offered by healthcare providers (EPSs);
- (ii) the Ministry of Health continues covering low-income uninsured people and the poor, at least according to the law;
- (iii) EPSs may be private, public or mixed, and employers may offer health plans to their workers;
- (iv) there is an EPS-funded Office of the Superintendent of EPSs, which exercises oversight;
- (v) employers contribute 9% to social security and insured workers nothing, thus compensating for the elimination of employers to pension funds; and
- (vi) if insured workers become affiliated to an EPS, they must meet copayments of 2% for outpatient care and 10% for in-hospital care. The differences in respect of the Chilean system are that employers pay the full contribution to social security; the Office of the Superintendent is funded by the EPSs themselves, which can create conflicts of interest; and the EPSs may be public or mixed, and offer supplementary services in addition to those provided by social security. In 1999, social security was only responsible for the health programme (ESSALUD), as all its programmes for providing economic benefits and transfers to the State were eliminated (Mesa-Lago, 2000).

In **Colombia**, the health reform law enacted in 1993 (along with the law on pensions), increased the options under the models mentioned above, expanding the number and nature of providers and administrators of health services. There are two general systems, i.e., the contribution

system (social security) and the subsidized system (rest of the uninsured population, including the poor). Participants in both systems may choose between the administrators and the providers of services. The providers may be public, private, or come under social security, while the administrators may also be organized by family subsidy funds. Health service providers guarantee a basic health plan covering affiliated workers and their families (prevent, health promotion, primary care and catastrophic risk); packages providing additional, better quality benefits can be obtained by paying extra. Under the contribution system, the employer contributed 8% and the insured worker, 4% plus 1% for the subsidized regime. A solidarity and guarantee fund was created to extend coverage to the subsidized sector; this is financed with the aforementioned 1% contribution, plus the surplus from contributed paid by high-income insured workers (after deducting the cost of the basic plan). Any deficit is covered by the State. The poor are exempt from all payments. During the transition period, people who are affiliated to the subsidized system only receive preventive and primary care. The goal initially was for the entire population to be covered by the uniform basic plan by the year 2000. But the reform is very complex and its full implementation has been delayed (Mesa-Lago, 2000).

In **Argentina**, social security health plans have traditionally been administered by providers known as “social works” that are linked to the trade unions (they were “closed” institutions) and provided unionized workers with a wide variety of services, depending on the economic position of the trade union concerned. A 1993 law “opened” the social works and gave workers freedom to choose among them. In 1995, the following measures were taken:

- (i) dual coverage was eliminated, requiring families to choose a single social work;
- (ii) retirees and pensioners were given the option to choose between the medical programme of the institution providing coverage exclusively for them (Instituto Nacional de Servicios Sociales para Jubilados y Pensionados —INSSJP— which covers 4 million people) and the social works; and
- (iii) a minimum obligatory package of health benefits was established for all the social works.

Insured workers contribute 3% and employers, 5% (plus 2% and 3%, in that order, for the INSSJP programme); social works receive the combined contribution of their affiliated members (minus a part that goes to a redistribution fund); if they want other benefits in addition to the minimum package, they must pay supplementary premiums. Retirees or pensioners who transfers from INSSJP to a social work transfer their combined contribution. The redistribution fund is financed with a percentage of the combined contribution of 8% and compensates the social works for costs incurred by affiliates with high-risk diseases and low incomes. Prepayment plans in the private sector are regulated and are expected to compete with social works. The entire system is supervised by a new office of the superintendent of health services (Mesa-Lago,2000).

## **(ii) Management arrangements**

Parallel to the changes mentioned above, several countries have sought to combine public funding of health programmes with different forms of competition. The idea is to get away from centralized State monopolies in all health-related functions. To this end, they are separated and assigned to different actors, either public or private, and mechanisms are created which sometimes are similar to forms of competition among providers (quasi-markets). Through management arrangements, which are set up by the public financing body with individual providers, health goals and objectives are specified, agreements are entered into regarding production, and performance indicators are established (Sojo, 1999).

In Argentina, hospital self-management is being encouraged. Thus, hospitals are allowed to manage their own activities, the goal also being to reduce absenteeism among employees and promote training. Management arrangements establish goals relating to production (average length of hospital stay, number of patients leaving hospital, number of surgeries), quality and length of stay for pre-surgery tests, waiting period and other matters.

In Chile, management arrangements were introduced in 1995 which establish and specify goals for providers.

In Colombia, the manager and the board of directors of the State-run social enterprises (ESEs) may hire non-permanent staff, purchase inputs and invest in equipment, and decide on how to use operating surpluses for institutional improvements or employee bonuses. Although they still depend on their regular budgets, they are able to add resources generated by the sale of services.

In Costa Rica, the Caja Costarricense del Seguro Social (CCSS) separated financial, purchasing and service functions at the internal level in 1997. Management arrangements were set up with hospitals and clinics, which will be responsible for managing the budget, administrative hiring, directing and organizing human resources within the context of the relevant legal provisions, the limits set by the Caja, and the management arrangement.

Trinidad and Tobago has separated the relevant functions within the system. Annual service agreements spell out the volume, quality, and relevance of the services to be provided by regional health authorities, which are authorized to contract for the services of public and private providers and the Ministry of Health, which acts as the purchasing body.

In Uruguay, pilot experiments have been conducted with hospitals in the interior of the country, which have been granted greater independence in the context of management arrangements. In Peru and Guatemala also, management arrangements have started to be used, especially for primary health care.

### **(c) Supply of goods and health services**

The provision of health services involves different combinations of human resources (doctors and other health professionals), teams, hospitals, health inputs, and medicine. The price of these resources is determined in different markets, but the medical practices are what determine how these factors are combined.

#### **(i) The market for medical services**

The supply of services varies considerably in the region, both between countries and within individual countries. This is evidenced by the indices of health professionals per number of inhabitants, which in some cases are similar to those in Europe and in others, are very different.

One unique feature of health services markets is the displacement of general practitioners by specialists and the relative decline in the income of young doctors, of women—who account for a growing share of new graduates—, of professionals working in rural areas, and others. This general trend has been aggravated when there is an abundant supply of medical services. Competition in the medical field depends, essentially, on the differentiation of services based on the adoption of increasingly sophisticated technologies, which raise the standards for medical training and create barriers to entry into the specialized services market.

#### **(ii) The market for hospital services**

The hospital services market—in which there are also great disparities—is very complex in terms of organization and performance. In some countries (Argentina, Barbados, Cuba, or



Uruguay), the number of beds per inhabitant is higher than the average for members of the Organization for Economic Cooperation and Development. There are also differences in the relationship among sectors, owing to the rapid growth of private infrastructure, which has increased at a cumulative yearly rate of 4.5%, while the number of beds in public services dropped. This redistribution of infrastructure is due, in many cases, to the demand for services which the social security systems have been gradually steering towards private providers.

The situation with regard to hospital services is somewhat similar to that of the medical services market, since many professionals enter into commercial agreements whereby they receive a share of the income from hospitalization of patients. A similar trend may be seen in medical centres and diagnostic centres, which also establish profitable links with suppliers of the inputs they use in therapeutic and diagnostic activities.

### **(iii) The market for medications and pharmaceutical raw materials**

Medications are an important component of the process of supplying health services and can even replace them in some cases. There are sharp disparities in the regional scenario, both in regard to supply (production plus imports) and in regard to demand for medications. At one extreme is Argentina, where consumption amounts to approximately US\$ 80 per capita per year at retail prices, a figure that is similar to those of Spain and Portugal. This is in contrast with the situation in countries where per capita expenditure is barely US\$ 7 per year. These marked differences have to do with average prices of medicine, habits of the medical community, people's attitudes towards medication, financing systems, facilities for access, performance of the pharmaceutical industry, and level of development of the society.

The pharmaceutical industry is highly innovative in introducing new products and employs a wide range of professionals. It has thus made a significant contribution to improving diagnostic and therapeutic technologies, but it makes the greatest profits in the area of treatment, in response to the prevailing trend in medicine.

Until recently, medicine prices were controlled in much of the region. Economic deregulation has led to an increase in absolute and relative prices of medications, thus increasing the amounts spent on medicine by households and communities. Medical social security institutions have reacted by reducing coverage in this regard or establishing mechanisms for recovering their costs.

As far as the origin of medications used in the region is concerned, there are at least three situations, depending on the stage in the development of the chemical-pharmaceutical industry. In some countries, practically all medications used, as well as a percentage—between 10% and 30%, approximately—of active principles and pharmaceutical raw materials, are manufactured locally. In others, a significant percentage of medications are manufactured locally, but there is still no real local pharmaceutical industry with the capability for processing active principles. Finally, in the smaller or relatively less developed countries, all or almost all medications are imported.

Different problems arise in each case, both from the standpoint of the operation of the market for medications and from the standpoint of public policy. With the reduction of import tariffs, the granting of patents for pharmaceutical and biotechnology products, and free access to certification for launching new products on the market, national industries producing pharmaceutical raw materials are disappearing and are being replaced by large transnational corporations, even in some of the largest economies of the region.

There are factors that hinder the development of local pharmaceutical-chemical industries, such as the high cost and long-term nature of research and development programmes. These factors make it difficult for Latin American producers to gain access to innovations in the pharmaceutical-

chemical industry. Moreover, since products can be patented, tariff barriers have been reduced, and preferential treatment of national manufacturers has been eliminated, it is highly unlikely that a national industry can exist in this sector.

**Box VII.3****THE PROBLEM OF MEDICAL LEAVE IN CHILE**

Chile is the country that offers the best medical-leave benefits to workers. About 20% of contributions to healthcare are earmarked for this purpose. The ISAPREs have tried to control expenses in this area, but that has led to criticisms of the system, making it necessary to look for ways to generate disincentives. In 1998, expenses for medical leave for individual contributors to the system increased by 36%. One of every 35 contributors requests one or more medical leaves for the same diagnosis. It is usually very difficult for the provider to exercise any control over the diagnosis of the illnesses in question.

The abuse of medical leave is aggravated by a number of factors: a) delays in processing disability pensions, which mean that some patients are kept on medical leave for extended periods, which are further prolonged if the original pension application is rejected; b) delays, in the public sector, in processing referrals in specialized areas from peripheral institutions to main hospitals, or delays in obtaining space for special treatment or surgery; c) work-related accidents that are not reported as such but rather as common illnesses (giving rise to medical leave), which is to the advantage of the victim and of the insurance provider.

What can be done? It could be argued that subsidies arising from lack of job security are more an entitlement under social security than under health services per se; hence, financing for coverage during such periods should come from some source other than health coverage. Another option might be to establish a third independent body to administer part of the contributions to health programmes in order to financing and monitor subsidies arising from worker disability. There are those who argue that the ISAPREs should simply pay the subsidy and that they should not have control over the decision of the treating physician. This would be economically and technically feasible only if the institutions allocated just a percentage of contributions for such subsidies, so that any amounts paid over that ceiling would go to a fund especially created for that purpose.

## 4. Pensions<sup>54</sup>

The purpose of social security systems is to contribute to the well-being of the population by protecting people from loss of income —enabling them to meet expenses relating to maternity and sickness, old age, death and disability or widowhood—, as well as job-related risks and unemployment.

### (a) The situation in Latin America

In Latin America, a common characteristic of social security schemes has been the phenomenon of “segmented access” (Mesa-Lago, 1977), which means that the access that different social groups enjoy depends on timing and circumstances. These plans usually provide coverage for middle-class urban employees in the formal sector and, with very few exceptions, they do not protect the poor (see table VII.10), who also are not adequately covered by welfare programmes, which are often under-financed.

<sup>54</sup> This text is based on Mesa-Lago, 2000; ECLAC, 1997a and 2000b.

Table VII.10

## COMPARISON OF SOCIAL SECURITY PROGRAMMES IN NINE LATIN AMERICAN COUNTRIES: 1989-1998

Country	Year of creation of the first programme	Other risks covered				Coverage (percentage of population)		Contribution (percentage of wages) <sup>a</sup>	Life expectancy at birth (in years)	Percentage of pensions in overall spending on benefits	Asset/liability ratio (pensions)	Administrative costs as percentage of total spending	Total spending as percentage of GDP	Final balance of system (percentage of GDP)	Retirement ages (women/men)	
		DAS	SM	OR	U	FA	Overall								EAP	1998
		1997				1989-1998		1997	1993	1989-1995	1993-1995	1989-1993	1989-1995	1989-1993		
Argentina	1930s	x	x	x	x	80	82	47	72	80	1.5	5	16	-1	55/60	60/65
Bolivia	1956	x	x		x	21	13	23	60	53	3.5	14	2	0	50/55	65
Colombia	1945	x	x		x	16	35	31	69	43	9.5	11	2	0	57/62 <sup>c</sup>	<sup>c</sup>
Costa Rica	1943	x	x		x	86	60 <sup>d</sup>	29	76	27	10.7	4	10	2	55/57	60/62
Chile	1924	x	x	x	x	93	80 <sup>d</sup>	21-29	74	70	2.6	15	12	-5	<sup>e</sup>	60/65
El Salvador <sup>d</sup>	1953	x	x			16	26	14-21	67	32	7.4	16	2	0	55/60	55/60
Mexico	1941	x	x			58	44	26	71	26	7.3	14	3	0	65	65
Peru	1936	x	x			24	32	23	66	25	...	22	2	0	55/60	65
Uruguay	1919	x	x	x	x	88	80	41-42	73	82	1.9	5	15	-5	55/60	60

**Source:** Mesa-Lago, "Desarrollo social, reforma del Estado y de la seguridad social, al umbral del siglo XXI", Políticas sociales series, No. 36 (LC/G.1249-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), January 2000. United Nations publication, Sales No. S.00.II.G.5.

Legend: DAS = Disability, old age and survivors; SM = Sickness, maternity; OR = Occupational risks; U = Unemployment; FA = Family allowance.

<sup>a</sup> All programmes and all contributions based on percentage of wages (insured workers, employers, and State); excludes other public subsidies; 1% average estimated for OR except when otherwise noted.

<sup>b</sup> In some countries, these ages are gradually being raised (Colombia).

<sup>c</sup> New ages in public system; in "capitalization"; minimum amount in individual account required rather than age.

<sup>d</sup> Coverage increases considerably when welfare pensions are added.

<sup>e</sup> Ages varied considerably among the many programmes existing in 1979.

... No data available.

In practice, the social security systems in the region became pay-as-you-go systems, since their technical reserves either declined sharply or disappeared. It therefore became necessary to resort to current income from contributions of active workers in order to pay retirees and even to use non-pension-related government resources. The State had implicitly undertaken to ensure that when contributors reached retirement age, they would benefit from the contributions of the next generations. Since the financial regime was never fully capitalized, the risks always fell on future contributing workers, or on taxpayers.

In many cases, the systems have been much too costly, owing to their high administrative expenditures, growing deficits, high rates of evasion and delinquency, as well as State indebtedness to the system and the low real returns on investment, among other factors.

The Latin American social security systems may be classified in three groups, i.e., pioneer, intermediate, and latecomers (Mesa-Lago, 1977 and 2000), according to how long the programmes have been in effect, the coverage they provide, the burden on wages and on the economy, financial equilibrium, and the demographic characteristics of the societies in which they operate.

The *pioneers* were the first to start their pension systems, which are more fully developed, inasmuch as they include all social security plans (pension, sickness and maternity, occupational risks, unemployment), as well as family allowance and welfare. They cover the majority of the population and have the highest contributions from wages. Most of the spending from such plans goes for pensions, since they have been in effect for many years, and the countries where they operate have a high life expectancy. These countries have the lowest ratio of active insured workers to retirees, and the lowest administrative costs; their spending on social security as a percentage of GDP is the highest, and they have substantial considerable financial deficits.

At the other extreme are the *latecomers*, which were the last to create these schemes, and have only three types of social security (no unemployment, family allowance, or welfare plans). They cover a minority of the population, have the lowest wage-based contributions (because the system costs less), lower life expectancy, and a smaller percentage of spending goes to pensions, since the programmes are fairly new and the population is young, so that most spending goes to healthcare. The active/passive ratio and the share of administrative costs are high, and the percentage of social security spending in terms of GDP is the lowest.

The *intermediate* countries combine the features of the two extremes. Argentina, Chile, and Uruguay have all the characteristics of the pioneer group. Cuba also has most of those features (the pension programme was started a long time ago, and there are similarities in coverage of the population, share of spending that goes to pensions, life expectancy, total spending, and deficit), although some changes were made during the 1960s that set it apart from other countries, especially because workers do not contribute, with the State assuming responsibility for the total cost. Costa Rica established its system in the early 1940s, and has a young population, so that the percentage of spending on pensions is low, and the active/passive ratio is very high (as in the intermediate group). This country gave tremendous impetus to social security during the 1960s and 1970s, thus joining the pioneer group thanks to the high coverage achieved, the fact that contributions from wages, life expectancy, and spending in terms of GDP were high, and administrative costs were low. Colombia and Mexico have most of the characteristics of the intermediate group, while Bolivia, El Salvador, and Peru belong to the latecomers' group.

The pioneer systems were already affected by actuarial and financial deficits during the 1960s and the 1970s; these deficits were covered by higher and higher fiscal transfers. This led to a process of unification of the many existing funds or *cajas*, which did not, however, solve the problems. Subsequently, some countries of the intermediate group also began to suffer financial problems.

The crisis of the 1980s aggravated the deficit in these cases and caused the latent crisis in others to surface. Increases in unemployment and the growth of informal labour (not covered by social security) reduced coverage and income of the system. Where social security included unemployment insurance, the unemployed began to receive subsidies. At the same time, there was a drop in income from contributions, while expenses rose (pension adjustments, increase health costs); in addition, incentives for evasion and delinquency were created, producing negative returns on investment, since capital and interests were not indexed. Governments did not pay or delayed paying their contributions as employers and funding third parties, and when debt payments were negotiated, they paid with devalued currencies or low-return bonds. By the end of the 1980s, the deficits in the social security systems of Argentina, Chile, and Uruguay ranged between 5% and 17% of GDP, and fiscal subsidies as a percentage of total system expenditures were in the range of 35% to 63% (Mesa-Lago, 2000). In trying to restore balance or reduce the deficit, many countries allowed the real value of pensions to be erodes, and paralysed investment in infrastructure and health facilities. In many cases, the structural adjustment aggravated the social security crisis.

During this period, there was also a tendency in many countries to see social security, on the one hand, as a factor causing the fiscal deficit but, on the other hand, to consider it as a potential source of financing and a means for developing the capital market in order to promote reform processes.

#### Box VII.4

#### SOCIAL PENSIONS IN BRAZIL

In addition to being the main factor in the fiscal disequilibrium of the Brazilian State, pensions operate as a powerful regressive income distribution mechanism. There are two separate pension systems: one for public-sector workers and one for private-sector workers.

In 1999, 19 million retirees and pension recipients in the private sector received benefits amounting to 5.8% of GDP, and 2.6 million inactive civil servants and retirees received the equivalent of 4.3% of GDP.

The average value of retirement pensions in the private sector is 1.8 minimum wage, and 12 million retirees receive only one minimum wage. On the other hand, the average value of pensions for workers in the executive branch is 14 minimum wages, and 19 minimum wages for military personnel. In the judiciary, the average pension amounts to 44 minimum wages, and in the legislative branch, it is 58 minimum wages. Barely 7% of total spending on retirement benefits and pensions goes to the poorest 20% of the population. More than 30% remains in the hands of the wealthiest 20%.

**Source:** Vilmar Faria and Eduardo Graeff (1999), "Preparando O Brasil para o Século XXI. Uma experiencia de governo para a mudança". Brasilia, Office of the Special Advisers to the President, November 1999.

### (b) Pension system reforms

In recent years, reforms have been made in the social security systems of the region. These are aimed at: (i) differentiating risks, in order to bring financial administration in line with the probability of certain events occurring; (ii) maintaining basic macroeconomic equilibria (both in public finance and in pension systems); (iii) displacing risks from the public sector to the insured and, partly, to administrators of the systems; and (iv) giving contributing workers options between different institutions, including private ones, in regard to both the administration of resources and the provision of services.

The innovative element in the structural reforms was the inclusion, to different degrees, of funded plans, in which benefits are financed with funds obtained from the capitalization of pension contributions—which make up a fraction of wages—of individual affiliates, which are accumulated in individual savings funds.

This new financing criterion has implications for equity, because (i) it calls for providing a minimum pension for people who are not able to contribute, and (ii) there is no redistribution among contributors, since the link between contributions and benefits is an individual one.

### **(c) Typology of pension system reforms**

In general terms, reforms may be classified as structural and non-structural.

#### **- Non-structural reforms**

They are intended to improve the public system through adjustments aimed at achieving one or more of the following objectives: to extend coverage, standardize requirements for entitlement (usually by making them more stringent) among different covered groups, eliminating or reducing the deficit and making the system more viable financially within a certain time frame, improving the efficiency of the system (including unification of managing agencies), and providing more adequate pensions.

This was the case in Costa Rica between the late 1980s and the early 1990s, when retirement ages were raised, independent pension programmes for civil servants were “closed” (except for employees of the judiciary), these groups were gradually included in the general system and entitlement requirements were standardized, and a voluntary supplementary pension under a fully funded individual regime was introduced. In 1995, the Costa Rican system had a substantial surplus, while other countries had deficits of up to 10% of GDP (IDB, 1998). In late 1998, a national consensus process was put underway which led to an agreement to extend coverage of the insurance and benefits to the entire labour force, to make the formula for calculating pensions more stringent, and to make the supplementary pension programme mandatory.

#### **- Structural reforms**

Countries that have implemented reforms or are in the process of including a capitalization component in their pension systems aim to (i) explicitly the State’s indebtedness with contributors to the previous system, (ii) strengthen links between individual workers’ contributions, fund administration, and the benefits they receive from capitalization. In some of the reformed systems, the redistributive function of the pension system has disappeared and is now performed by the fiscal budget.

However, the reforms have different characteristics, and may generate replacement, mixed or competitive systems.

- (i) *Replacement* systems “close” the previous public system (i.e., no new entries are allowed) and replace it by a new fully funded capitalization system. Chile has been the pioneer in this area, and its system was put underway in May 1981. It was followed by Bolivia (May 1987), Mexico (September 1997), and El Salvador (May 1998);
- (ii) *Mixed* systems only reform the previous system, and bring it into the basic solidary component, along with another funded system. When insured workers retire, they receive two pensions, a basic one and a supplementary one. This method is applied in Argentina (July 1994) and Uruguay (April 1996);

- (iii) *Parallel* systems do not close the previous system, but reform it completely or partially, and eliminate the monopoly, creating a new funded system that competes with the public one. This is the case in Peru (June 1993) and Colombia (January 1994).

**Box VII.5****EXTENSION OF PENSIONS TO RURAL WORKERS IN ORDER TO ACHIEVE UNIVERSAL COVERAGE IN BRAZIL**

Since the 1960s, efforts have been made to provide pensions to rural workers. The 1988 Constitution mandated universal coverage of this entitlement, prohibiting discrimination based on sex or type of activity. It also equated the value of rural pensions with that of pensions for urban workers, i.e., the equivalent of one minimum wage. The programme was not implemented until 1991, however, and now has over 6 million beneficiaries. Between 1992 and 1997, it had a major impact on the incidence of poverty; thanks to this programme and with the macroeconomic changes put in place at that time, poverty was reduced by nearly 10%, particularly in the northeastern and southeastern parts of the country.

The increase in incomes from pensions did not have a significantly effect on school attendance, showing that specific policies are still needed in this area in order to impact the structural causes of poverty.

Different results have been obtained in different geographic areas, as shown in the following table comparing the 1997 costs of the agrarian reform and rural pensions programme according to geographic classification.

**BRAZIL: COST OF LAND ALLOCATIONS AND OF RURAL PENSION BENEFITS***(Values in September 1997 reais)*

Regions	Total cost, per family, of land allocations	Total cost of rural pension benefits
Northern region	9 069.32	26 674.97
Northeastern region	14 751.70	25 346.40
Southeastern region	63 186.95	27 073.80
Southern region	31 971.23	27 590.40
West-central region	28 516.22	27 230.40
Brazil	15 561.96	26 431.20

**Source:** M. Dias David, in collaboration with A.C. de A. David, M. dos Santos Rodríguez, P. de Andrade Rollo. Data based on Síntesis databank of the Ministry of Social Welfare and Pensions, the national household survey for 1992-1997, and the agricultural census for 1995-1996, both of which were prepared by the Brazilian Geographical and Statistical Institute (IBGE). These sources were used to construct indicators of yield, percentage of persons considered poor, school attendance, condition of households, access to consumer goods, and productive investment.

The basic conditions that make the difference between the reformed systems (see table VII.11) are the extent of freedom users have to choose between systems, both between the previous and the new system and between fund administrators in the capitalization sector; the legal status of fund administrators; and the contributions paid by insured workers and employers. Some of these elements translate into solidarity among contributors within the system.

**COMPARISON OF LEGAL ASPECTS OF STRUCTURAL REFORMS IN PENSION SYSTEMS IN EIGHT  
LATIN AMERICAN COUNTRIES: 1998**

Country <sup>a</sup>	Date reforms implemented	Type of reform	Contribution		Financial contribution of State <sup>b</sup>			Type of provider	Changes in provider authorized per year
			Insured workers	Employers	Covers deficit of public programme	Bonus	Minimum pension		
Bolivia	May 1997	Replacement	Increased <sup>c</sup>	Eliminated <sup>c</sup>	Yes	Has ceiling, adjustable, not clear if real interest, one month prior contribution required	No	Private AFP	Not until 2001; afterwards, once per year
Chile	May 1981	Replacement	Reduced	Eliminated	Yes	No ceiling, adjustable, real interest of 4% per year, 3 years prior contributions required	Yes	Private AFP	No limitation (draft law proposes once a year)
El Salvador	May 1998	Replacement	Increased	Unchanged	Yes	No ceiling, not adjustable, real interest equal to inflation, prior contribution required	Yes	Private AFP	Twice
Mexico	September 1997	Replacement	Unchanged	Unchanged	Yes	No	Yes	Multiple AFORES	Once
Argentina	July 1994	Mixed	Unchanged	Unchanged	Yes	No ceiling, adjustable, no interest paid, 35 years prior contributions required (paid by social security)	Yes (paid by social security)	Multiple AFJP	Twice
Uruguay	April 1996	Mixed	Increased	Reduced	Yes	No	Yes (paid by social security)	Multiple AFAP	Twice
Colombia	April 1994	Paralel	Increased	Increased	Yes	Has ceiling, adjustable, interest rate of 3-4%, 3 years prior contribution required	Yes (with some limitations)	Multiple SAFFP	Twice
Peru	June 1993	Paralel	Increased <sup>d</sup>	Eliminated <sup>d</sup>	Yes	Has ceiling, adjustable, no interest paid, 4 years prior contribution required (few have received it)	Not initially (subsequently recognized by law but not applied)	Private AFP	No limitation (in practice, once)

**Source:** Carmelo Mesa-Lago, "Desarrollo social, reforma del Estado y de la seguridad social, al umbral del siglo XXI", Políticas sociales series, No. 36 (LC/G.1249-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), January 2000. United Nations publication, Sales No. S.00.II.G.5.

<sup>a</sup> Costa Rica and Cuba have implemented non-structural pension reforms (with no "private" component).

<sup>b</sup> When not specified, the State is directly responsible for the cost.

<sup>c</sup> A single wage increase is granted (when the system is initiated) to compensate for the increase in contributions.

<sup>d</sup> In the private system; contributions in the public system were not changed until July 1995, when they were standardized with the private programme.

**Note:** AFP = pension fund administrator (*administradora de fondos de pensiones*); AFORES = retirement fund administrator (*administradora de fondos para el retiro*); AFJP = retirement and pension fund administrator (*administradora de fondos de jubilaciones y pensiones*); AFAP = pension savings fund administrator (*administradora de fondos de ahorro previsional*); SAFFP = office of the superintendent of pension fund administrators (*superintendencia de administradoras de fondos de pensiones*).



- (a) **Freedom to choose between systems.** (i) Maximum freedom is allowed in Argentina and Colombia, where workers who were insured under the previous system when the reforms were implemented, as well as those entering the workforce, may choose the system they want and also change systems. Peru granted this freedom for a while, but now prohibits transfers from the new to the previous system; (ii) Intermediate degree of freedom is allowed in Chile, where people who enter the job market must join the new system, but those who were already insured when the reforms began were given a certain amount of time to choose whether to remain in the old system or join the new one. In El Salvador and Uruguay, those who enter the job market must join the new system, while those who were already insured are divided according to age, and only some of them have the option; (iii) There is no choice in Bolivia and Mexico, where all those who are insured when the reform goes into force, or who enter the job market after that, are required to join the new system.
- (b) **Freedom to choose the fund administrator** in the new system. Variations are as follows: (i) no restrictions on changing between fund administrators in Chile and Peru, but in both countries, a year's wait is required, this being the time it normally takes to put the change through in practice; (ii) changes are allowed once a year (Mexico); (iii) two changes per year are allowed in Argentina, Colombia, El Salvador, and Uruguay; (iv) no change is allowed until 2001 in Bolivia.
- (c) **Legal status of fund administrators** also varies. (i) only companies incorporated as *sociedades anónimas* are allowed (Bolivia, Chile, and Peru); (ii) administrators may adopt different legal forms (public, private, cooperatives or others).
- (d) **Employer contribution.** (i) This was eliminated in Bolivia, Chile, and Peru, although in Peru this was only implemented in 1995. This made it necessary to raise the contributions of insured workers or increase fiscal subsidies increased (Chile); (ii) employers' contributions remained unchanged (Argentina, El Salvador and Mexico). In Mexico, the State's contribution was increased; (iii) employers' contributions were reduced slightly in Uruguay; (iv) they were raised in Colombia.
- (e) **Insured workers' contributions.** (i) They were reduced in Chile, under the new system although not under the previous one; (ii) they were not changed in Argentina and Mexico; (iii) they were increased in Bolivia, Colombia, El Salvador, Peru, and Uruguay.

### (c) The role of the State in reforms

It is often said that the new system "privatized" social security, which is not accurate. Even in the Chilean case, the State performs crucial functions: (i) it makes it mandatory for workers to join and contribute; (ii) the State administers and finances the old system; (iii) it regulates the reformed system in considerable detail; (iv) it creates and finances a superintendency that establishes rules for the system and provides oversight; (v) it creates and finances a body that classifies risks in order to determine investment instruments; (vi) it bears the threefold cost of the transition between the old and the reformed systems; (vii) it provides other guarantees, including minimum return of investments in funds, and pensions in the event of bankruptcy of an administrator or when the worker has not generated sufficient savings.

The **fiscal commitments** entailed by reform have three components:

1. The first arises from the **deficit** of the old system and the State's undertaking to pay current pensions, while the old system is left with no contributors or only a few, consisting of those who are older and will soon retire. It could take between 40 and 70

years to eliminate the deficit, and during that time, the State must cover it. This commitment has largely been caused by insufficient contribution levels, the granting of benefits greater than the funds could bear, inefficiency, and even corruption. The reform sets the deficit down in explicit terms and requires that it be met, thus making it necessary for the State to advance the payment. This means that scarce resources are directed towards financing the protection of formal and better paid workers, to the detriment of other more pressing social needs.

2. The second fiscal commitment has to do with the **bonus** which the State undertakes to pay those affiliates of the previous system who transfer to the new one. Chile has been the most generous in estimating this bonus; it only requires three years of prior contributions and sets no “ceiling” or limit to the amount of the bonus, which is adjusted for inflation and earns interest at a real rate of 4% per year. Other countries have restricted access to the bonus or reduced the amount, increasing prior contributions required to between 4 and 35 years, or imposed a ceiling; they do not adjust the amount of the bonus and do not pay interest. These restrictions lower the fiscal cost at the expense of benefits to the insured.
3. The third fiscal commitment is the **minimum pension guarantee** that the State grants to all contributors to the new system when they do not accumulate sufficient resources in their individual accounts to finance the minimum pension. Seven countries guarantee this benefit, in some cases with certain restrictions. Bolivia does not grant it, and Peru did so at a later time, by means of a law that has not yet been put into effect.

These commitments are not carried out simultaneously. The deficit of the old system begins immediately, is subsequently aggravated, and then declines until it eventually disappears. The bonus is deferred until the worker concerned retires. Since those who are insured under the new system are youth, and retirement ages have been raised in several countries, this fiscal cost will probably begin when the deficit is falling, but will then increase, and eventually, although much later, decline and disappear. Finally, the cost of the minimum pension will come up at the same time as the cost of the bonus, but will not diminish or disappear, since it is also granted to those who join the system later on. There are indications that low-income insured workers deliberately reduce the frequency of their contributions in order to reduce the cost of obtaining retirement entitlements and thus taking maximum advantage of the State commitment.

At least in theory, and for a considerable period of time, the threefold fiscal cost of transition should be lower in a mixed system than in a replacement system. Insured workers who are covered by the public component of the system will continue making their contributions, so those resources can be used to pay current pensions and basic pensions arising from this component. Furthermore, the public component will receive the employer contributions for the workers who remain in the system. It should also be borne in mind that in a mixed system, there is no bonus, since the insured workers come under a new system. That is why Uruguay does not grant the bonus. In Argentina, however, a “compensatory benefit” was granted to those who were in the old system and transferred to the mixed system, and those who stayed in the old system received a “prize” in the form of an “additional benefit”. Finally, there is no need to guarantee a minimum pension under the funded component of the mixed system, since the public component pays the basic pension. It should be noted, however, that in Argentina and Uruguay, the public component is based on a pay-as-you-go system and that the income from contributions is insufficient to finance pensions, making fiscal subsidies necessary.

The parallel systems should have lower costs than replacement systems, but possibly higher costs than mixed ones. This is due to the fact that some of the insured workers will stay in the public system, so their contributions will help finance public pensions; also, there is no need to pay

bonuses or minimum pensions. In Colombia, most insured workers have remained in the public system, which has been reformed and maintains a substantial reserve. In Peru, most of the insured have opted for the new system; likewise, in 1999, the reserves from the old system were transferred (without prior assessment) to the Ministry of Economic Affairs, which pays pensions and other economic benefits.

### (e) Performance of reforms

How have the structural pension reforms worked out? Undoubtedly, their establishment is too recent and too complex for any early evaluations and for drawing any definitive conclusions. However, it is possible to put forward some hypotheses especially in relation to those countries where they have been in operation for some time and where information is available on the results (see table VII.12).

**Transfer to new systems.** The percentage of those who have switched from the old system to the new varies between 40% and 48% in Colombia and Uruguay, 75-77% in Argentina and Peru, 90-95% in El Salvador and Chile, and 100% in Bolivia and Mexico (see table VII.12, indicator no.2). The factors that determine these differences are whether the insured person has had the freedom to choose between the two systems, how long the new system has been in operation and the real or perceived advantages it has over the old one. In two countries, the changeover was mandatory. In Chile, there is a significant degree of double counting of individuals; if the figures used are for active contributors, the percentage falls to 60% (indicator no.1); there is also a sizeable difference between the percentages of members and contributors in Argentina (59% and 36%), but the difference is lower in other countries (29% versus 20% in El Salvador; 72% versus 66% in Uruguay). In Colombia, most of the insured have opted to remain in the old reformed system.

**Contributors/members and default.** It is generally assumed that an individual funded pension system encourages punctual payment of contributions and reduces default, to the extent that the insured is likely to consider him-or herself to be the “owner” of the individual account and will be conscious of the fact that his/her contribution is directly related to the amount of his/her pension. However, there are important differences in terms of the percentage of members who actually contribute to the new system: the percentage is as low as 48 to 53% in Argentina, Colombia and Chile, but is 67% in El Salvador, and 82% in Mexico and Uruguay (indicator no. 3). In Chile, the percentage fell steadily from 76% to 53% in the period 1981-1998, while in Argentina, the decline was more erratic and somewhat less steep: from 66% to 49% in 1994-1998.

**Competition between management companies.** To ensure competitiveness of the system, it is essential to have an appropriate number of pension fund management companies. The number of management companies should be in proportion to the number of insured members. By the end of 1998 Argentina and Mexico had, respectively, 7 million and 14 million members, and 15 and 13 management companies (Nos. 1 and 4). In 1981, when the Chilean system started to function with a small number of members, there were 12 management companies, a number that remained virtually unchanged until 1994, when it rose to 21; it fell to eight in April 1999, despite the fact that the number of insured members has continued to rise. Colombia has eight management companies like Chile, but with half the number of members. There are five management companies in Peru for almost two million members, but there are also 5 in El Salvador for 656,000 members. In Uruguay, there are six, for 500,000 members. Bolivia started with a smaller number of insured persons (356,000), and for that reason, the Government decided that there could only be two management companies, with the members divided up according to their place of residence, and has ruled out any changes until 2001; in other words, there is a duopoly and no competition.

However, it is not enough to have a relatively high number of management companies for there to be actual competition. The concentration of membership in the three major companies can

be very important, although it varies considerably from one country to another: 45%-56% in Mexico and Argentina, 60%-69% in Colombia and Uruguay, 74%-76% in Chile and Peru, 82% in El Salvador, and 100% in Bolivia. The concentration is higher where such companies have to be set up as corporations for that exclusive purpose. In Chile, there was an increasing trend towards concentration up to 1999, when it amounted to over 74%.

Table VII.12  
PERFORMANCE OF PENSION REFORMS IN EIGHT LATIN AMERICAN COUNTRIES:  
DECEMBER 1998

Indicators	Argentina	Bolivia	Colombia	Chile	El Salvador	Mexico	Peru	Uruguay
1. Percentage of labour force covered by both systems <sup>a</sup> based on:								
Insured workers	59	12 <sup>b</sup>	51	109	29	34	25	72
Contributing workers	36	...	41	60	20	27	...	66
2. Insured workers								
<i>Previous system</i>								
Number (thousands)	2 000	0 <sup>c</sup>	4 660 <sup>d</sup>	225	74	0 <sup>c</sup>	600 <sup>e</sup>	548
Percentage of total	25	0 <sup>c</sup>	60 <sup>d</sup>	3	10	0 <sup>c</sup>	23	52
<i>New system</i>								
Number (thousands)	7 067	356 <sup>b</sup>	3 140 <sup>d</sup>	5 966	656	13 827	1 980	506
Percentage of total	75	100 <sup>c</sup>	40 <sup>d</sup>	97	90	100 <sup>c</sup>	77 <sup>e</sup>	48
3. Percentage of insured workers who are active contributors	49	...	48 <sup>d</sup>	53	67	82	45 <sup>f</sup>	82
4. Number of providers	15	2 <sup>g</sup>	8	8 <sup>h</sup>	5	13	5	6
5. Percentage of insured workers affiliated with major providers	56	100	60	74	82	45	76	69
6. Total commission charged (%) <sup>c</sup>	3.42	2.50	3.50	2.67	3.18 <sup>f</sup>	4.16 <sup>f</sup>	3.80	2.63
7. Cumulative fund								
Millions of dollars	11 526	1 849	2 119	31 336	58	10 594	1 713	374
Percentage of GDP	3.5	42.0	2.3	39.8	...	3.1	2.5	1.3
8. Average real annual return on investment (%) <sup>i</sup>	10.9	...	10.1	10.9	...	4.3	5.1	6.9

**Source:** Carmelo Mesa-Lago, "Desarrollo social, reforma del Estado y de la seguridad social, al umbral del siglo XXI", Políticas sociales series, No. 36 (LC/G.1249-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), January 2000. United Nations publication, Sales No. S.00.II.G.5.

**Note:** Numbers 3 to 8 refer to the full individual capitalization system or component.

<sup>a</sup> Includes workers covered by the previous general system plus those covered under the new system; excludes other groups of insured workers, such as those in provinces in Argentina, public-sector employees in Colombia, federal government and oil-industry workers in Mexico, four small funds in Uruguay, and the armed forces in all countries.

<sup>b</sup> December 1997. <sup>c</sup> All are supposed to switch to the new system; in Mexico, 1.7 million (12% of total) had not registered by August 1998. <sup>d</sup> May 1999. <sup>e</sup> Includes the previous system and those who are covered by the reformed public system but not the mixed system because of low income. <sup>f</sup> Author's estimate; the commission is 1.66% and the disability and survivors' premium paid to IMSS is 2.5%. <sup>g</sup> Only two up to 2001. <sup>h</sup> April 1999. <sup>i</sup> Includes the provider's commission plus the disability and survivors' premium charged by insurance companies (the later is not charged in Mexico, as it is administered by the social security system). <sup>j</sup> Argentina: July 1994-December 1998; Colombia: December 1995-December 1998; Chile: July 1981-December 1998; Mexico: July 1997-August 1998; Peru: December 1994-December 1998; Uruguay: August 1996-September 1998.

... No data available.

The choice of management company by the members does not seem to be based on performance, but on other factors, including the work of the sales representatives who seek to attract members in order to gain a commission. In 1998, the number of members per promoter was 723 in Uruguay and 215 in Argentina.

**Management costs.** In general, these are very high. Total charges—including the commission charged by the old age pension fund manager and the amount deducted as a premium for disability and death insurance by the insurance company—are as follows: 2.5% in Bolivia (where no competition exists), 2.6% in Uruguay, 2.7% in Chile, 3.2% in El Salvador, 3.4% in Argentina, 3.5% in Colombia, and 3.8% in Peru. In Mexico, the 1.66% commission does not include the cost of disability and death insurance (2.5%), which is managed through social security, so that, if the two are added, the administrative costs are the highest: 4.16%. The fee charged by the fund manager has tended to increase, while the premium charged by the insurance companies has declined considerably. Total commission represents a very high percentage of contributions: 17.5% in Uruguay, 23.8% in Colombia, 25% in Mexico, 29.9% in El Salvador and 32.2% in Peru; in the case of Argentina and Chile, the percentage falls as the income of the insured person increases (so that it has a regressive effect); the actual range is 25.6%-33.7% in Argentina and 24.2%-33.7% in Chile.

**Amount of pension funds.** The capital accumulation in the pension funds is enormous in some countries and is directly related to the number of insured persons, the length of time that the system has operated, the size of the income per contribution and the return on investment. In 1998, the accumulation in millions of United States dollars and as a percentage of GDP, was: US\$ 31.3 (40%) in Chile; US\$ 11.5 (3.5%) in Argentina; US\$ 10.6 (3.1%) in Mexico; US\$ 2.1 (2.3%) in Colombia; US\$ 1.8 (4.2%) in Bolivia; US\$ 1.7 (2.5%) in Peru; and US\$ 0.4 (1.3%) in Uruguay. The smallest is that of El Salvador.

**Capitalization and national saving.** This accumulation does not necessarily corroborate the assumption that structural reform of the pension system based on individual funding increases national saving, since not only must one take into consideration the capital accumulated (positive), but also the fiscal cost (negative) in any given year. A study on Chile for each year in the period 1981-1995 gives a negative average net balance (accumulation less fiscal cost), i.e. -2.4% of GDP.

**Return on capital accumulation and the impact on pensions of fluctuations in capital markets.** The real annual return on investment since the system was set up in late 1998 had averaged 10.9% in Argentina and Chile, 10.1% in Colombia, 6.9% in Uruguay, 5.1% in Peru and 4.3% in Mexico (No. 8). There is no notable difference between private fund administrators engaged in a single or several lines of business. In Chile, the highest return was 28.6% in 1991 and the rate remained high until the Mexican crisis in 1995, when returns were negative (-2.5%); in the two following years returns were positive but averaged as little as 4%, and the 1998 crisis again triggered a fall (to -1.6%). In the last four years, the average rate was 1%. In Argentina, the return between February 1998 and February 1999 was -6.56% and in Peru, -4.8% in 1998.

An insured member who withdraws at the peak of a boom in the securities market will see an increase in his fund in the individual account and in the corresponding pension. On the other hand, one who withdraws during a slump on this market, will sustain a reduction in his/her fund and pension. This suggests that a mixed system that combines a public component with a “defined” benefit (pension regulated by law) and another supplementary “non-defined” benefit (subject to market fluctuations), seems to be better than an alternative system, however diversified the placements of these may be.

## 5. Housing

Housing exerts a very strong influence on people's quality of life and on their family lives. It is also connected with their access to basic services (drinking water, electricity, sewerage) and, consequently, their health. A lack of housing is associated with a short life expectancy at birth, high mortality and morbidity rates and little or no social mobility. In other words, housing problems are closely related to other social conditions. Hence the importance of meeting people's basic needs for protection and shelter without allowing income to act as a constraint.

Since the 1980s most of the countries in the region have reoriented their housing policies in an attempt to set up a system for the development of market instruments and institutions that will give low-income people access to basic housing. The consensus view is that the State should no longer build and finance housing units directly but should instead play a subsidiary role as a facilitator by creating market incentives and ensuring that all families have access to housing, regardless of their income level.

This new scheme has to address two types of difficulties: the poor quality of life resulting from a high concentration of the population in urban areas; and the needs of the poorest sectors of the population.

The rapid pace of urbanization seen in most of the countries in the region has resulted in urban sprawl and the excessive growth of outlying districts that often lack basic services.

This has given rise to a variety of problems. First, the increased demand for housing has caused land prices, especially in urban areas, to climb much faster than real wages or the growth rate. Consequently, the cost of land has come to represent more than 60% of the total value of low-cost housing projects in some cases. In an effort to lower costs so that the projects will remain profitable, construction companies sometimes use poor-quality materials. Research conducted at the Catholic University of Chile shows that only 18% of the housing subsidies granted in that country reach the lowest income quintile whereas 60% are received by the last two quintiles, which are composed primarily of persons who own land that has steadily risen in value and has been used as a site for low-cost housing. It is important to note that the increase in land prices is also partly attributable to the morphological changes occurring in the region's cities, such as, for example, the appearance of large shopping centres.

The greater demand for transportation generated by the fact that people must travel longer distances to reach their places of employment and the high degree of concentration in the cities have also resulted in higher levels of harmful emissions and, thus, more pollution.

As a consequence of higher housing and transportation costs, longer commute times, more traffic congestion and inefficiency, and the increase in pollution, the quality of life has deteriorated.

The first problem in designing housing policies is the lack of accurate data on the unmet needs of a large percentage of the population. Most of the available estimates on housing shortages are based on census results rather than on specific surveys focusing on housing as such.

In an effort to help obtain a clearer picture of the housing situation and make comparisons across countries in some areas, ECLAC (1999a, 1999b, 1999c) has conducted a number of case studies by drawing on the information provided by household surveys. Since these surveys focus on income and employment, and since questions concerning housing are not asked every year in every country, the information they provide has some shortcomings due to the lack of uniformity in terms of coverage and time periods. In fact, reliable information is available only on four countries in the region. Despite these difficulties, indicators have been constructed which, while not

identical, are at least comparable and can therefore be used to gain a clearer idea of the size of the problem.

According to these studies, the quantitative housing deficit —defined as the lack of housing in absolute terms— affects “indigent” and “non-indigent poor” households to a disproportionate degree in all the countries analysed, as may be seen from the indices shown in table VII.13. With the exception of Bolivia, this is also true of the qualitative deficit, which corresponds to the absence of minimum conditions of liveability (e.g., a lack of basic services, poor quality housing or overcrowding).

This marked degree of inequality persists despite the fact that: (a) social housing expenditure in the region was, on average, 6% higher in 1996-1997 (ECLAC, 1998a) than in 1990-1991; (b) in some countries, the annual output of housing units has surpassed the level of demand generated each year by natural population growth and the establishment of new households; and (c) the availability of public services has increased significantly in all the countries of the region in the past decade (ECLAC, 1999b).

**Table VII.13**

**HOUSING DEFICT <sup>a</sup> INDICES FOR SELECTED COUNTRIES OF THE REGION, 1994**

Country index	Bolivia (1992)	Colombia	Chile	Uruguay
Quantitative deficit				
- Indigents	166.3	143.2	214.5	...
- Non-indigent poor	127.3	129.1	145.9	250.0
- Non-poor	64.9	76.3	80.6	90.8
Qualitative index				
- Indigents	82.5	201.9	162.9	...
- Non-indigent poor	84.5	140.2	160.0	362.0
- Non-poor	119.0	55.7	81.6	83.8

**Source:** Author's calculations based on special tabulations of data from household surveys in the countries concerned.

<sup>a</sup> Ratio of the percentage of deficit affecting a certain group to the share of that group in total population.

Since “indigent” and “non-indigent poor” households have considerably less total disposable income than the average for the population as a whole (see table VII.14) and since their unemployment rates are significantly higher, it is extremely difficult for such households to save up enough to solve their housing problem on their own.

**Table VII.14**

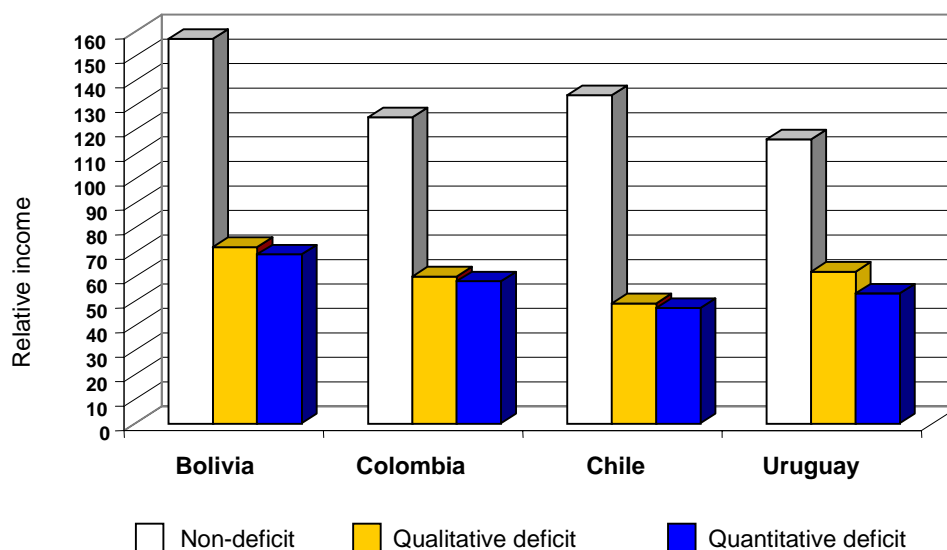
**DISTRIBUTION OF HOUSEHOLDS AND INCOME IN RELATION TO THE POVERTY LINE, 1994**

Distribution of households	Regional average	Bolivia (1992)	Colombia	Chile	Uruguay
Indigents	12	17.5	16.2	5.9	1.1
Non-indigent poor	34	27.8	24.4	16.9	4.7
Non-poor	54	54.7	59.4	77.2	94.2
Total	100	100	100	100	100
Index of per capita available income of household					
Indigents		100	100	100	100
Non-indigent poor		191	238	214	200
Non-poor		656	925	871	578

**Source:** ECLAC, on the basis of special tabulations of data from household surveys in the countries concerned.

In an effort to identify households suffering from housing deficits, a number of socio-economic characteristics of the family group were analysed. The results showed that the younger and less educated the heads of household were, the more likely they were to register a quantitative and/or qualitative housing deficit. The age and educational level of heads of household are usually closely correlated with income levels. In other words, income —as a decisive factor in savings capacity and, often, as a determinant of access to credit— is the underlying explanatory factor for the greater prevalence of housing deficits among households headed by younger, less educated people. These findings are confirmed by an analysis of the relationship between housing deficits and the head of household's occupational category. Figure VII.1 clearly illustrates these relationships, using the disposable income of employed heads of household as the variable.

**Figure VII. 1**  
**HOUSING DEFICIT AND RELATIVE AVAILABLE INCOME OF EMPLOYED HEADS OF HOUSEHOLDS**



**Source:** Author's calculations based on special tabulations of data from household surveys in the countries concerned.

In all of the countries studied, it was found that in those households not suffering from a housing deficit, the labour income of the head of household was considerably greater; in fact, with the exception of Uruguay, it was twice as high as the labour income of heads of households registering a quantitative and/or qualitative deficit.

## 6. Social safety nets

Social safety nets are packages of compensatory measures that increase people's incomes and other assets through targeted transfers. They are specifically designed to maintain or raise poor or vulnerable groups' levels of well-being during times of economic transition (Graham, 1994). The aim of these mechanisms is to help preserve the human and social capital of groups who have been prejudiced by reform measures. It is generally thought that the provision of safety nets also helps governments to establish a grassroots support base for the economic transition, which requires maintaining open lines of communication with the public and encouraging the



participation of beneficiaries of these safety nets while strengthening their organizational capabilities. Obviously, each country has a particular political and institutional environment that will influence the way in which such nets should be organized, and governments will come under pressure from various groups which have been affected by reform-related changes and which are seeking compensation; it will therefore be important for them to enjoy a relatively high degree of autonomy in determining who should receive such compensation.

The instruments used to provide these social safety nets have included emergency job programmes, anti-poverty programmes and social emergency or social investment funds, which will be discussed in a later section. First, however, it will be helpful to look at the traditional types of social welfare programmes so that it can then be seen in what ways they are alike and in what ways they differ from these new types of programmes for meeting the needs of poor groups.

### **(a) Social welfare<sup>55</sup>**

Social welfare is designed to meet the needs of the sector of the population not covered by social security.

In Latin America, two thirds of the population would be entitled to such a benefit. However, less than half of the countries of the region have programmes of this type. Others provide free health care or grant welfare allowances (see table VII.8). All pay old age and disability pensions but the entitlement does not start until an age well beyond the age that applies to social security contributors, notwithstanding the fact that the life expectancy of potential beneficiaries is much lower than that of social security members. Moreover, proof of poverty is required for payment of the pension, although, in some cases, there is evidence of payments to non-poor individuals. The amount of the pension varies considerably —between US\$ 150 and US\$ 31— depending on the country.

The beneficiaries of welfare allowances account for widely varying percentages (between 50% and 10%) of the total number of recipients of social security, depending on the country. However, the funds allocated to welfare pensions as a percentage of total spending on pensions is 16% in the country with the highest proportion of welfare pensioners, and 8% in the rest. The situation is worse in those countries where there is no social welfare since total social security expenditure goes to the middle income group covered by the system, leaving two thirds of the population with no coverage. This is due to the fact that, as a disincentive to default on payment of insurance contributions, the amount of the insurance pension is set at between 2 and 5 times the welfare pension.

Welfare pensions are generally financed through State funding. Only an infinitesimal portion of the social security funds is allocated to welfare. There are countries where total funding is absorbed by insurance, despite the fact that less than one third of their populations is insured. In one case, in 1997, the State spent 3.7% of GDP on its triple tax obligation arising from the transition from pension reform, but less than 0.1% on welfare pensions.

It is advisable to consider the option of allocating all or part of the tax resources normally earmarked for social security (and which generally go to the middle-income sectors) to reducing poverty, as this would generate a progressive effect in terms of distribution.

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<sup>55</sup> Based on Mesa-Lago (2000).

### **(b) Programmes for generating employment and retraining**

One approach for addressing the problem of unemployment among the less skilled workers has been the emergency employment programmes. When these are decentralized to municipal authorities, geographic proximity makes it easier to obtain information on employment opportunities.

Such programmes do not pretend to replace other alternative sources of employment, but they seek to avoid a worsening of the poverty situation. Thus, the payments offered are lower than market prices. In some cases, also, there is a time limit on participation of individuals in the programme.

Nevertheless, a safety net for workers should also exist to cover the chronically unemployed (or hard-core poverty), by offering jobs in exchange for a wage that at least provides a basic income. This is the case with longer-term programmes conducted at the local level, but with funding from the central government.

This safety net should also protect those facing technological unemployment or restructuring of public services and agencies. Typically, these are skilled people, but whose abilities have suddenly lost value. This type of situation may be expected to become more frequent in the future. In such cases, reintegration in the working world in this case calls for retraining.

One problem of these programmes is that they require financial resources during periods of recession, so that the appropriate approach would be to build up funds in times of economic prosperity.

### **(c) Programmes for combating poverty**

Poverty alleviation is an explicit, priority goal of various Governments in Latin America.

One of the most notable anti-poverty programmes, given its duration and on-going status is the Fund for Social Development and Family Allowances (FODESAF), established in Costa Rica in 1974, to include the poor population in education and health programmes (Seligson and others, 1995).<sup>56</sup> In Mexico, the Education, Health and Food Programme (PROGRESA) is of special importance (see box VII.6).

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<sup>56</sup> Although it has changed its name to DESAF (ECLAC, 1997b), in this text, we continue to use the former name in line with sources used.

## Box VII.6

**THE EDUCATION, HEALTH AND FOOD PROGRAMME (PROGRESA) OF MEXICO**

This programme caters for extremely poor rural families by increasing their chances of satisfying their basic educational, health care and food needs. The community participates actively as reflected in the existence of voluntary community promoters. Beneficiaries themselves take part in provide training activities and evaluate the programme.

The main benefits of the programme are bimonthly monetary allowances for family food purchases, food supplements to pregnant and lactating mothers and children under the age of five, a basic health package for the family group, and scholarships and school materials for children attending primary school. The scholarships provided to secondary school are higher for girls in an effort to halt the higher level of school drop-outs among this group.

In 1999, the number of beneficiaries was close to 2.3 million (20.4% higher than in 1998), and the average amount of monetary support was 259 pesos. Monthly food support per family was 120 pesos.

The programme's main achievements are considered to be the following:

- A reduction in the rural/urban and male/female gaps in terms of school attendance;
- A lower school drop-out rate and more regular attendance of classes;
- An increase in transfers to the poorest families, amounting to a monthly average of 375 pesos, when they receive support for food and health care and have children with scholarships;
- The appearance of and support for productive cooperative initiatives for the benefit of the community, of which the most notable are those started by women;
- A significant reduction in malnutrition and an increase in the distribution of medication.
- Promotion of a family health care culture, prevention of disease and fostering sound nutritional habits.

By the end of 1999, 5,041,700 pesos had been transferred to the poorest families. Thus, 2.3 million families were covered by the basic health package; 15.5 million medical visits were made, 366.5 million doses had been provided to the under 5 age group and 192.2 million doses to pregnant or lactating women.

**Source:** Ministry of Social Development, *Performance Report 1998-1999*, Mexico City, 1999.

**(d) Social investment funds**

The first of these programmes was the Social Emergency Fund of Bolivia, established in 1986 to mitigate the social effects of the stabilization or structural adjustment policies. Subsequently, the experience was replicated in a number of countries (see table VII. 14) Since the aim was to overcome problems supposedly of a short-term nature, they were conceived as temporary measures with some exceptions (Chile). Nevertheless, the persistence of the issues being addressed resulted in many cases in the Funds being converted into permanent bodies.

To enhance their efficiency, they were given considerable autonomy and an attempt was made to organize them outside of the traditional State bureaucracy. For this reason, a large number of social investment funds are linked directly to the offices of the President of the Republic. In other instances, as in the case of Chile, Guyana, Haiti and Venezuela, they depend on ministries. On the other hand, in Honduras, the Honduran Social Investment Fund (FHIS) has itself the status of a ministry (see table VII.15).

By the same token, they have a special status under existing legislation.

Table VII.15

## SOCIAL INVESTMENT FUNDS IN LATIN AMERICA AND THE CARIBBEAN

Country	Fund	Start	Duration
Argentina	Participatory Social Investment Fund (FOPAR)	1995	...
Belize	Social Investment Fund (SIF)	1996	...
Bolivia	Social Emergency Fund (FSE)	1986	1989
	Social Investment Fund (FIS)	1990	On-going
Chile	Solidarity and Social Investment Fund (FOSIS)	1990	On-going
Colombia	National Co-financing System (SNC)	1992	On-going
Costa Rica	Fund for Social Development and Family Allowances (FODESAF)	1974	On-going
Ecuador	Emergency Social Investment Fund (FISE)	1993	1997
El Salvador	Social Investment Fund (FIS)	1990	1997
Guatemala	Social Investment Fund (FIS)	1993	2001
Guyana	Social Impact Amelioration Programme	1990	Indefinite
Haiti	Economic and Social Assistance Fund	1990	Indefinite
Honduras	Honduran Social Investment Fund (FHIS) (I & II)	1990	1994 (I) 2006 (II)
Nicaragua	Emergency Social Investment Fund (FISE)	1990	1995, extended
Panama	Social Emergency Fund (FES)	1990	Indefinite
Paraguay	Social Investment Fund of Paraguay (FIS)	1997	Temporary
Peru	National Compensation and Social Development Fund (FONCODES)	1991	Temporary
Dominican Republic	Community Initiative Promotion Fund (PROCOMUNIDAD)	1993	1998
Uruguay	Emergency Social Investment Fund (FISE)	1990	1994
Venezuela	Venezuelan Social Investment Fund (FONVIS)	1990	Indefinite

**Source:** Lorena Godoy and Marta Rangel (cons.). *Nuevas experiencias en política social: los fondos de inversión social en América Latina y el Caribe en los programas sociales* (LC/R.1744), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), August 1997.

... information unavailable.

Table VII.16

**OFFICE WITH RESPONSIBILITY FOR THE SOCIAL INVESTMENT FUNDS  
IN LATIN AMERICA AND THE CARIBBEAN**

Country, fund	Institution with responsibility
Bolivia, FSE FIS	-Office of the President of the Republic -Ministry for Human Development
Chile, FOSIS	Ministry of Planning and Cooperation, MIDEPLAN
Colombia, SNC	The National Committee for Co-financing is in charge of coordination of the National Co-financing System (SNC), a consultative body of the national Government
Costa Rica, FODESAF	Follows the regulatory framework that governs public administration
Ecuador, FISE	Office of the President of the Republic
El Salvador, FIS	Office of the President of the Republic
Guatemala, FIS	Office of the President of the Republic
Guyana, SIMAP	Ministry of Culture and Social Welfare
Haiti, FAES	Ministry of Economic Affairs and Finance
Honduras, FHIS (I and II)	The Executive Director of FHIS has the status of a minister
Nicaragua, FIS	Office of the President of the Republic
Panama, FES	Ministry within the Office of the President
Peru, FONCODES	Office of the President of the Republic
Dominican Republic, PROCOMUNIDAD	Executive power
Uruguay, FISE	Office of the President of the Republic
Venezuela, FONVIS	Ministry of Family Affairs

**Source:** Lorena Godoy and Marta Rangel (cons.). *Nuevas experiencias en política social: los fondos de inversión social en América Latina y el Caribe en los programas sociales* (LC/R.1744), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), August 1997.

... information unavailable.

The majority of these funds are governed by a body composed of several members (council or board) and have an executive director, in some cases appointed by the president of the republic.

Normally, the staff establishment is quite small, which makes it possible to keep operating costs down. However, specialized staff and specific instruments are needed in order to identify the target population and reach the poorest segments or to monitor projects. And this represents costs, as does the need to hire a significant number of private consultants to assist with project supervision (Glaessner and others, 1995).

The objectives set forth in the acts or decrees establishing the social investment funds are to mitigate poverty, which as will be seen later is a proposal out of all proportion with the scant resources placed at their disposal. The emphasis given to this objective varies, depending on the case in question (see table VII.17).

Table VII.17

**OBJECTIVES OF THE SOCIAL INVESTMENT FUNDS IN LATIN AMERICA AND THE CARIBBEAN**

<b>Country, fund</b>	<b>Objectives</b>
Bolivia, FSE	To compensate for the adverse effects of structural adjustment by generating temporary jobs and/or income for the lowest income groups in the country.
FIS	To alleviate poverty by improving the coverage and quality of education, health and basic sanitation.
Chile, FOSIS	To finance projects that help to eradicate poverty and marginality and to improve the working conditions and production of the lowest income sectors.
Colombia, SNC	To use non-refundable resources for the national budget to fund projects in the areas of territorial jurisdiction of special interest to the nation.
Costa Rica, FODESAF	To finance social development programmes, projects and services of State bodies in the social sector in order to support selected existing programmes.
Ecuador, FISE	To finance projects generated by demand of the rural and marginal urban population, to meet the basic needs and supplement regular and special State programmes.
El Salvador, FIS	To mitigate extreme poverty due to the long civil war and the reduction in social spending by financing social and economic infrastructure projects that generate high levels of employment.
Guatemala, FIS	To channel resources into projects that promote the development of poor and extremely poor sectors, mainly in rural areas. To improve health, nutrition, basic education and the potential to produce income for the poor, especially indigenous communities.
Guyana, SIMAP	To reduce the negative impact of structural adjustment measures on the most affected groups.
Haiti, FAES	To finance short-term, labour-intensive projects to improve the standard of living of the poorest sectors of the urban and rural population and to increase their productive potential.
Honduras, FHS (I and II)	To improve the living conditions of disadvantaged groups in rural and urban areas by pushing forward the employment and social development policy of the country.
Nicaragua, FIS	To meet the needs of the poor population, particularly the extremely poor affected by the war and structural adjustments, by generating jobs that enable them to satisfy their basic needs.
Panama, FES	To cater for the needs of the poorest segments of the population through job creation, improvement of economic and social infrastructure, increasing the income of this sector and satisfaction of their basic needs.
Peru, FONCODES	To mitigate the effects of the deep economic crisis, structural adjustment and reforms by financing small-scale, community-based social investment projects, with immediate effects on the most vulnerable groups among the poor.
Dominican Republic, PROCOMUNIDAD	To finance the implementation of small-scale projects that help to improve the quality of life of the lowest-income groups.
Uruguay, FISE	To mitigate the cost of fiscal adjustment on the poor, by coordinating the full range of social policies.
Venezuela, FONVIS	To channel national and international funds towards the social programmes and projects organized by the national government and which are directed towards poor groups.

**Source:** Lorena Godoy and Marta Rangel (cons.). *Nuevas experiencias en política social: los fondos de inversión social en América Latina y el Caribe en los programas sociales* (LC/R.1744), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), August 1997.

Most of the funds are invested in the following six areas: social and economic infrastructure, social welfare, productive development, institutional support, community development and the environment (see table VII.18).

Table VII. 18

## AREAS OF ACTION OF SOCIAL INVESTMENT FUNDS IN LATIN AMERICA AND THE CARIBBEAN

Country, fund	Areas of action					
	1	2	3	4	5	6
Argentina, FOPAR	x	-	x	-	x	-
Belize, SIF	x	x	x	-	-	-
Bolivia, FIS	x	x	-	x	-	-
Chile, FOSIS	-	x	x	-	x	-
Colombia, SNC	x	x	x	-	-	-
Costa Rica, FODESAF	-	x	x	-	x	-
Ecuador, FISE	x	x	x	x	-	-
El Salvador, FIS	x	x	-	-	-	x
Guatemala, FIS	x	x	x	-	-	x
Guyana, SIMAP	x	x	-	-	-	-
Haiti, FAES	x	n/a	n/a	n/a	n/a	n/a
Honduras, FHIS	x	x	x	x	-	x
Nicaragua, FISE	x	x	-	-	-	x
Panama, FES	x	x	x	-	-	-
Peru, FONCODES	x	x	x	-	-	-
Dominican Rep., PROCOMUNIDAD	x	-	-	-	-	x
Uruguay, FISE	-	x	-	-	-	-
Venezuela, FONVIS	x	x	-	x	-	-

**Source:** Lorena Godoy and Marta Rangel (cons.), *Nuevas experiencias en política social: los fondos de inversión social en América Latina y el Caribe en los programas sociales (LC/R.1744)*, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), August 1997.

1. Social and economic infrastructure.
  2. Social assistance.
  3. Productive development.
  4. Institutional support.
  5. Community development.
  6. Environment.
- n/a Information not available.  
 - The fund does not invest in this area.

### (e) Target populations, targeting criteria and coverage

One of the most important operational criteria is targeting, yet when the funds are used in to response to emergency situations, priority is usually given to rapid resource delivery, and targeting tends to be sacrificed to some extent. This is what happened with the first Bolivian fund which acted more rapidly and with lower operating costs, but failed to reach the indigent population.<sup>57</sup>

Table VII.19 shows the target population for each investment fund, which, as can be seen, have included populations other than those affected by the adjustment.

Table VII.19

#### TARGET POPULATION AND TARGETING CRITERIA OF SOCIAL INVESTMENT FUNDS IN LATIN AMERICA AND THE CARIBBEAN

Country, fund	Target population/targeting criteria
Bolivia, FSE	Urban and rural poor affected by economic crisis in terms of income and employment, and with health and nutrition deficiencies (population with degrees of relative shortcomings in income terms). Geographical priority levels 1 and 2, based on the determination of geographical areas with certain levels of poverty (poor population in terms of basic service deficits).
FIS	
Chile, FOSIS	Communities and groups living in situations of extreme poverty and at social risk, especially young people or those in irregular circumstances; poverty in rural areas; regions and localities with high isolation, exclusion and poverty indices. The fund targets territorial units using the poor localities survey and the ranking of poor communities.
Colombia, SNC	Poor and vulnerable populations, especially poor municipalities and those with greatest needs for the joint financing system. Also aimed at the target population defined by the Social Solidarity Network, RSS.
Costa Rica, FODESAF	Population of poor economic means. The link between FODESAF and the National Plan to Combat Poverty (PNCP) means that the criteria on which the latter has defined its areas of action are also the targeting criteria for FODESAF.
Ecuador, FISE	Poor population with a special focus on specific vulnerable groups: women, children and indigenous peoples. The targeting system is based on poverty maps, project types and type of population.
El Salvador, FIS	Population living in extreme poverty, with emphasis on pregnant women and children. Uses the poverty line method to distribute resources by municipalities, and the UBN indicator to distribute resources by sector.
Guatemala, FIS	Poor people in all municipalities, except Guatemala City. Covers a large part of the rural and nearly all the indigent population. Resource distribution is based on regional poverty indices and data from the UBN, but the principle of responding to community demands is upheld.
Guyana, SIMAP	Populations in poor areas, especially women and the undernourished. Based on regional poverty maps, together with the mortality and malnutrition rates at the village level especially in the case of health and nutrition projects.
Haiti, FAES	Rural poor, especially in northern departments where concentrations are greater.
Honduras, FHIS	Extremely poor and indigent population. Use is made of the national poverty maps based on four social indicators which determine the poverty index.
Nicaragua, FIS	Population living in extreme poverty. Poverty maps classify departments and municipalities according to four indicators. This geographical approach is complemented by a sectoral one.
Panama, FES	Poor and critically poor populations, and indigenous communities. Based on a poverty index that relates per capita-income in rural, urban and suburban areas to the cost of satisfying basic needs.
Peru, FONCODES	Population living in extreme poverty, very poor and poor in rural and marginal urban areas. Based on poverty maps constructed from eight indicators. Indices calculated to identify five levels of poverty.
Dominican Republic PROCOMUNIDAD	Low income population with unsatisfied basic needs, residing in marginal urban and rural areas. Poverty maps are used.
Uruguay, FISE	Population in a state of critical poverty (priority) and at risk, identifying the most vulnerable groups. The criteria used were the UBN indicator and income levels.
Venezuela, FONVIS	Population living in poverty.

**Source:** Lorena Godoy and Marta Rangel (cons.), *Nuevas experiencias en política social: los fondos de inversión social en América Latina y el Caribe en los programas sociales* (LC/R.1744), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), August 1997.

<sup>57</sup> A World Bank study shows that only 10% of manual workers employed by FSE on construction projects were unemployed before being hired, and the remaining 90% were contracted in that same sector. Therefore, FSE did not have a significant impact on unemployment, but on an increase in incomes, because if that 90% had not been higher in an FSE- funded project, they would have seen their incomes reduced by up to 65% (Godínez, 1995).



It is not easy to compare the success of targeting experiences since different funds make use of a wide variety of methods and indicators. The most common include the poverty line, the index of unsatisfied basic needs (UBN) and poverty maps.

With respect to degrees of filtration, the only estimate is one made by the FODESAF programmes in Costa Rica on two occasions —1983 and 1992— which suggest filtration of approximately 30% (Seligson and others, 1995).

Apart from this, measurement of the number of beneficiaries tends to suffer from very high levels of double counting tends.

The funds select projects and allocate resources according to requests made by communities and social organizations, and in exceptional cases by State agencies.

Project proposals, ideally prepared on the basis of demands channelled and materialized by the community itself, with appropriate technical backing, are received through public contests. However, the supply of funding may predetermine demand to some extent, with the true needs of the population becoming standardized in order to gain project approval.

Other common experiences involve commitment on the part of the final beneficiaries towards the operation, maintenance and sustainability of the project, and in contributing their own time and effort, materials, financing and other resources. Where appropriate, beneficiaries should also have legal possession of the land in which the work will be carried out. Environmental requirements are also usually established. Another aim is to use nationally made materials almost exclusively so as to encourage production and employment in related activities; and, lastly, emphasis is put on job creation, and an upper limit is set for the total cost of the project.

Investment funds finance, supervise and assess the projects, which are executed by governmental and non-governmental agencies, including local agencies and those based on the neighbourhood, municipality, universities, non-profit organizations, churches and charities (see table VII.20).

The resources administered by the funds vary greatly from one country to another, but, amounts are generally modest (ECLAC, 1997a). Siri (1996), for example, estimates the sums disbursed by the funds at US\$ 20 million to US\$ 30 million per year.

Table VII.20

**EXECUTING AGENCIES FOR SOCIAL INVESTMENT FUNDS IN LATIN AMERICA AND THE CARIBBEAN**

Country, fund	Executors
Argentina, FOPAR	Small-scale local contractors and the community itself acting through beneficiary nuclei
Bolivia, FSE	Private sector contractors
FIS	Government institutions, private organizations and NGOs
Chile, FOSIS	Community, social organizations, ministerial agencies, municipalities, universities and institutes, NGOs and private individuals
Colombia, SNC	Territorial entities (municipalities, departments and districts)
Costa Rica, FODESAF	State institutions from the social sector, and municipalities
Ecuador, FISE	Private-sector bodies or contractors
El Salvador, FIS	Community groups, NGOs, autonomous bodies, municipalities and central government
Guatemala, FIS	Municipalities, NGOs and community groups
Guyana, SIMAP	Ministry of health, regional and municipal administration, NGOs, community groups and private contractors
Haiti, FAES	Private contractors
Honduras, FHIS (I and II)	Independent engineers, NGOs, construction companies, municipalities
Nicaragua, FIS	NGOs and private contractors
Panama, FES	NGOs, churches, charities and community organizations
Peru, FONCODES	Executing nuclei organized by the beneficiaries themselves
Dominican Republic, PROCOMUNIDAD	Contractors (private individuals or companies)
Uruguay, FISE	Public or private bodies
Venezuela, FONVIS	NGOs, government agencies and local organizations

**Source:** Lorena Godoy and Marta Rangel (cons.), *Nuevas experiencias en política social: los fondos de inversión social en América Latina y el Caribe en los programas sociales* (LC/R.1744), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), August 1997.

### **(f) What is the contribution made by social investment funds to social policy?**

In the first place it is necessary to draw attention to the magnitude of the resources managed by social investment funds. Although these may seem significant at first sight, they are relatively small in comparison to the countries' total public-sector social spending. Figure 1, which is not intended to represent the actual situation of any country in particular, aims to highlight this unequal relation, although in most cases the value corresponding to the fund is probably overstated.

Secondly, fund resources as a percentage of total public-sector social spending varies by country type. If the social spending of countries is divided into three groups —high, medium and low— it can be seen that the higher a country's public-sector social spending, the less important

proportionately are the resources managed by the fund. Consequently, in countries classified in the first group the financial relevance of the funds is even less.

Two conclusions can be drawn from the above: (a) priority should be given to redirecting the bulk of the resources, namely those destined for general and sectoral social policy, for which the experience of the funds could be very important; (b) the funds themselves cannot have the aim of overcoming poverty, as that task is beyond their financial means. It has already been argued in this document that poverty eradication cannot be the responsibility (at least exclusively) of social policy, since the problem exceeds its realistic possibilities.

Although the funds cannot reasonably aim to overcome poverty, they can play a role in achieving better management of social policies and promote a modern management demonstration effect. There are number of areas where funds have this effect:

- They make it possible to experiment with solutions that later could be generalized by other public administration institutions.
- They demonstrate new ways of administering social programmes that are usually more expedite and possibly more transparent, and which can give inspiration to the State reform processes that most of the countries of the region are embarked upon.
- The funds have also implemented alternative criteria for implementing social policy, by focusing on projects rather than using traditional bureaucratic approaches, targeting programmes of action, and giving participation to other actors, etc.
- Funds can also help overcome the conflict between universalism and selectivity, by showing that appropriate targeting is the only way to achieve universalization and satisfaction of the population's basic needs.
- They make it possible to explore new ways of obtaining resources for social policy, such as external cooperation and co-financing by beneficiaries. Their experiences also highlight the need to take special care to avoid excluding the extremely poor, when funds for project financing are requested from the beneficiaries themselves.
- They can also demonstrate new procedures for implementing projects, involving tendering among public, private and philanthropic bodies.
- Similarly, the funds can prove that it is possible to spread the habit of accountability in the management of resources and programmes.
- They can also participate in generating a new institutional framework for social policies, avoiding fragmentation of the social network, duplication of functions, rigidity and interinstitutional competition.

The latter point is related to the establishment of the social authority. On several occasions, governments in the region have tried to arrange for some public body to carry out the functions of prioritizing, allocating resources, deciding who executes each programme, coordinating actions and taking on assessment tasks. Such efforts have failed, basically because the institution that assumes the role of social authority does not have resources to allocate, which limits its possibilities for influencing the prioritization of external resources. If this authority were endowed with its own resources, the chances of it being able to carry out its functions would increase.

The social authority can give consistency to the set of institutions that implement social policy if it has resources, which will come from the investment fund, and if, through assessment, it manages to increase efficiency in resource use and programme efficacy.

In conclusion, the benefits of investment funds go beyond the implementation of specific projects, through their positive influence in redirecting social policy generally. This demonstration effect which shows that is possible to be more efficient in resource use and more effective in programme and project management should be recognized as the major contribution of funds to State social policies.

### **(g) Conclusions on social safety nets**

The social safety-net concept is used to refer to mechanisms for protecting vulnerable social groups at times of crisis, which ought to be set in more stable long-term mechanisms. Five basic conclusions can be established with regard to such networks (ECLAC, 2000b, p. 215).

- They should not be considered as substitutes, but complements of a macroeconomic policy that explicitly considers its social impacts, and as part of a fiscal policy that attaches special importance to equity.
- They should belong to permanent institutional systems, with specialized staff to execute programmes, together with eligibility mechanisms, and a portfolio of projects and practices established for evaluation purposes, etc. Otherwise, it will be impossible to respond in an unbiased way to protection needs at times of crisis (Cornia, 1999).
- Given the heterogeneity of labour markets in developing countries, a combination of programs should be envisaged with different target populations. In countries with more developed labour markets, unemployment insurance will play a relatively important role, whereas alternative employment programs, public works and direct support will be more important in countries with other labour structures. Unemployment insurance and employment programs will be relatively more important in countries where labour markets adjust through the number of jobs, while income-support programmes for poor sectors will be more important when adjustment occurs through lower real incomes (Lustig, 1999).
- These programmes should be of national origin, adequately funded, and should not absorb resources earmarked for long-term human capital investment.

Lastly, counter-cyclical fiscal policy is needed for social safety nets to function effectively.

## Box VII.7

**FUNDS FOR POVERTY ALLEVIATION IN COUNTRIES OF THE CARIBBEAN:  
SAINT LUCIA AND HAITI**

In mid-1999, a Poverty Reduction Fund came into effect in Saint Lucia. This fund is the keystone in the Government's strategy for attacking poverty, which notwithstanding the need for more structural solutions, seeks to give an immediate response to poor communities with problems such as insufficient access to basic economic and social infrastructure and social services, absence of training for the maintenance of existing infrastructure and lack of organization and leadership.

The aim is to improve access of the most disadvantaged communities to basic social and economic infrastructure by financing small-scale projects formulated and implemented with a high level of community participation.

The Fund has adopted a holistic approach to poverty reduction, which implies strengthening each community's capacity to design, implement and maintain its own development projects; this makes community participation a priority objective.

The Poverty Reduction Fund will be responsible for approving projects presented by the communities themselves and by non-governmental organizations, which will then carry them through, under the supervision of Fund staff.

In Haiti, the second Fund for Economic and Social Assistance (FAES-II) is being operated with support from the Inter-American Development Bank and the World Bank. It draws on the lessons learned in the previous phase and on experiences in other countries. This has translated into greater autonomy in management and greater transparency in resource allocation, together with the establishment of well-defined criteria for approval of projects and constant refining of methodologies for channelling resources towards the poorest sectors. It has been proven that in most cases, the benefits do not reach the most underprivileged sectors if the process is allowed to operate freely on a spontaneous, competitive demand basis. The most needy groups lack appropriate sources of information and proper capacity for organization, so that efforts must be made to bring the services to them and to distribute resources more fairly. To this end, mechanisms for targeting services and technical assistance subsidies are used to help communities to design their own projects.

Lastly, collaboration with national ministerial facilities of the social sector is also being promoted under the Fund in order to provide effective services to beneficiaries and to ensure the sustainability and continuity of the funded projects.

**Source:** World Bank, "St. Lucia Poverty Reduction Fund", Report No. PID8078; "Haiti, Second Economic and Social Fund (FAES II)", Report No. PID5894 (<http://www.worldbank.org>).





## Chapter VIII

# Public social spending and equity

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### 1. Public-sector social action

If the region is to overcome current conditions of poverty and inequity, the countries will need to attach the highest priority to social spending. Moreover, such spending must be approached in all its complexity: as one of the main components of overall public expenditure, based on explicit criteria for building greater equity.

According to standard figures on public expenditure versus total output, the countries of the region are underspending by about nine percentage points of their gross domestic product (GDP).<sup>58</sup> This hobbles the capacity of the States to carry out redistribution policies through social spending. In short, the region's countries as a whole have room to increase spending by 3.5 to 4.5 percentage points of GDP merely by beefing up public resources, as social spending typically amounts to 40% to 50% of total public expenditure.

The situation could be further improved by reallocating public resources in favour of social spending, improving the quality of public management, and using overall resources more efficiently, in particular those funds allocated for social concerns.

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<sup>58</sup> See IDB (1998, p. 200). The low level of public spending as a share of GDP is associated with the fact that tax levels in a number of the region's countries are also below international standards, and even well below those reported by the countries of the English-speaking Caribbean. ECLAC estimates, consistent with those of other entities such as the Inter-American Development Bank (IDB), set the region's tax revenue as a share of GDP at around percentage points less than they should be based on their pattern of development. See ECLAC (1998e).

The region's past experience has clearly revealed how very vulnerable social policies can become during times of crisis. This is why it is so necessary to prevent or at least temper the cyclical pattern of expenditures, strengthening measures by which social spending can be cemented and become more stable. Finally, in line with the ideas given in chapter IV, one of the most important tasks of social policy is to identify clearly the high-priority areas to be targeted by social investment so as to break the cycles that breed inequality.

The following sections examine the main trends in social spending in the 1990s, offering background information on how this spending has affected equity.

## **2. Social expenditure: trends in the 1990s**

The countries registered major progress in allocating public resources to social sectors between 1990 and 1997. Allocations increased in 14 of the 17 countries of the region. Twelve of these countries more than offset declines experienced in the previous decade, clearly surpassing the levels of 1980-1981.

Average public social expenditures per capita in the region rose to US\$ 457 in 1996-1997,<sup>59</sup> by comparison with the US\$ 331 recorded in 1990-1991.<sup>60</sup> This amounts to a 38% increase for the period, or an annual growth rate of 5.5% (see table VIII.1). However, growth patterns were not uniform throughout the decade; social spending from 1994-1995 to 1996-1997 expanded at an annual average rate of 3.3%, only half the rate recorded during the first five years.

The countries where social spending grew the most were Bolivia, Colombia, Peru and Paraguay, with more than double the 1990-1991 levels. Figures rose by 60% to 70% in Chile, Dominican Republic and El Salvador, and by nearly 50% in Uruguay. Six other countries (Argentina, Brazil, Costa Rica, Guatemala, Mexico and Panama) posted smaller increases in per capita social spending, ranging from 15% to 40%. Figures held almost steady in Honduras and Nicaragua, but fell by 6% in Venezuela.

Several countries of Central America failed to regain social spending levels of the early 1980s, or even recorded declines from that time, due primarily to the crisis and natural disasters. These countries face a great need to introduce sustainable annual increases and, at the same time, to keep a close eye on the impact of programmes funded by these expenditures.

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<sup>59</sup> Unless otherwise indicated, all figures on social expenditure are expressed in 1997 dollars.

<sup>60</sup> These figures were drawn from a simple average for the 17 countries on which information is available. If instead the average for each country is weighted by population, the absolute increase in per capita spending remains steady at around US\$ 125, but levels and variation both change. The region posted average per capita spending of US\$ 655 in 1996-1997 and US\$ 531 in 1990-1991. Thus, total growth in the period would come out to 23% instead of the 38% yielded by the unweighted average. Figures in the following text refer to simple averages.



Table VIII.1  
CHANGES IN SOCIAL SPENDING IN THE 1990s

Country	Social spending/ GDP		Social spending/total public expenditure		Social spending <sup>a</sup> /GDP		Difference	
	1990-1991	1996-1997	1990-1991	1996-1997	1990-1991	1996-1997	from regional pattern <sup>a</sup>	according to regional pattern <sup>b</sup>
Argentina	17.7	17.9	62.2	65.1	1222	1570	17.6	0.3
Bolivia	6.0	12.0	25.8	44.2	55	119	8.8	3.2
Brazil	19.0	19.8	59.5	59.1	821	951	15.1	4.7
Chile	13.0	14.1	60.8	65.9	451	725	15.4	-1.3
Colombia	8.1	15.3	29.7	38.2	181	391	12.6	2.7
Costa Rica <sup>c</sup>	18.2	20.8	64.4	65.1	445	550	12.7	8.1
El Salvador	5.4	7.7	21.9	26.5	87	147	11.4	-3.8
Guatemala	3.3	4.2	29.8	42.1	52	71	10.9	-6.7
Honduras	7.8	7.2	33.1	31.9	59	58	7.9	-0.7
Mexico	6.5	8.5	41.6	52.9	283	351	14.4	-5.9
Nicaragua <sup>d</sup>	10.3	10.7	38.3	35.6	48	49	5.7	5.0
Panama	18.6	21.9	40.0	39.9	494	683	13.4	8.6
Paraguay	3.0	7.9	39.9	47.1	55	148	11.3	-3.4
Peru	2.3	5.8	16.7	40.9	51	169	13.1	-7.3
Dominican Republic	4.5	6.0	36.9	39.0	66	107	11.2	-5.2
Uruguay	18.7	22.5	62.3	69.8	929	1,371	16.1	6.4
Venezuela	9.0	8.4	33.9	39.0	338	317	14.2	-5.8
<b>Average for the region<sup>e</sup></b>	<b>10.1</b>	<b>12.4</b>	<b>41.0</b>	<b>47.2</b>	<b>331</b>	<b>457</b>		

**Source:** ECLAC, *Social Panorama of Latin America, 1998* (LC/G.2050-P), Santiago, Chile, 1999. United Nations publication, Sales No. E.99.II.G.4.

<sup>a</sup> See figure IV.2.

<sup>b</sup> Difference in points of GDP between the observed macroeconomic priority of social spending and the priority predicted according to the pattern for the region in 1996-1997.

<sup>c</sup> Figures for 1996-1997 are based on 1996 results only, due to lack of information.

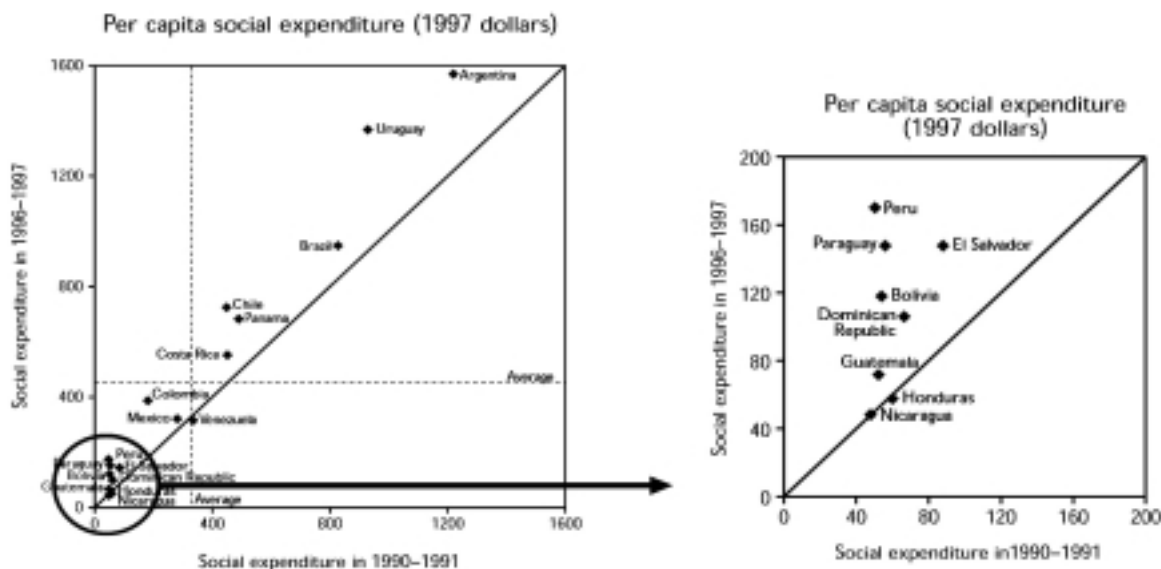
<sup>d</sup> Figures for 1990-1991 are based on 1991 results only, due to problems with hyperinflation in 1990.

<sup>e</sup> Simple average of the figures for the countries.

The magnitude of public social expenditure in Latin America varies considerably from one country to another. Some countries (Argentina, Brazil and Uruguay) spend amounts at or near US\$ 1,000 per person per year, while others (Guatemala, Honduras and Nicaragua) do not spend even US\$ 100. Between these two extremes, the other countries spend widely varying amounts on social programmes, ranging from US\$ 100 to US\$ 750 per person (see figure VIII.1).

Naturally, these variations are heavily dependent on the level of per capita GDP. The countries reporting highest spending levels also post higher levels of output per person (Argentina, Brazil, Chile and Uruguay), while the countries with lower per capita GDP report lower levels of social spending (Bolivia, El Salvador, Guatemala, Honduras and Nicaragua).

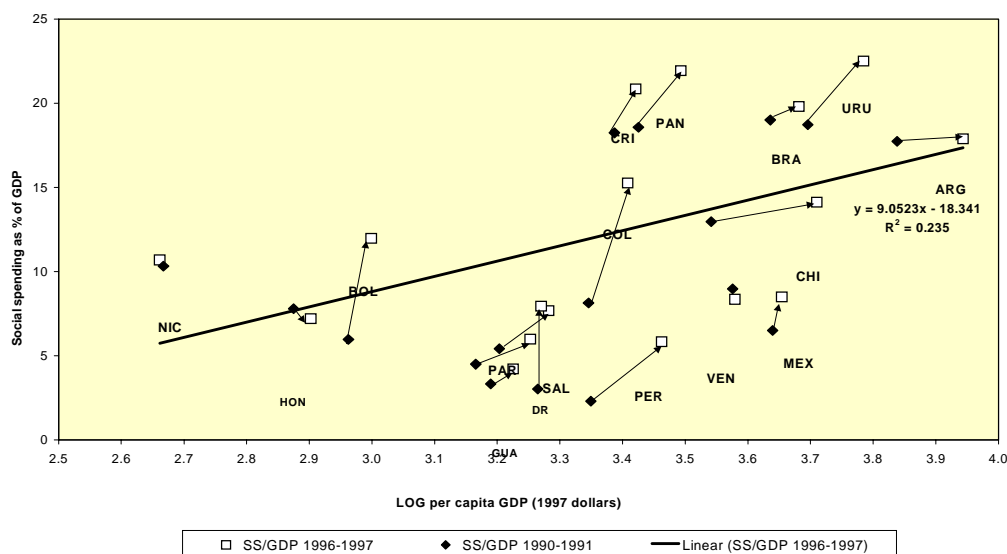
Figure VIII.1  
EVOLUTION IN SOCIAL EXPENDITURE, 1990-1991/1996-1997



Source: ECLAC, *Social Panorama of Latin America, 1998* (LC/G.2050-P), Santiago, Chile, 1999. United Nations publication, Sales No. E.99.II.G.4.

“Effort” is a measure that tells how much public resources are allocated to social spending, as a proportion of GDP. A few countries, by making an enormous “effort,” manage to achieve levels of per capita social spending almost on a par with other, higher output countries, that nonetheless allocate a lower percentage of GDP to social spending. A good example is Panama which, despite per capita GDP approximately US\$ 2,000 lower than Chile’s, nonetheless allocates US\$ 683 per person, comparing favourably with Chile’s US\$ 725. The two countries reveal strikingly different degrees of “effort” 21% versus 14%.

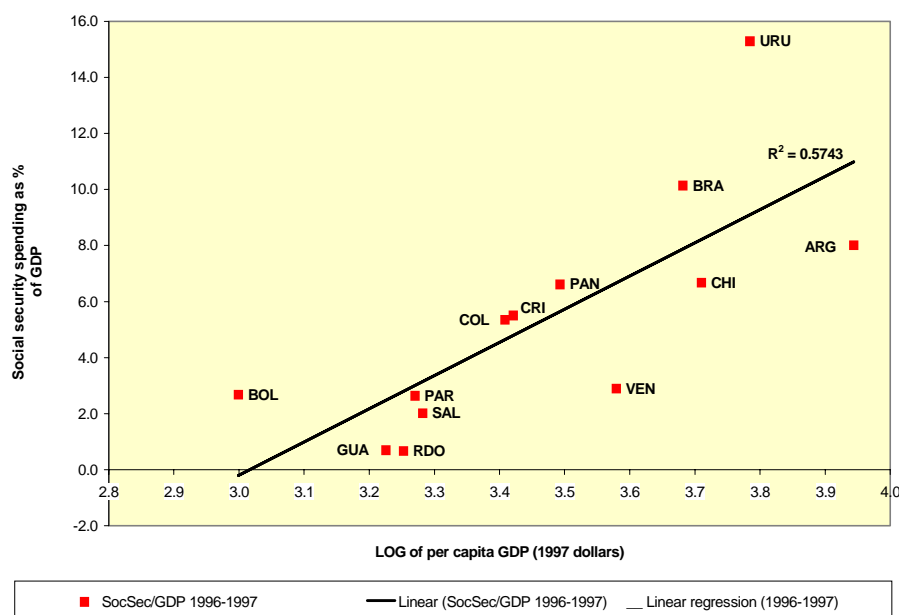
Figure VIII.2.a  
SOCIAL SPENDING AS A PERCENTAGE OF GDP, AS A FUNCTION OF PER CAPITA GDP



Source: ECLAC, on the basis of official figures from the countries concerned.

Total social expenditures can also be compared with expenditures not including social security (see table VIII.2), revealing two different patterns in the distribution of public social expenditure. The first is associated with social security spending, which tends to increase significantly with rising levels of per capita income in the countries; this contrasts with the trend that characterizes other components of social spending (education, health, housing and social assistance). Figure VIII.2.b shows that social security is a “higher good”, because it tends to rise rapidly as a share of GDP as national income grows, notwithstanding differences from one country to another and independently of the region-wide pattern. Uruguay stands out for its high spending levels on social security, while Venezuela is noteworthy for the small fraction of GDP it allocates to this item as a share of total per capita income. National spending on human capital (education and health) and on housing and social assistance differs from spending on social security in that the share of GDP that the countries spend on these items bears little proportion to per capita income. This suggests that much of the difference in magnitude of per capita social spending evident in the region can be attributed to the relative development of social security systems.

Figure VIII.2.b  
SOCIAL SECURITY EXPENDITURES AS A PERCENTAGE OF GDP,  
AS A FUNCTION OF PER CAPITA GDP



Source: ECLAC, on the basis of official figures from the countries concerned.

The fraction of GDP that the countries allocate to social spending also depends on the relative magnitude of total public spending (PS/GDP) and on the fiscal priority of social spending (SS/PS), in other words, the share of total public resources allocated to social sectors.<sup>61</sup> The first ratio shows the countries' capacity to increase total public spending in absolute terms, as the economy grows; the second reveals the margin available for reallocating public resources to social sectors in accordance with changes in public revenue, which in turn depend on economic trends.

<sup>61</sup> Per-person social spending can be expressed as the following equation:

$$SS_{pc} = GDP_{pc} * \frac{SS}{PS} * \frac{PS}{GDP}$$

where  $SS_{pc}$  is per capita social spending,  $GDP_{pc}$  is per capita Gross Domestic Product, and PS is total public spending.

Table VIII.2

## CHANGES IN SOCIAL SPENDING IN AREAS OTHER THAN SOCIAL SECURITY IN THE 1990s

Country	Real social spending per capita, without social security		Social spending, without social security/GDP			Social security as a percentage of social spending	
	1990-1991	1996-1997	1990-1991	1996-1997	1990-1991	1996-1997	
Argentina	647	867	9.4	9.9	47.1	44.8	
Bolivia	46	93	5.0	9.3	16.2	22.4	
Brazil	469	464	10.0	9.0	47.3	54.6	
Chile	210	382	6.0	7.5	53.6	47.2	
Colombia	114	254	5.1	9.9	36.9	35.0	
Costa Rica <sup>a</sup>	337	404	13.8	15.3	24.2	26.4	
El Salvador	64	108	4.0	5.7	25.7	26.3	
Guatemala	40	59	2.6	3.5	22.2	16.4	
Panama	340	477	12.8	15.3	31.3	30.1	
Paraguay	35	99	1.9	5.3	37.1	33.2	
Dominican Republic	60	95	4.1	5.3	8.5	11.1	
Uruguay	313	440	6.3	7.2	66.4	67.9	
Venezuela	248	208	6.6	5.5	26.5	34.6	
<b>Regional average</b>	<b>212</b>	<b>286</b>	<b>7.0</b>	<b>8.5</b>	<b>31.7</b>	<b>32.2</b>	

**Source:** ECLAC, *Social Panorama of Latin America, 1998* (LC/G.2050-P), Santiago, Chile, 1999. United Nations publication, Sales No. E.99.II.G.4.

<sup>a</sup> Figures for 1996-1997 are based on 1996 results only, due to lack of information.

<sup>b</sup> Figures for 1990-1991 are based on 1991 results only, due to problems with hyperinflation in 1990.

Figure VIII.2.a shows the correlation between per capita gross domestic product and the fraction of GDP allocated for social spending, as well as changes that occurred in this ratio during the 1990s. As can be clearly seen in this figure, those countries of the region that are making the highest per capita social outlays (Argentina, Brazil, Uruguay, Costa Rica and Panama), are doing so by dint of very significant effort, measured as the share of per capita income used for this purpose; by contrast, most of the countries registering low levels of social spending (Dominican Republic, Guatemala, El Salvador, Paraguay) are making a much smaller effort than their per capita income levels would suggest, or by comparison with the norm for the region. Two countries stand out for their drive to increase social spending during the decade: Bolivia and Colombia. From 1990 to 1997, both practically doubled the share of GDP allocated to social spending (from 6% to 12% in Bolivia and from 8.1% to 15.3% in Colombia), which ushered them into the group of countries whose social expenditures hold a higher macroeconomic priority than is typical for the region.

The countries cluster into three groups, based on the magnitude of current efforts for social spending. The first group contains high-expenditure countries that allocate 15% or more of their GDP to social spending (Argentina, Brazil, Colombia, Costa Rica, Panama and Uruguay); those in the second group spend between 10% and 15% (Bolivia, Chile and Nicaragua); the low-expenditure countries in the third group direct less than 10% of their GDP to social sectors (Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, Paraguay, Peru and Venezuela).

## Box VIII.1

**METHODOLOGICAL ISSUES AND SOURCES OF SOCIAL EXPENDITURE STATISTICS**

Series on public social spending in the region differ in terms of methodology and coverage from one country to the next. The most important methodological differences have to do with accounting methods and definitions of social spending. The main variations in coverage are associated with differences in the Governments' institutional structures and with the choice of whether or not to include local government expenditure.

Public spending can be broken down according to the different agencies involved. An initial distinction may be drawn between expenditures by the public financial sector (PFS), which includes the central bank and other State-owned financial institutions, and the non-financial public sector (NFPS), which includes the central government (CG), public enterprises (PE) and local governments (LG). In three of the countries in question, the coverage of these series corresponds to NPFS expenditure.

In 11 of the 17 countries studied, the series refer to spending by the central government. Within this category, a distinction can be made between agencies having an autonomous budgetary status (AA) and those whose funds come directly from the central government budget (CGB). Coverage in two of the countries corresponds to the latter. In another case, the series cover general government expenditure (GG), which includes spending by the central government and local governments.

The following list shows the classification of the countries according to the institutional coverage of their social expenditure series.

<u>Institutional coverage</u>	<u>Countries</u>
NFPS = CG + PE + LG	Argentina, Brazil, Costa Rica, El Salvador and Uruguay
GG = CG + LG	Bolivia, Chile
CG = CGB + AA	Colombia, Dominican Republic, Guatemala, Honduras, Mexico, Panama, Peru and Venezuela
CGB	Nicaragua and Paraguay

Given the accounting definitions used in the series of 17 countries, as well as the social expenditure funding and execution procedures of each, the figures for 16 of the 17 countries under review can be described as reasonably comparable. The fact that Mexico's series do not include social spending carried out at the local level, combined with a high degree of decentralization in funding, translates into an underestimation of public social spending that limits the comparability of the figures for that country.

Indicators based on measurements of social spending as a percentage of GDP and as a percentage of total public expenditure are calculated at current prices for each year. Per capita social spending in 1997 dollars was calculated on the basis of total social spending at current prices. To express this value at constant 1997 prices, the implicit of GDP deflator was used, and the resulting figure was then divided by the mean exchange rate for that year and by the total estimated population for the same time period.

The official figures in current values provided by government agencies in each country are used as the sources of data on total public expenditure, social expenditure and the sectoral breakdown for the latter. GDP figures at current prices and the GDP deflator are also official figures obtained from the ECLAC Annual Statistics Data Bank (BADEANU). The exchange rate used is the mean rate for 1997 in the rf series, taken from International Financial Statistics, a publication of the International Monetary Fund (IMF). The population figures used come from projections calculated by the Latin American and Caribbean Demographic Centre (CELADE) - Population Division of ECLAC and published in its *Demographic Bulletin*.

**DECENTRALIZATION AND FINANCING OF SOCIAL EXPENDITURE:  
THE CASE OF BRAZIL**

The case of Brazil serves to illustrate the importance of using consolidated national totals when conducting comparative regional and diachronic analyses of total public spending and public social spending in countries where the funding of public expenditure is highly decentralized. This is important not only to avoid significantly underestimating levels of expenditure, which becomes more and more of a problem as the degree of decentralization increases (in other words, when government funding is administered at the state or municipal level), but also to ensure accuracy in measuring real absolute and relative variations in total and sectoral per capita spending.

For example, if only federal spending is considered, then Brazil's per capita level of social expenditure totals US\$ 476 (in 1997 dollars) for 1990-1991 and US\$ 566 for 1996-1997, with a real increase for the entire period of approximately 19%.

However, when spending at the three levels of government—federal, state, and municipal—is consolidated, the figures for per capita social spending (in 1997 dollars) turn out to be US\$ 821 for 1990-1991 and US\$ 951 for 1996-1997, which amounts to a 16% increase over the period in question and a level of expenditure that is 70% higher than the federal spending level.

Differences of magnitude and variation are even more significant when the figures are broken down by sector, owing to the fact that fiscal responsibility for different areas varies from level to level of the governmental structure.

For instance, the decentralization of funding for education drove up the sector's consolidated expenditure/federal expenditure coefficient from 2.9 in 1990-1991 to 3.8 in 1996-1997, which points not only to major changes in spending levels but also a radical shift in trend during the decade. According to the consolidated figure, per capita spending has grown by 2%, while if only federal spending were considered it would appear to have dropped by 23%. This is because per capita federal spending on education was US\$ 55 and US\$ 43 for the 1990-1991 and 1996-1997 periods, respectively, while consolidated spending for the same time periods was US\$ 161 and US\$ 164.

The different total and sectoral levels of per capita social spending appear below, together with the absolute and percentage changes in these variables as measured according to whether the figures for federal spending (FS) or for consolidated spending (CS) are used.

Sector	Per capita spending (in 1997 dollars)		Absolute variation (in dollars)	Percentage variation	
	1990-1991	1996-1997			
Total					
	GF	476	566	90	19
	GC	821	951	130	16
Education					
	GF	55	43	-12	-23
	GC	161	164	3	2
Health					
	FS	115	89	-26	-23
	CS	155	138	-17	-11
Social security					
	FS	254	384	130	51
	CS	352	487	135	38
Housing					
	FS	36	29	-7	-19
	CS	153	162	9	6

**Box VIII.2 (concl.)**

It should be noted that education also includes culture; health includes food and nutrition; social security includes social assistance and employment; and housing includes water and sewerage as well as urban development.

Finally, it should be pointed out that the extent of decentralization of the sources (federal versus state or municipal) of funding for social expenditure is tending to rise in Brazil, albeit with marked sectoral differences and with slight-to-moderate changes in consecutive or proximate years. In the last 18 years, the implicit coefficients for the expansion of federal expenditure into consolidated spending were around 1.50 from 1980 to 1983, mostly between 1.60 and 1.65 from 1984 to the end of the 1980s, and in the neighbourhood of 1.70 during the 1990s, according to the figures available for some of the years in the decade.

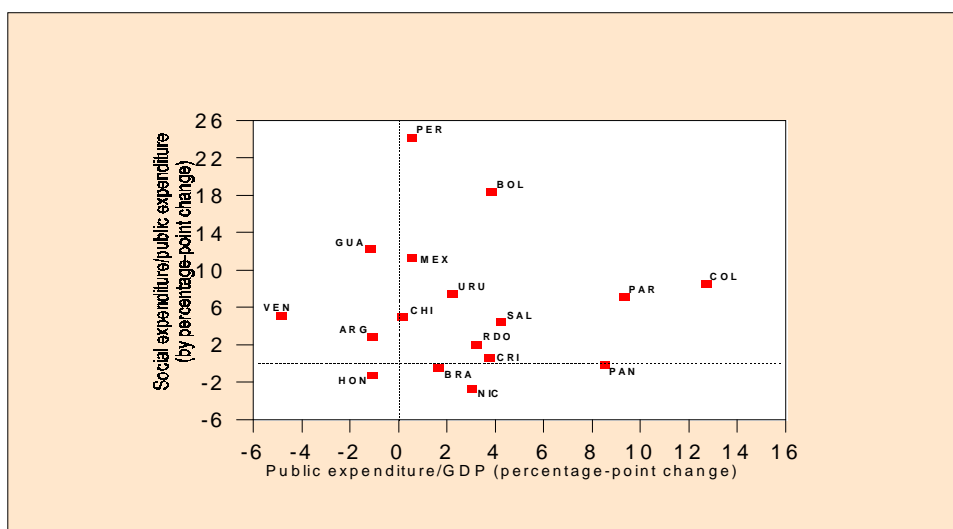
The estimates of consolidated spending presented here were based on available official figures on federal spending; figures for each sector were expanded using the relevant coefficients obtained from the following sources: for 1990-1991, André C. Medici, "A dinâmica do gasto social no Brasil nas tres esferas de governo: uma análise do período 1980-1992" FUNDAP/IESP, June 1994; for 1996-1997, sectoral coefficients established in IPEA, "Gastos sociais das tres esferas de governo - 1995", 1995.

The countries of Latin America display highly heterogeneous levels of public social expenditure. This great variation reflects a diversity of challenges. For example, the major challenge in low- and medium-expenditure countries, where meager amounts of funds are being allocated, is to bring about significant, sustained expansions in spending without neglecting the quality of impact. A different challenge faces countries that already register relatively higher levels of per capita social spending, in fact at levels that compare favourably with those of several industrialized countries, figured in terms of percentage of GDP. They must improve the quality of social spending, making it more effective and efficient, and seek broader coverage and better quality for their social services. Although they are spending appreciable amounts per capita, total public spending still should be redistributed to favour particular social sectors if these countries aspire to achieve equitable social development.

During the decade, all the countries attached higher macroeconomic priority to social spending than they had in the past, raising levels by more than two percentage points GDP. Countries in the high-expenditure category (over 15% of GDP allocated to social spending) boosted figures from an average of 16.7% in 1990-1991 to 19.7% in 1996-1997. Countries in the medium-expenditure group (from 10% to 15% of GDP) moved from 9.0% to 12.3%. In the low-expenditure category (less than 10%), figures rose from 5.2% to 6.9%. Economic growth in the first half of the 1990s therefore translated into the allocation of greater proportions of resources into social spending.

Social spending also moved into a higher budgetary priority in 13 of the 17 countries, and in 9 of these cases, the improvement was part of a general expansion of total public spending as a percentage of GDP.<sup>62</sup> Proportional increases were greater in countries allocating a smaller share of GDP to social spending, with the ratio increasing by eight percentage points. Of particular note is that even in four of the five countries that allocated a shrinking share of GDP to overall public expenditures, social spending still rose as a percentage of GDP, revealing an conscious effort to protect social sectors despite budget cuts (see figure VIII.3). This stands in marked contrast to the trends of the 1980s, when budget trimming had a more-than-proportional impact on social expenditures.

**Figure VIII.3**  
**COMPARATIVE TRENDS IN THE RATIO OF SOCIAL EXPENDITURE TO PUBLIC EXPENDITURE AND OF PUBLIC EXPENDITURE TO GDP 1990/1991/1996-1997**



**Source:** ECLAC, *Social Panorama of Latin America, 1998* (LC/G.2050-P), chapter IV, Santiago, Chile, 1999. United Nations publication, Sales No. E.99.II.G.4.

In short, the increase of government spending as a share of GDP, combined with the tendency by Governments to allocate a larger share of overall expenditures to social sectors, translated into greater spending for these areas in 15 of 17 countries. The exceptions are Honduras and Venezuela. Given this favourable trend, several comments can be made on the real dimensions of public resources allocated to social needs. In 1996-1997, the countries with the highest level of social spending, specifically, Argentina, Brazil, Costa Rica, Panama and Uruguay, allocated from 18% to 23% of their total GDP to social needs, figures nearing those reported by a number of developed countries.

By contrast, the low-expenditure countries, currently allocating less than 10% of total output to social needs, now face the three-fold challenge of increasing per capita output, introducing gradual but sustainable increases in social spending as a share of total output, and closely monitoring the quality of impact.

<sup>62</sup> Available background information on public expenditure, which reveals social spending in the countries, does not always offer comparable sets of data series in terms of institutional coverage. As can be seen clearly in box VIII.1, coverage in some cases is limited to budgetary outlays of the central government only. In most cases, the figures refer to overall expenditures of the central government, but in a large minority of countries, it also includes the non-financial public sector.



### 3. Factors that drive changes in social spending

Social spending was able to grow in the 1990s because larger quantities of State funds became available as a result of both economic growth and, to a lesser degree and on a temporary basis, due to privatizations. In addition, many countries undertook major educational, health and social security reforms which triggered higher levels of investment and current expenditure. Though these increases were initially covered with extrabudgetary funding, they have remained in effect and have since been incorporated into national budgets. The consolidation of democracy in the region also helped to focus growing attention on social issues, and the availability of new lines of financing for social programmes from multilateral organizations played a role as well.

In view of the significant increases made in public social spending, an examination of explanatory factors is in order.<sup>63</sup> In the countries with the highest levels of per capita spending (Argentina, Brazil, Chile and Uruguay), economic growth was the engine, accounting for 50% to 100% of the increase in social spending. In two other countries with high or relatively high spending levels, Costa Rica and Panama, while the influence of economic growth was also considerable, the level of public spending as a percentage of gross domestic product was at least as much a factor as economic growth (see table VIII.3).

**Table VIII.3**  
**EXPLANATORY FACTORS FOR CHANGES IN PER CAPITA SOCIAL EXPENDITURE**  
**BETWEEN 1990-1991 AND 1996-1997**  
(In 1997 dollars)

Country	Change in per capita social expenditure (in 1997 dollars)	Contributions to change in per capita social expenditure			
		Effect of change in GDP	Effect of change in public expenditure relative to GDP	Effect of change in social expenditure relative to public expenditure	Combined effect
Uruguay	441	211	68	112	51
Argentina	349	338	-46	58	1
Brazil	130	90	41	-6	4
Chile	273	214	3	37	19
Panama	188	85	90	-1	15
Costa Rica	105	39	58	5	6
Colombia	210	28	84	52	49
Mexico	69	10	-15	77	-2
Venezuela	-21	2	-63	51	-10
Peru	118	15	2	74	26
Paraguay	93	1	67	10	13
El Salvador	60	17	15	18	10
Bolivia	65	5	9	39	11
Dominican Republic	41	14	17	4	6
Guatemala	19	4	-5	21	-1
Nicaragua	1	-1	5	-3	0
Honduras	-1	3	-3	-2	0

**Source:** ECLAC, *Social Panorama of Latin America, 1998* (LC/G.2050-P), chapter IV, Santiago, Chile, 1999. United Nations publication, Sales No. E.99.II.G.4.

<sup>63</sup> The procedure used to analyse the role of different factors in the expansion of social spending in the 1990s is described in ECLAC (1999a, box IV.A.4).

Although both causal factors of rising levels of social spending —changes in the percentage of GDP allocated to social spending, and changes in budgetary priorities— are important, they rarely carry equal weight. For example, in Argentina, Chile and Uruguay, the second most important factor after economic growth was an increased share of the budget; while in Brazil, Costa Rica and Panama, overall public spending absorbed a larger share of the GDP, in fact equalling or even exceeding the effect of economic growth.

In these countries, public social expenditure is the equivalent of at least 20% of total output, closer to the level found in more developed countries. At the same time, these countries are embedded in an external setting marked by globalization, trade pacts and complementarity agreements, all of which place severe restrictions on tax and tariff policies (ECLAC, 1998e). As a result, they have little leeway to boost per capita social spending at a rate in excess of economic growth. These countries have already achieved rates of public expenditure equal to one third of total output, a level difficult to surpass without altering the structure of tax revenue. Nor is it easy to raise the level of resource allocation for social issues that already absorb nearly 60% of the budget, without placing excessive pressure on non-social components of the public budget (especially economic issues, public order and security, general services and defense).

A very different situation faced countries that spent lower amounts per capita on social issues. These countries succeeded in bringing about significant increases in social spending, first, by attaching a higher budgetary priority to this item, and second, by expanding total public spending as a percentage of GDP, although from a starting point already much lower than that reported by the countries in the first group.

The assignment of a higher budgetary priority to social spending was the main explanatory factor in the cases of Mexico, Peru, Bolivia and Guatemala, accounting for more than 80% of the rise in social spending during the decade. In Colombia and Paraguay, an increase in public spending as a percentage of output was the most important factor. In El Salvador and the Dominican Republic, increases were brought about through a combination of all three factors, although in the latter case, the budgetary priority of public spending was less influential. In Honduras and Nicaragua, by contrast, social spending failed to increase during the decade, and in Venezuela, it actually fell by 6%.

These countries have more leeway for increasing per capita social spending because they currently allocate a low percentage of their total output for these items.

## **4. Redistribution through social spending**

This section will examine various sectors targeted by social spending and their impact on distribution of wealth, and evaluate the effect that increases in spending have had during the past decade. It will begin with a discussion of the degree to which different items of expenditure have influenced the distribution of income among households.

### **(a) Distributive impact of public expenditure**

Recent experience with a representative set of countries in the region indicates that the different components of public social expenditure are highly differentiated in terms of distributional progressivity. Table IV.4 offers a summary of current information on the degree to which households in different income brackets for eight countries of Latin America benefit from these expenditures. It also outlines the application of two indices of progressivity: the Gini coefficient (see box VIII.3) and an index that quantifies the proportion of total expenditure on each

item received by 40% of the lowest-income homes and compares it with the share of total primary income these households obtain (see the last column of table VIII.4).

**Table VIII.4**  
**DISTRIBUTION OF SOCIAL EXPENDITURE BY HOUSEHOLD INCOME QUINTILE <sup>a</sup>**

	Distribution of social expenditure by quintile					Gini coefficient <sup>b</sup>	Index of progressivity of social expenditure <sup>c</sup>
	I (poorest)	II	III	IV	V (wealthiest)		
<b>ARGENTINA 1991 <sup>d</sup></b>							
Education	32.5	18.7	21.1	15.4	12.4	-0.17	3.69
Primary	42.7	21.0	19.9	11.9	4.5	-0.34	4.60
Secondary	28.7	19.0	26.0	15.6	10.7	-0.16	3.45
Tertiary	8.3	11.1	16.0	25.8	38.8	0.30	1.40
Health and nutrition	38.7	16.6	25.5	14.8	4.5	-0.28	3.99
Housing and other	20.5	18.0	25.8	19.0	16.7	-0.03	2.77
Social security	11.0	17.2	20.9	22.5	28.4	0.16	2.04
Social spending without social security	33.1	17.9	23.0	15.6	10.3	-0.19	3.68
Social spending with social security	21.1	17.5	21.9	19.3	20.1	-0.001	2.79
<i>Income distribution</i>	5.3	8.6	14.1	21.4	50.6	0.41	
<b>BOLIVIA 1990</b>							
Education	32.0	24.3	20.0	14.8	8.9	-0.22	4.66
Primary and secondary	36.6	26.3	19.3	12.3	5.5	-0.30	5.21
Tertiary	12.4	15.5	22.9	25.8	23.4	0.13	2.31
Health and nutrition	15.2	14.7	24.4	24.4	21.3	0.09	2.48
Housing and other	7.8	11.1	14.7	20.6	45.8	0.34	1.56
Social security	13.5	19.9	22.4	19.0	25.2	0.09	2.76
Social spending without social security	25.8	20.5	19.6	16.9	17.2	-0.08	3.83
Social spending with social security	23.5	20.4	20.2	17.3	18.7	-0.05	3.63
<i>Income distribution <sup>e</sup></i>	3.4	8.7	13.1	20.5	54.3	0.45	
<b>BRAZIL 1994 <sup>f</sup></b>							
Education, primary	30.1	27.3	21.6	14.3	6.8	-0.24	4.34
Health and nutrition	31.5	26.5	19.5	14.2	8.3	-0.23	4.38
Housing and other	30.8	26.9	20.6	14.2	7.5	-0.24	4.36
Social security	42.0	10.1	13.5	15.1	19.4	-0.16	3.94
Social spending with social security	33.8	22.1	18.1	14.8	11.3	-0.21	4.22
<i>Income distribution <sup>e</sup></i>	4.5	8.8	11.8	19.5	55.4	0.45	
<b>CHILE 1996</b>							
Education	34.0	26.1	19.4	14.0	6.5	-0.27	5.05
Primary	38.2	26.3	17.6	12.5	5.3	-0.32	5.42
Secondary	26.5	24.7	22.2	17.6	9.1	-0.17	4.30
Tertiary	6.3	16.3	37.9	20.5	19.0	0.12	1.90
Health and nutrition	30.9	23.2	22.2	16.5	7.2	-0.22	4.55
Housing and other	37.3	27.5	20.3	11.2	3.8	-0.33	5.45
Social security <sup>g</sup>	4.0	9.0	15.0	25.0	47.0	0.41	1.09
Social spending without social security	33.3	25.0	20.5	14.4	6.8	-0.25	4.90
Social spending with social security <sup>g</sup>	16.0	16.0	17.0	21.0	30.0	0.13	2.69
<i>Income distribution <sup>e</sup></i>	3.9	8.0	11.8	19.2	57.1	0.47	
<b>COLOMBIA 1997</b>							
Education	21.4	21.2	21.5	18.1	17.6	-0.04	3.40
Primary	35.9	28.7	21.2	10.2	4.1	-0.33	5.15
Secondary	24.9	26.8	24.4	16.6	7.3	-0.18	4.12
Tertiary	3.4	8.0	19.1	27.6	41.6	0.39	0.91
Health and nutrition	17.5	19.7	22.2	20.7	19.7	0.02	2.97
Social spending without social security <sup>g</sup>	27.0	25.0	21.0	17.0	10.0	-0.17	4.15
Social spending with social security <sup>g</sup>	23.0	23.0	20.0	18.0	15.0	-0.07	3.67
<i>Income distribution <sup>e</sup></i>	3.9	8.7	12.9	19.7	54.9	0.45	

Table VIII.4 (conclusion)

<b>COSTA RICA 1986</b>							
Education	15.7	18.4	19.6	23.8	22.5	0.08	2.04
Primary	30.0	27.0	22.0	13.0	8.0	-0.23	3.40
Secondary	17.8	21.4	23.1	21.2	16.5	-0.01	2.34
Tertiary	1.7	9.1	15.5	35.0	38.7	0.40	0.65
Health and nutrition	27.7	23.6	24.1	13.9	10.7	-0.17	3.06
Social security	7.1	13.2	12.0	23.1	44.6	0.34	1.21
Social spending without social security	22.1	21.2	22.0	18.5	16.2	-0.06	2.58
Social spending with social security	17.6	18.8	19.0	19.9	24.8	0.06	2.17
<i>Income distribution</i> <sup>e</sup>	5.1	11.6	16.7	24.5	42.0	0.35	
<b>ECUADOR 1994</b>							
Education	26.5	31.8	18.5	12.8	10.4	-0.20	3.74
Primary	37.5	25.6	18.2	10.8	7.9	-0.30	4.04
Secondary	26.7	34.5	17.3	15.6	5.9	-0.24	3.92
Tertiary	22.3	32.8	18.8	12.1	14.0	-0.15	3.53
Health and nutrition	18.8	41.9	16.0	16.3	7.0	-0.20	3.89
Social spending without social security	24.5	30.3	18.5	14.4	12.2	-0.16	3.51
<i>Income distribution</i> <sup>e</sup>	5.0	10.6	15.9	22.2	46.3	0.38	
<b>URUGUAY 1993</b>							
Education	33.2	21.3	16.5	14.7	14.3	-0.18	3.03
Primary	51.6	22.2	12.7	9.9	3.7	-0.43	4.10
Secondary	30.3	28.9	17.6	14.2	9.0	-0.23	3.30
Tertiary	5.4	7.2	21.4	24.3	41.7	0.36	0.70
Health and nutrition	34.9	19.9	22.1	13.2	10.0	-0.23	3.05
Housing and other	14.1	17.2	13.6	25.3	29.8	0.16	1.74
Social security	12.4	16.2	20.5	20.1	30.8	0.16	1.59
Social spending without social security	31.8	20.1	19.1	15.2	13.9	-0.16	2.88
Social spending with social security	19.6	17.6	20.0	18.3	24.5	0.04	2.07
<i>Income distribution</i> <sup>e</sup>	7.3	10.7	13.3	23.8	44.9	0.35	
<b>Unweighted average</b>							
Education, total	27.9	23.1	19.5	16.2	13.2	-0.14	3.66
Primary	38.0	25.4	19.0	11.8	5.8	-0.31	4.44
Secondary	25.8	25.9	21.8	16.8	9.7	-0.17	3.57
Tertiary	8.5	14.3	21.7	24.4	31.0	0.22	1.63
Health and nutrition	26.9	23.3	22.0	16.7	11.1	-0.15	3.54
Housing and other	22.1	20.1	19.0	18.1	20.7	-0.02	3.18
Social security	15.0	14.3	17.4	20.8	32.6	0.17	2.11
Social spending without social security	28.2	22.9	20.5	16.0	12.4	-0.15	3.65
Social spending with social security	22.1	19.3	19.4	18.4	20.6	-0.01	3.03
<i>Income distribution</i> <sup>e</sup>	4.8	9.4	13.7	21.4	50.7	0.41	

**Source:** ECLAC, on the basis of country studies.

<sup>a</sup> Refers to quintile groups of households in order of per capita income.

<sup>b</sup> See box IV.3.

<sup>c</sup> The proportion of various items of social expenditure allocated to households in the poorest 40% of the population, divided by the share of primary income distributed to these households.

<sup>d</sup> Greater Buenos Aires.

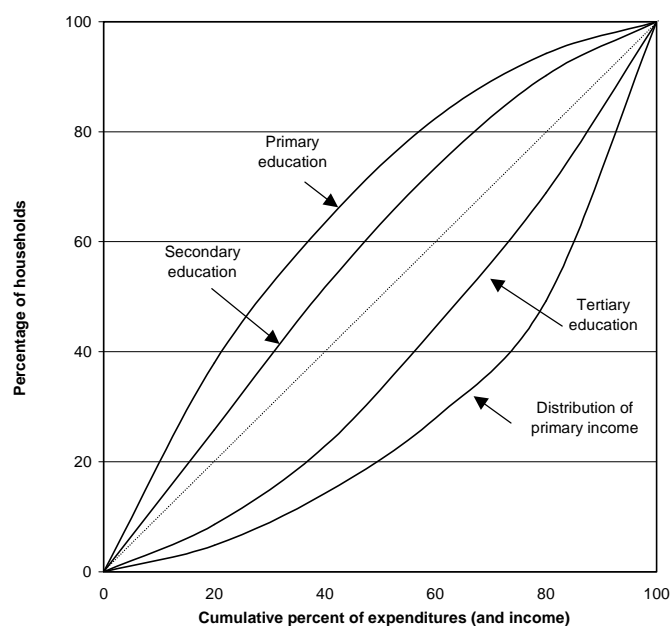
<sup>e</sup> Distribution of households in order of autonomous per capita income. Autonomous income is the sum of all income received by individuals in the home, after subtracting obligatory payments for social programmes, income tax and cash subsidies provided by the State. For purposes of comparison, the Gini coefficient of autonomous income distribution was calculated for quintile groups of households.

<sup>f</sup> São Paulo. In this country, social security expenditures include only pensions.

<sup>g</sup> See ECLAC, *Social Panorama of Latin America, 1994* (LC/G.1844), Santiago, Chile, 1994, p. 65.

Clearly, the most progressive expenditures —the highest proportion of whose benefits accrue to the poorest households— are budget allocations for primary and secondary education, followed by spending on health and nutrition, and finally, housing and basic services (water and sewerage). These figures confirm that primary education continues to be the most progressive sector of public expenditure with the greatest ability to even out income distribution. It should also be stressed that the figures mark a departure from findings of similar studies carried out in the 1970s and early 1980s, in that expenditures on secondary education now garner very high scores on progressivity, having caught up with expenditures on health and nutrition. This can be attributed to the remarkable expansion in coverage of secondary education over the past two decades, leading to very significant increases in school registration rates at this level. The proportionally greatest benefits have been felt by young people from the middle and lower strata. This outcome demonstrates the high marginal progressivity of such expenditures as rates of coverage widen.

**Figure VIII.4**  
**DISTRIBUTION OF PRIMARY INCOME AND OF EXPENDITURES ON PRIMARY, SECONDARY AND TERTIARY EDUCATION BY QUINTILES OF HOUSEHOLDS <sup>a</sup>**



**Source:** Table IV.4.

<sup>a</sup> Simple average of data from eight countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador and Uruguay.

The findings support earlier studies to the effect that the least progressive areas of expenditure are social security, and even more so, university education. This reflects the fact that people from medium- and lower-income strata continue to have less access to this level of education.

Housing expenditures, taken as an average for the region, present an intermediate degree of progressivity, although the pattern among all countries studied is quite irregular. This reflects the much-discussed differences among programmes and among levels of access to programmes by the 40 % of households receiving the lowest income.

Altogether, social expenditures proved to be highly redistributive in all the countries, especially if social security is excluded. Indeed, excluding social security, the poorest 20% of households receive 28% of public resources, while the wealthiest 20% receive only 12%. These

differences prove particularly striking if the figures are compared with data on distribution of primary income. Households in the lowest quintile receive a proportion of social expenditures that is six times as great as the proportion of total primary income they earn. The ratio is the inverse for the highest-income quintile, whose share of social expenditure is only one fourth its share of total income.

The application of the Gini coefficient reveals the same pattern regarding the progressivity of social expenditures. With only a few exceptions, the Gini coefficient of expenditures on tertiary education and on social security has a positive value in all the countries, although in every case it is lower than the Gini coefficient on distribution of primary income. The coefficients for other expense items continue to be negative (see table VIII.4).

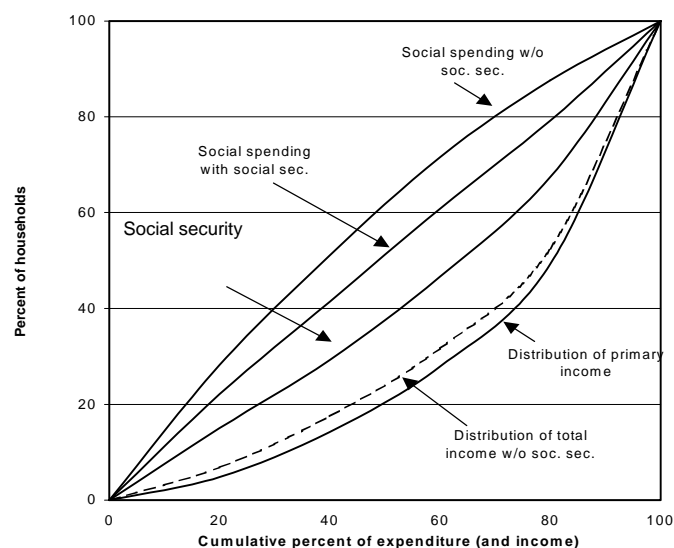
The net impact that public expenditures have on redistribution can be seen in table VIII.5, which looks at the volume of subsidies and estimates the distribution of these subsidies by income group, in order to understand how much these allocations contribute to family income in households at every level. The table shows that social expenditures in the form of cash transfers and free or subsidized goods and services increase primary family income by approximately 30%, providing over one fifth of total household income for these families. This income assistance is of relatively much greater magnitude for lower-income strata, sometimes contributing over 70% of all family income. By contrast, in higher-income brackets it adds only 15% in the fourth quintile and 17% in the fifth. If social security figures (mostly retirement and pensions) are factored out, the impact of social expenditure declines much less among the poorer strata, only about 25% of whose total income derives from social security, compared to the more than 60% of total transfers received in the higher-stratum groups.<sup>64</sup>

Figure VIII.4 clearly illustrates the redistributive impact of the full set of social expenditures, excluding social security. This figure gives the Lorenz expenditure curves with and without social security and compares them with the distribution for primary household income and total household income. These curves show only the average pattern for the eight countries on which information is available; but they all reflect the same arrangement of income and expenditure distribution curves.

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<sup>64</sup> Even though total social spending has a relatively low impact on the wealthiest group, it still entails a considerable volume of resources, in some countries exceeding and even doubling the amount of resources allocated for households in the poorest stratum. This is because of social security transfers. It is important to bear in mind that the figures given do not represent net transfers, as they make no allowance for taxable income.

**Figure VIII.5**  
**DISTRIBUTION OF PRIMARY INCOME, TOTAL INCOME AND SOCIAL**  
**EXPENDITURE BY HOUSEHOLD QUINTILES <sup>a</sup>**



**Source:** Table IV.4.

<sup>a</sup> Simple average of data from eight countries Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador and Uruguay.

Even though figures on expenditures without social security give a reasonably narrow focus, major differences can be found from one country to another. For example, Chile and Colombia, both of which have been making major efforts to concentrate the benefits of social programmes on low-income strata, have achieved the highest degrees of success in targeting expenditures on the poorest 40% of households in comparison with the proportion of total income earned by these households (an index of 4.9 in Chile and 4.2 in Colombia, see table VIII.5). By contrast, the lowest rates of low-income targeting can be found in Costa Rica (2.6) and Uruguay (2.9). Both offer typically more universal social programmes that benefit a high percentage of total households to similar degrees. Indices of targeting on the poorest 40% stand at intermediate levels of progressivity in Argentina (3.7), Bolivia (3.8) and Ecuador (3.5).

Table VIII.5

**IMPLICATIONS OF PUBLIC SOCIAL EXPENDITURES FOR HOUSEHOLD INCOME**

	As a percentage of:	Total	Includes public expenditures on social security					Total	Excludes public expenditures on social security				
			Quintile 1 (poorest)	Quintile 2	Quintile 3	Quintile 4	Quintile 5		Quintile 1 (poorest)	Quintile 2	Quintile 3	Quintile 4	Quintile 5
Argentina (1991)	primary income	40	90	46	35	21	9	26	73	31	15	9	2
	total income <sup>a</sup>	25	48	32	26	17	2	18	42	24	13	8	2
Bolivia (1990)	primary income	16	49	15	10	6	2	14	42	13	8	5	2
	total income <sup>a</sup>	12	31	13	9	5	2	11	29	11	8	4	2
Brazil (1994)	primary income	57	170	56	35	17	5	...	...	...	...	...	...
	total income <sup>a</sup>	29	63	36	26	15	4	...	...	...	...	...	...
Chile (1994)	primary income	32	72	35	25	19	9	23	68	25	14	6	1
	total income <sup>a</sup>	22	42	26	20	16	8	16	40	20	12	6	1
Colombia (1997)	primary income	38	99	45	26	15	5	26	72	30	17	9	2
	total income <sup>a</sup>	24	50	31	21	13	4	18	42	23	15	8	2
Costa Rica (1986)	primary income	31	70	33	23	16	12	26	66	28	20	11	6
	total income <sup>a</sup>	22	41	25	19	14	11	19	40	22	17	10	6
Ecuador (1994)	primary income	...	...	...	...	...	...	16	39	23	9	5	2
	total income <sup>a</sup>	...	...	...	...	...	...	12	28	19	8	5	2
Uruguay (1993)	primary income	38	71	43	40	20	14	15	39	17	13	6	3
	total income <sup>a</sup>	26	41	30	28	17	13	12	28	14	11	5	3
Simple average	primary income	32	76	37	25	15	7	21	57	24	14	7	3
	total income <sup>a</sup>	22	43	26	20	13	7	15	36	19	12	7	2

Source: ECLAC, on the basis of country studies and official information from those countries.

<sup>a</sup> Includes social expenditure.



## Box VIII.3

**THE PROGRESSIVITY OF SOCIAL SPENDING, BY SECTOR**

A synthetic index was used to weigh the distributional progressivity of social spending in each social sector (education, health, housing and social security). The index is based on the share of social spending received by households in each of the income distribution quintiles.

The following formula was used to calculate the index:

$$I_G = \frac{N+1}{N} - \frac{2}{N} * \sum_{i=1}^N Q_i$$

In this expression, N represents the number of segments into which the population is divided (5 segments), and  $Q_i$  is the cumulative percentage of expenditure received by the population in each of the quintiles defined by distribution of autonomous household income.

Index results are given as the following values, which show how progressive the expenditures are:

If	$-1 \neq I_G < 0$	then the distribution of expenditure is progressive; this means that lower-income households receive a proportionally higher fraction of expenditure than medium- and high-income households;
If	$0 < I_G \neq 1$	then the distribution of expenditure is regressive; this means that lower-income households receive a proportionally smaller fraction of total expenditure than medium- and high-income households.

A Gini coefficient greater than zero (0) for a given expense item does not necessarily mean that this expenditure has a net regressive impact on the final distribution of household income. In order for the impact to qualify as progressive, it is enough for the value of the Gini coefficient to be less than the value that pertains to autonomous income.

Table VIII.5 synthesizes the region's most recent available information on the distribution of social expenditure in each sector. It also gives distribution of autonomous household income by quintile group as a basis for comparing relative progressivity of expenditures in each sector. The last column of the table lists the sectors in order from greatest to least degree of progressivity according to the Gini coefficients.

### **(b) Changes in social spending by sector in the 1990s**

As overall social spending grew in the 1990s, the implications in terms of equity were not even; rather, it was associated with the relative magnitude of increase in each different social sector. An estimated 44% of the increase in expenditures in the region as a whole went into education (25%) and health (19%); 41% was spent on social security, mostly pensions and retirement; and the remaining 15% went into other expenditures, including housing and social assistance. If the analysis outlined above is correct, this means that rising expenditures were felt about equally by more progressive and less progressive social sectors.

Nonetheless, the implications varied from one country to another. In countries with lower per capita income, the generally more progressive sectors carried the day, with education and health accounting for 61% of the total increase, and social security receiving only 21%. By contrast, in higher-expenditure countries, social security corralled nearly 50% of the overall increase (see table VIII.6).

Table VIII.6

## LEVEL AND TRENDS OF SOCIAL SPENDING, BY SECTOR

Sector	Education		Health and nutrition		Social security		Housing, water and sanitation	
	Per capita real social expenditure (1997 dollars) 1996-1997	Percentage variation	Per capita real social expenditure (1997 dollars) 1996-1997	Percentage variation	Per capita real social expenditure (1997 dollars) 1996-1997	Percentage variation	Per capita real social expenditure (1997 dollars) 1996-1997	Percentage variation
<b>Average for the sector</b>	<b>122</b>	<b>39.5</b>	<b>110</b>	<b>31.7</b>	<b>229</b>	<b>40.8</b>	<b>44</b>	<b>19.3</b>
Argentina	334	46.6	362	32.5	704	22.5	110	4.0
Bolivia	59	107.7	14	29.0	27	201.3	20	193.8
Brazil	164	1.8	138	-10.5	487	38.1	162	5.6
Chile	167	87.9	128	79.4	342	41.5	59	54.8
Colombia	113	62.3	95	272.9	137	105.6	36	183.4
Costa Rica	153	34.6	193	10.8	146	35.5	52	18.4
El Salvador	50	50.5	54	91.2	39	73.2	5	53.7
Guatemala	28	13.6	16	12.4	12	1.5	16	932.3
Mexico	153	36.0	...	...	...	...	...	...
Nicaragua	20	-12.1	20	2.4	...	...	9	56.0
Panama	172	38.5	210	28.9	206	33.1	59	41.4
Paraguay	72	227.2	22	330.0	49	138.9	4	-41.8
Dominican Republic	41	136.3	24	69.8	12	113.2	7	-60.1
Uruguay	185	36.8	224	39.7	931	51.0	30	82.0
Venezuela	119	-8.5	42	-26.4	110	22.6	47	-23.7

Source: ECLAC. *Social Panorama of Latin America, 1998* (LC/G.2050-P), chapter IV, Santiago, Chile, 1999, United Nations publication, Sales No. E.99.II.G.4.

The substantial rise in educational spending was associated with newly adopted reform programmes, especially in basic and secondary school, designed to raise standards of education and make it more equitable. Such reforms include teacher training and salary improvements, both of which have powerful budgetary implications for the sector.

Budgets for current expenditures and capital expenditures also swelled in the educational sector. This was especially true in countries that undertook programmes to improve physical infrastructure and technology, modernize training methods and materials and establish systems for measuring the results of the educational process.

Health-care expenditures also increased. The greatest increments, rising from US\$ 55 to US\$ 90, were registered in Argentina, Chile, Colombia and Uruguay, which easily outstripped the region's growth average of US\$ 27.<sup>65</sup>

The greatest growth in social security expenditures took place in the very countries that already devote a high proportion of public resources to social security (Argentina, Brazil, Chile and Uruguay), with increases ranging from US\$ 100 to US\$ 150 per person in the first three and slightly over US\$ 300 in Uruguay. These increases are the result of readjustments to retirement and pension programmes, especially in Uruguay, where four-month readjustments were put into effect as the result of a constitutional amendment enacted in 1989. Other weighty factors were the recognition and amortization of accrued liabilities in the system, and the wider coverage and increased amount of benefit payments.

<sup>65</sup> Colombia and Paraguay took the lead in percent changes, more than tripling their per capita expenditures. This brought Colombia close to the region's average, but Paraguay still lagged behind the rest of the region. Also worth noting are the increases of 70% to 90% made by Chile, the Dominican Republic and El Salvador (see table VIII.6).

Thus, the countries are indeed making greater efforts. Those that allocate a smaller share of total output to social sectors had a positive impact on the distribution of welfare, even more noticeable than in countries with higher social expenditures per person, where social security, which is of particular benefit to the middle- and high-income groups, absorbs a much larger proportion of public resources.

**Table VIII.7**  
**COMPOSITION OF INCREASE IN SOCIAL EXPENDITURE, BY SECTOR**  
(In 1997 dollars)

Country	Education	Health	Social security	Social welfare	Housing	Other	Total
Argentina	106	89	97	32	4	21	349
Bolivia	30	3	18 <sup>a</sup>	...	13	0	65
Brazil	3	-16	133	1	9	1	130
Chile	78	57	90	11	21	17	273
Colombia	43	70	53	17	24	3	210
Costa Rica	39	19	36	3	8	0	105
El Salvador	17	26	13 <sup>b</sup>	4	2	0	60
Guatemala	3	2	0 <sup>b</sup>	...	14	0	19
Mexico	41	23 <sup>c</sup>	...	...	...	6	69
Panama	48	47	51 <sup>b</sup>	...	17	25	188
Paraguay	50	17	27	2	-3	0	93
Dominican Republic	24	10	0 <sup>d</sup>	6	-11	13	41
Uruguay	50	64	314 <sup>a</sup>	...	14	0	441
<b>Average</b>	<b>41</b>	<b>32</b>	<b>69</b>	<b>9</b>	<b>9</b>	<b>7</b>	<b>167</b>

**Source:** ECLAC, *Social Panorama of Latin America, 1998* (LC/G.2050-P), chapter IV, Santiago, Chile, 1999. United Nations publication, Sales No. E.99.II.G.4.

<sup>a</sup> Includes social welfare. <sup>b</sup> Includes labour. <sup>c</sup> Includes social security. <sup>d</sup> Labour only.

#### Box VIII.4

#### WHO BENEFITS FROM PUBLIC EXPENDITURE ON EDUCATION IN THE COUNTRIES OF THE CARIBBEAN?

In most countries of the Caribbean, the richest households are the greatest beneficiaries of public spending on education paying relatively less in taxes for the services they receive.

Individuals from the low- and middle-income groups do not have access to tertiary education because they usually drop out of secondary school because of the opportunity cost that continuing pursuing their education would imply. Tertiary education costs are 75% higher per student than secondary education costs and 200% higher than primary education costs.

A fee-paying system has been adopted at the University of the West Indies-Barbados in an attempt to finance part of the economic costs of university education. This step can be viewed as regressive except that there is provision for special subsidies for students from low-income sectors. The student-loan schemes are based on the assumption that, once students have graduated, they will be in a position to repay their loans. In this regard, Barbados is an exception in the Caribbean, as it guarantees to pay the cost of university education for all students admitted to the University of the West Indies. This policy would tend to avoid the net transfer of funds to higher-income sectors, since a high proportion of the students entering tertiary education come from those sectors.

**Source:** Edward Greene, "Poverty in the Caribbean", a document prepared for the Caribbean Subregion Review of WSSD+5 and the Status of the Older Person, Port-of-Spain, 2-3 September 1999, Pan-American Health Organization/World Health Organization (PAHO/WHO).

**PUBLIC SPENDING ON BASIC SOCIAL SERVICES AND THE 20/20 INITIATIVE**

The World Summit for Social Development (Copenhagen, March 1995) adopted a document known as the 20/20 Initiative, whose purpose is to bring about universal coverage of basic social services (BSS). For this purpose, it states that social services should be allocated 20% of public budgetary resources and 20% of the flows of official development aid in the countries. The Initiative builds on the assumption that the provision of BSS is one of the most high-impact, cost-effective ways to combat the most extreme symptoms of poverty. It also believes that universal access to basic services can become a reality in a relatively brief but eminently achievable period, if existing resources are redirected, new resources are mobilized and criteria of efficiency and quality become the hallmark of BSS delivery, thus making these services more effective.

The Governments of Norway and the Netherlands called an international follow-up conference on the Initiative, which took place in Oslo in April, 1996. The conference approved the Oslo Consensus on the 20/20 Initiative. It also agreed to hold a follow-up meeting where participants could exchange information, examine national experiences and evaluate progress. This meeting took place in Hanoi in October 1998.

In Oslo, the Copenhagen concept of BSS was clarified and made more specific. The services covered by the Initiative include: basic education and primary health care, including reproductive health and population programmes; nutrition programmes; safe water and sanitation; and the institutional capacity to provide these services.

The United Nations System agreed to support the Initiative, based on the conviction that all debates on adjustment, reform and development should emphasize not only the macro, global levels, but also the micro and sub-national dimensions, as well as policy instruments that shape the allocation and distribution of resources. These include policies for allocation of public expenditure, the use of external aid, credit granting, price and income policy and tax policy. Of all these instruments, the 20/20 Initiative focuses especially on restructuring both public expenditures and the flow of aid to countries.

In this framework, studies were conducted in 13 countries of Latin America and the Caribbean (Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Jamaica, Nicaragua and Peru) for the following main objectives:

- determine the percent of the national public budget and international development assistance currently being spent on BSS;
- analyse the incidence of public spending on BSS in the different socio-economic strata of the population;
- evaluate the possibility of restructuring the national public budget, both among and within the different sectors, in favour of BSS;
- identify areas in which the incidence and effectiveness of BSS delivery can be improved.

Among other things, these studies concluded that although the majority of the countries have increased social spending in the 1990s, none has yet achieved universal access to quality services for basic education, basic health and drinking water, nor have the goals of the Initiative been met. Specifically, spending on basic social services still accounts for only 12.4% of total public expenditure (and a bit more than one third of public social expenditures), and only 10% of official development assistance is allocated to these services.

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**Source:** E. Ganuza, A. León, A. and Sauma (eds.), *Gasto público en servicios sociales básicos en América Latina y el Caribe. Análisis desde la perspectiva de la Iniciativa 20/20 (LC/R.1933)*, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), October 1999.

## **Part Four**

### **Achieving the goals of the Summit**

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## Chapter IX

# The integral nature of development

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The concept of integral development has figured as the core element in ECLAC proposals throughout its history and was also the point of departure for those that it formulated in the early 1990s (ECLAC, 1990, 1992a, 1992b, 1994b). Implicit in this concept is the idea that the primary objective of achieving greater levels of well-being for the population as a whole cannot be attained unless the countries make major strides forward in the consolidation of dynamic, competitive economies capable of meeting the challenges posed by a globalized world. Equity and economic development (including its dimension of sustainable development) are, in this sense, both part of a single, integral strategy.

Social development, an essential component of this strategy, cannot be achieved through social policy alone, just as economic policy and growth cannot ensure the achievement of social objectives. There are numerous linkages between economic and social policy including the following: income and job creation; the stability of these two variables; the need to overcome both inherited and newly created productive heterogeneities through policies for enhancing the contribution of small enterprises to development, and the possibility of channelling more resources into the development of human capital, social protection or integral programmes for combating poverty in a manner consistent with the maintenance of a sound fiscal policy. In all these connections, economic development patterns are not socially neutral, and it is therefore possible to seek out and promote more effective social linkages that will heighten the impact of social policy.

At the same time, social development, a reduction in inequality and the elimination of discrimination create favourable conditions for economic development through investment in human capital and the construction of a variety of forms of social capital that will enhance the systemic competitiveness of the region's economies in today's globalized world.

This integral development entails more than simply the complementarity of social, economic, environmental and democratic governance policies, since its very objectives embody the core meaning of development. In other words, with integrated development, people or their natural habitat cannot be sacrificed on the altar of economic growth. On the contrary, progress and growth should translate into an increasingly fuller satisfaction of existing needs. This means that the aim of development cannot be just to fulfil people's growing aspirations for consumer goods—which, however legitimate they may be, are not enough in themselves to secure them a better quality of life. It should also be to create a social and human climate of greater security and mutual trust, to consolidate a democratic political system that provides for greater citizen's participation in public management and decision-making, to enhance the well-being of those who have the least access to the benefits of modern society, to give rise to collective undertakings in which citizens have a greater commitment and sense of belonging to the society in which they live, and to protect and improve the natural habitat for those who dwell in it today and for those who will do so tomorrow. These processes are what make development an integral phenomenon.

## **1. The need for a more stable, dynamic, integrative and sustainable development**

The predominant view during the reform process was that stable and dynamic economic growth could be achieved by simply reinstating and then maintaining domestic macroeconomic balance, while, at the same time, opening up to the external economy and restructuring the public sector. In most countries of the region, this has not happened. Stable economic growth has been elusive, despite notable progress in stabilizing prices and reducing fiscal deficits; moreover, domestic financial crises have become more frequent. The regional economic growth rate—3.3% a year in the 1990s—is low, not only in terms of what is necessary if the gap between the region and the more developed countries is to be narrowed, but also in relation to the region's own history before the debt crisis. In terms of the production structure, the result has been greater heterogeneity among production agents and greater economic concentration. Furthermore, these trends, have not been neutral in social terms, since different agents were and are not all equally prepared for change.

### **(a) A more stable macroeconomy**

The major success in curbing inflation and reducing the fiscal deficit, which must be maintained, could not sustain macroeconomic stability, defined in terms of real variables (stability in the rate of economic growth and employment). This stability is crucial with the external climate characterized by highly volatile foreign capital.

This contrast between what has been achieved in terms of lowering inflation and budget deficits and the paucity of progress in stabilizing the real variables of the region's economies attests to the importance of understanding macroeconomic stability in a broader sense, that is as encompassing the real objectives of macroeconomic management. Viewed in these terms, some of the patterns of macroeconomic management that have gained currency in the region are clearly pro-cyclical. In fact, the tendency to adopt fiscal targets that do not vary with the economic cycle transmits the instability of tax revenues to public spending. The granting of public guarantees for private infrastructure investment during upturns also increases the pro-cyclical tendency of expenditure. Monetary and exchange-rate policies have tended to transmit external financing cycles



to internal credit and the exchange rate. This type of macroeconomic management translates not only into strong business cycles but also into greater risks for national financial systems.

This instability in real economic variables has high costs, as it increases the level of uncertainty for economic agents forcing them to adopt "defensive" microeconomic strategies. The latter tend to reduce investment in fixed capital, with adverse effects on job creation and economic growth. They also shorten the time horizon, which is also reflected in the financial system's reluctance to provide long-term funding under these conditions; they compound financial risks and, if crises do ensue, have high fiscal and quasi-fiscal costs, and during crises, the losses that are generated—in terms of employment, poverty and income distribution—often occur very suddenly, while recovery is slow or incomplete.<sup>66</sup>

Given the high costs of volatility in economic growth, steps should be taken to restrain it and to choose macroeconomic policy mixes that will reduce its effects on real economic variables, particularly those that have a strong social impact. What this means is that it is necessary to extend the time horizon of macroeconomic policy, in two different senses. First, the time horizon of short-term macroeconomic management needs to be extended to the entire business cycle, with actively countercyclical policies being applied. Second, addressing long-term growth must be a specific policy objective. Such an objective depends entirely on the capacity to establish solid fiscal systems, moderate real interest rates and competitive exchange rates. This is the best combination for preventing imbalances between the tradables and non-tradables sectors and for minimizing sudden shocks increasing uncertainty, which affects investment decisions with negative implications as regards employment.

### **(b) Productive development policies for growth**

Economic growth is the outcome of the combined operation of various dynamics: capital accumulation, the accumulation of know-how applied to production, structural change and institution-building. It is also the outcome of interaction between macro- and microeconomic dynamics, and the dynamics influencing production sectors, factor markets and the institutions providing the framework for them, described here as "mesoeconomic". An appropriate mix of macroeconomic and productive sector dynamics is essential to guarantee sustainable growth stimuli—i.e., new patterns of capital accumulation rather than merely cyclical recoveries.

At the aggregate level, 4% annual per capita income growth would be desirable, as it would be sufficient to bring about a reasonable reduction in the income gap with the developed countries. Depending on the specific demographic characteristics of the different countries, this would entail GDP growth of around 6%, average investment rates of 28% of GDP and, to avoid the vulnerabilities associated with high external savings rates, domestic savings rates of 25%. All these rates are significantly higher than current regional averages. Again, high rates of real export growth—even higher (at between 10% and 12%) than the dynamic growth rates seen in the 1990s—are needed to avoid levels of external debt that would make the countries vulnerable to busts in the international capital market.

As we have pointed out, the performance of economies in terms of economic growth is linked to macroeconomic factors and the growth of long-term financial markets as well as to developments in production structures and the institutions that provide the framework for them. Hence, in the Commission's view, even a sound macroeconomy that manages to reduce the

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<sup>66</sup> There are irreparable losses of human capital: children who leave school never to return, people who lose working experience and relationships as a result of prolonged periods of unemployment or underemployment. There are also losses of assets of great social importance: small producers losing their assets and never recovering them, families losing their homes.

volatility of real variables is not enough; it must be supplemented by a comprehensive set of active policies designed to strengthen production structures. These policies need to be of three types.

In the first place, policies are needed to safeguard competition and provide for public regulation of non-competitive market structures including the development of an active antitrust policy to prevent non-competitive practices. A wide range of regulatory measures should also be developed for the social sectors, the financial sector, public utilities and activities with significant environmental externalities.

Second, policies need to be devised to correct failures in factor markets: access to long-term capital, technology, qualified human resources and land. Apart from matters relating to the development of a long-term financial market, the key issue that we wish to raise in this report relates to access to these markets for small and medium-sized enterprises in both urban and rural areas. The fact that the smallest companies are the ones that have the greatest difficulty in obtaining credit, yet are the main mechanisms for job creation in the economy, calls for an ambitious policy to support small enterprises and enable them to play a dynamic part in development. This requires access to technology and credit, occupational and managerial training and appropriate information channels. In rural areas small producers also need access to land and a wider range of rural development initiatives to give lower income sectors access to basic social services and minimum levels of infrastructure.

Third, there is a need for policies aimed at developing more dynamic production structures. This implies the interaction between two basic forces: (i) innovation, understood in a broad sense as a range of new activities that generate changes in production sectors (the introduction of new goods and services, new production or marketing methods, new raw material sources or market structures); and (ii) areas of complementarity between companies and production sectors through networks of suppliers of goods and services, their degree of specialization, established marketing channels and institutions that act as clearing houses for information and inter-agent coordination. As these complementarities are what enable different economic agents to generate externalities among themselves, their existence is what determines the competitiveness of the production sectors.

Implementing this policy strategy involves three basic elements: (i) policies to promote technology transfer, development and research, which include the allocation of more public and private resources to these activities and encouragement for interaction among agents in national innovation systems; (ii) policies to promote penetration of new external markets, diversification of exports and the development of domestic linkages of export activities; and (iii) policies to promote the formation of associative ties among business firms and the institutions that serve as their framework, particularly through support in the formation of clusters. Some of the specific activities that should be pursued in this area are initiatives to foster clusters of technology firms or production activities with a technological component, resource-based production clusters where there are major comparative advantages and, in smaller economies, clusters that make it possible to take fuller advantage of the opportunities provided by their natural comparative advantages (including tourism), dynamic assembly activities and higher value-added activities that offset the disadvantages resulting from smaller-scale operations.<sup>67</sup>

These strategies have to meet four basic conditions if they are to be in step with the new external and internal environment. First, the main emphasis needs to be placed on linking the economies of the region to the world economy. This entails export promotion as well as the development of subregional and regional production chains and clusters within the framework of

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<sup>67</sup> High quality human capital may, in the final analysis, be the most important factor in overcoming the disadvantages that beset smaller economies, although some technological developments may also help to counteract them.

the integration process and generating activities that complement export-oriented businesses in order to increase the value added of their merchandise and service exports and their ability to draw other production activities in their wake. Second, there needs to be an appropriate balance between private enterprise and the development of public performance-linked coordination and incentive systems. Third, public policies are not necessarily State policies; on the contrary, it is desirable for there to be a varied range of public-private combinations. Last, these policies need to operate within a macroeconomic and financial environment that is favourable to productive investment.

The social integration effects of the pattern of productive development will depend on its ability to generate productive employment, to overcome the problems faced by microbusinesses and by small and medium-sized enterprises in obtaining access to factors of production and appropriate marketing channels, and to level the playing field for small rural producers. These factors help to reduce the structural heterogeneity that characterizes production sectors and has intensified during the recent period of economic reforms. A productive development pattern that brings about social integration exerts beneficial effects on income distribution in two different ways: through job opportunities and through a better distribution of assets, which occurs as small producers gain access to capital, land and know-how. In addition, full advantage can be taken of the benefits of a more active social policy, and particularly of efforts made to increase human capital. The development of better mechanisms to finance social housing, as part of the development of long-term segments of the financial market, can also contribute to this outcome by providing direct subsidies to the poorest households. The overall effect of this is to enable low-income groups to increase their consumption capacity, which means that they also help to stimulate production. Prudent minimum wage policies can also contribute, as can some direct income transfers to the poorest sectors of the population.

### **(c) Consolidation of spheres of action for the promotion of sustainable development**

In addition to social equity, development and citizenship, the integral development advocated by the Commission encompasses the concept of sustainability. For this reason, the region needs to give concrete form to the sustainable development agenda. Although this agenda is now taken into account in public policies and citizen concerns, it has not yet produced results in terms of reversing processes that damage the environment or in fostering a new attitude whereby sustainability would be regarded as an opportunity rather than a cost. This is reflected in the fragility and instability of the institutions that deal with sustainable development and the meagreness of the resources they have at their disposal to cope with their hefty responsibilities.

Four of the principles set forth in the Rio Declaration on Environment and Development approved at the Earth Summit held in Rio de Janeiro in 1992 are particularly important for the consolidation of the regional agenda in this field. The first, "common but differentiated responsibilities", implicitly acknowledges the environmental debt of the developed countries, and hence their greater responsibility for progress in implementing the international agenda in this area. The second, the "precautionary principle", states that a lack of absolute scientific certainty about phenomena that are likely to have negative and/or irreversible effects on the environment is no excuse for postponing measures to forestall or minimize the threat. The third, the "polluter pays" principle, clearly establishes how the costs of environmental protection are to be distributed. The fourth, the "right to know" principle, establishes the right of communities to accurate information about the environmental risks they face.

Full application of the sustainable development agenda is closely related to each society's investment patterns and, consequently, to the development of its capital stock in the broad sense of human, natural and physical capital. This means much more than just conserving the natural capital

base. It is linked to success in mobilizing investments in dynamic production sectors that use clean production methods, where competitiveness is not achieved at the cost of damage to natural capital. It is associated, therefore, with technological innovation, training and management systems that clearly incorporate the dimension of sustainability.

The fact that in many countries trade liberalization has heightened the tendency towards specialization based on natural resources and environmentally sensitive industries represents an important challenge in this area. In these and other sectors, the countries of the region need to fall in line with the growing practice of applying environmental standards to international trade. The region needs to adopt a proactive policy in this field, devising ways of contributing to the attainment of global development objectives, working within the principle of common but differentiated responsibilities.

Sustainable development calls for a thorough economic and social assessment of natural resources, ecological processes and environmental services, while the market will need to assign prices that correctly reflect positive or negative environmental externalities, and the costs and benefits that arise will have to be distributed equitably. In this respect it is essential to take into consideration the problem of environmental vulnerability and to adopt a more preventive approach in this area, as brought to light by the series of severe natural disasters affecting the region.

Lastly, a more environmentally responsible, thoughtful and active form of citizens' participation is vital for the region. Citizens should move beyond the stage of simply voicing complaints to one where they assume shared responsibility for the environment. This new kind of civic participation —complemented by a State which concerns itself with aspects of environmental valuation that cannot be dealt with by the market, and by a modern market that has the capability for technological innovation and is oriented towards clean production— can form the basis for a new social covenant for sustainable development.

## **2. Education and employment: essential components of an integral strategy for development**

Education and employment are two basic pillars of an integral development strategy. The key role of education stems not only from the fact that it influences social equity, development and citizenship, but also from its crucial importance as a means of overcoming the intergenerational reproduction of poverty and inequality<sup>68</sup> (see chapters IV and V). The creation of permanent jobs that carry proper social security benefits is one of the main focuses of macroeconomic policy (see chapter II).

The education system in the region has acted as a mechanism for both social integration and social segmentation. The latter is due to persistent lags in levels of primary education coverage and even greater lags at the secondary and higher education levels; a high percentage of students from lower-income households have to repeat grades; furthermore, access to quality education reveals high levels of segmentation between different socioeconomic strata.

The challenge ahead is twofold: to move towards greater continuity within the education system and to improve the quality of education substantially. This means guaranteeing educational opportunities and demand support mechanisms for lower-income groups in society that enable them to remain in the school system for a longer period of time, to receive appropriate training and, consequently, to enjoy better prospects in terms of social and occupational mobility in the future.

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<sup>68</sup> It is also crucial in terms of its effect in improving the educational background of future homes and educational performance of the next generations; the improvement in health conditions and greater socio-occupational mobility by providing, in addition, essential tools for preventing socio-cultural marginalization.

The higher the overall educational average, the higher the academic and training standards required for obtaining work and achieving similar levels of income. This "educational devaluation" has become more acute owing to the demands for competitiveness in the global economy. The current challenge in this area is to ensure that the population completes secondary education—the level, which, according to ECLAC, will provide a good chance of escaping poverty. However, this alone cannot suffice. In an era of constant change, the essential objective of education, over and above the traditional academic content, must be to develop skills for "learning to learn" It is also important for people to learn to handle the new tools provided by the communications, information and culture industries.

In an increasingly competitive world, it is particularly important for the quality and relevance of both secondary and higher education to be improved. Since most young people entering the labour market are employed by small and medium-sized enterprises, it is also necessary to transmit the skills needed to raise the productivity of such firms, either through the formal educational system or through training programmes. In the case of higher education, it is also necessary to ensure that the university system participates dynamically in national innovation systems, while at the same time creating closer links with the business sector. Another important step is to do away with the dualism entrenched in the education system, to create interconnections that are adaptable to change and to open up opportunities for passing back and forth between the education and production systems.

Educational reforms implemented in the past two decades have been marked by public decisions aimed at bringing about changes, particularly in respect of organizational and financial questions, through the use of measures to modernize and decentralize management, give schools greater autonomy, redefine the role of the public and private sectors, train teachers, broaden the sources of funding for the system and improve resource allocation.

The potential effects of education on equity will only be seen over the long run and, most important, they will not come about at all unless a dynamic process of high-quality job creation is in place. This is the most delicate aspect of educational reform. The complex mix of rising open unemployment, declining job quality and, in some cases, falling pay levels is being compounded by more specific problems such as exceptionally high unemployment levels among young people and women, limited access for women to positions of higher quality and prestige, and persistent pay differentials in comparison with men, and the widening wage gap between highly skilled and less skilled job-holders (see chapter II).

The creation of productive jobs implies exploring alternative solutions to the problems of labour demand, matching labour supply to demand, creating a framework for labour relations that will further common interests, setting up mechanisms to deal with the risks entailed by the economic cycle and overcoming inequities in access to the labour market.

Sustained economic growth is unquestionably the greatest stimulus to demand for labour; hence the vital need, first and foremost, to create a macroeconomic environment that promotes adequate levels of investment and growth and to prevent distortions in relative prices that would affect the demand for labour, particularly those generated by an overvalued exchange rate. Nonetheless, the experience of many countries shows that growth does not always lead to adequate job creation.

For this reason, support policies are needed to boost activities and enterprises that generate employment. Ambitious occupational training programmes are necessary, including apprenticeship programmes, better organization of information on the labour market and development policies for small and medium-sized enterprises.

More flexible hiring practices are certainly not a panacea for the problems associated with labour demand, and it would be unrealistic to think that they can reverse the effects on job creation of macroeconomic policies that result in unstable or inadequate economic growth. Nevertheless, in view of the marked rigidities existing in some sub-segments of the labour market, it does make sense to negotiate greater flexibility in hiring practices, along with appropriate social protection mechanisms, in order to facilitate adjustments to constant technological change and to the restructuring needs of production sectors and the State.

## Box IX.1

**THE DEVELOPMENT OF HUMAN RESOURCES IN THE COUNTRIES OF THE CARIBBEAN**

Educational reform is one of the key measures adopted by member countries of the Organization of Eastern Caribbean States (OECS)<sup>a</sup> for combating unemployment.

The guidelines for this strategy recognize the need to modify the general education system study programmes—above all in the middle level—to give them a more practical bias towards the acquisition of working techniques, patterns and attitudes and thus to make it easier for them to obtain employment subsequently.

At the meeting held in São Paulo in 1997 in follow-up to the World Summit for Social Development in Copenhagen. Governments of the countries of the Caribbean had already stated that human resource limitations in terms of performance and qualification seriously restricted the growth of their economies, which suffered from high unemployment level, especially among young people, and lacked appropriate skills and training.

The panorama presented by existing training establishments was not encouraging. Facilities were inadequate, technological teaching material was obsolete and inappropriate, teaching staff required upgrading and teaching methods needed to be updated and adapted to the needs of the labour market.

This diagnosis gave rise to a joint effort to put into place an education system for technical and vocational training, financed by the countries themselves. This collaboration effort was expanded and led to the TVET project designed to provide technical support and assistance for the implementation and consolidation of the education and technical and vocational training system in OECS countries. The project, originally funded by the World Bank, did not include Montserrat, Antigua and Barbuda or the British Virgin Islands, countries that were incorporated later with funding from the German Government (Project OECS/GTZ/TVET).

In a second phase of implementation, the objective was to provide a basis for support for the implementation of the educational reform strategy in the subregion. Currently, in phase III of the project, a sustainable vocational and technical education and training system was set up as an integral part of the educational reform strategy in these Caribbean countries.

Available resources have been concentrated in two spheres: first, the establishment of training offices within the training institutes of the new OECS members, the provision of facilities to improve the commercial education programmes and the setting up of simulation models to enable students to learn using a “hands on” approach; secondly, the formation of instructors to teach in the TVET programme.

The main objective of a possible fourth phase of the project would be to facilitate participation of OECS countries in a regional effort to create mechanisms for the establishment of professional standards and achievements commensurate with the technical and vocational qualifications obtained under the project.

**Source:** Information supplied by the Organization of Eastern Caribbean States (OECS), February 2000.

<sup>a</sup> The members of this organization are Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Anguilla and the British Virgin Islands.

The State also needs to develop mechanisms to counter the vulnerability that results from periods of unemployment by combining obligatory, collective unemployment insurance systems for different groups of workers; special emergency job creation programmes; special training programmes and systems to provide basic social protection (continued access to health services and continued school attendance for children, payment of social security contributions for the unemployed and insurance to pay their housing debts).

Lastly, the State needs to provide everyone with equitable access to the labour market by attacking the segmentation and inequities that prevent certain groups from participating in economic activity. Minimum wage policies need to offset asymmetries in wage-bargaining power, particularly for less organized groups, but their potentially negative effects on labour demand and the incentive they provide for informal employment need to be reduced.

### **3. Equity and public spending**

Public social spending is the main instrument that the State uses to influence income distribution. There is clear evidence that spending has a significant influence on secondary income distribution (see chapter VIII). In the long term, greater investment in human capital means that an impact can be had on certain structural factors affecting primary income distribution. Its distributive effects will depend on the scale of social spending, its distribution and financing, and the efficiency with which the resources concerned are used.

Efforts must be directed towards reallocating public resources to social spending and prioritizing the numerous demands existing in this respect. This might be insufficient, however, given the low levels of public revenue, as taxation levels in a number of the countries of the region, particularly in Latin America, are below international standards. In these countries, therefore, there is scope for increasing public spending in the long term by broadening the tax base. In any event, the priority given to social spending must be consistent with sound fiscal policy.

In sectoral terms, the most progressive uses for funds—in other words, those whose benefits are concentrated most in the lowest-income households—are in primary and secondary education, health care and nutrition; the least progressive are expenditure on social security and higher education; social housing programmes fall somewhere in-between. As was pointed out in a previous ECLAC document (ECLAC, 1998), the net distributive impact will also depend on how public spending is financed. In this regard, the excessive concentration of the tax base in Latin America, with its reliance on indirect taxes whose distributive impact tends to be regressive, is a cause for concern, while in the English-speaking Caribbean this is not the case.

The pro-cyclical pattern of social spending is clearly inconsistent with the greater social needs that arise during periods of crisis. On this front, there are some favourable tendencies, particularly international recognition of the need to have appropriate social safety nets for vulnerable sectors during times of crisis. In addition, there is still considerable scope for increasing the efficiency of social spending in the region. The two instruments that have been used most frequently have been the introduction of "quasi-markets" to provide social services, and decentralization. The former holds out very interesting possibilities, which have begun to be realized in a number of countries, as was discussed earlier. The latter also offers possibilities, but has run up against various problems associated with a lack of clarity in distributing functions among the different levels of government, excessive dependence on central government financing, lack of flexibility in allocating staff, insufficient delegation of authority to the organizations providing the services and, in some cases, a tendency for regional differences to increase.

The combination of the demands generated by demographic transition and the levels of service coverage achieved, both of which are closely linked to per capita income levels, suggests that in the coming years divergent trends will be seen between two groups of countries in the region. The lower-income countries will be faced with the traditional problems involved in extending the coverage of basic services. Those with higher incomes can aspire to universal coverage in a number of services, although with increasing problems at the margin in some of them (extending social security coverage), which means they will be able to concentrate more on the quality of these services, at the same time as they confront much greater challenges associated with the ageing of the population, in terms both of the demand for income for the elderly population and the associated changes in the pattern of demand for health care services.





## Chapter X

# Policy guidelines for high-impact areas

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### **1. Job creation, the institutional structure of the labour market and support for micro-, small and medium-sized enterprises**

Access to employment constitutes one of the primary mechanisms for an individual's incorporation into society. First of all, it is the main source of household income and thus provides the means of acquiring goods and services that will meet household members' needs. Second, in the case of formal-sector employment, it gives people access to social security (health and pension) coverage which allows them to deal with unforeseen events and provides them with a pension upon retirement. Third, it affords a means of expression and serves as a vehicle for the development of an individual's abilities. For all these reasons, the existence of insufficient employment opportunities erodes social integration and protection and interferes with the realization of human potential. Moreover, if this sort of situation is long-lasting or occurs repeatedly, it not only leads to an increase in poverty but also seriously undermines social cohesion.

The guidelines for policies in this area must therefore be tailored to fit in with the way the labour market operates and foreseeable regional and international trends, which include: a decline in the primary and secondary sectors' importance in terms of job creation and the concentration of new employment opportunities in swiftly growing, low-productivity tertiary activities; increasing market globalization, which makes it all the more necessary to gain competitiveness through the introduction of capital-intensive technologies; and the rapid move towards greater flexibility in hiring and contracting arrangements and towards the deregulation of the systems designed to act as safety nets for workers.

The changes that occurred in the structure of labour demand in Latin America in the 1990s have made it clear that, despite the high rate of job creation in formal tertiary activities, labour demand was insufficient to absorb the entire labour force in productive activities, particularly in the case of certain groups. Slow economic growth and the skewed distribution of demand deriving from its concentration in tertiary activities using mid-level and highly-skilled labour, along with the modernization of many of these activities, made the productive absorption of low-skilled labour more difficult (Weller, 2000).

Consequently, a strategy for raising employment over the long term will have to include measures designed to clear away the stumbling blocks that interfere with the growth of micro-, small and medium-sized enterprises (SMEs). Public policy also needs to forestall the generation of biases that will dampen labour demand, primarily by avoiding distortions in key relative prices (interest rates, exchange rates). Another forward-looking component that should be included in such a strategy is public action aimed at creating the necessary conditions for a continued upgrading of the labour force. This would include the promotion of training programmes oriented towards meeting future human resource demands so that the workforce can keep pace with changes in technology and production.

### **(a) A framework for labour relations that will contribute to stability and equity**

The countries of the region will inevitably be affected more strongly by external shocks than they were in the past owing to the way the world economy is changing, the countries' greater integration with that economy, and the rapid, unremitting process of technological change that is one of the hallmarks of our time. The institutional structure of the labour market (laws, the relevant components of the legal system, bargaining mechanisms, safety nets) must be geared to this situation and must be designed to make the most of the common interests underlying the various agents' actions, to overcome market failures, to compensate those who bear the brunt of the burden and to protect the weakest participants.

#### **- Flexibility, stability and productivity**

Achieving and maintaining competitiveness in an increasingly integrated economy requires flexible production and institutional structures capable of withstanding adverse impacts and adapting to a never-ending series of changes. At the production level, this is reflected in organizations that are capable of redefining the roles of their component parts, reallocating their resources and reshaping the relationships they maintain with the other agents involved in the production cycle. Thus, the flexibility or adaptability of production structures (including the labour force) is essential in order to operate efficiently in world markets.

One aspect of this adaptability to technological and economic change is greater flexibility in contractual and hiring practices. However, there is a tendency for this term to be used in situations where working conditions and work safety standards are allowed to deteriorate and social security payments are cut back in order to reduce labour costs. Such measures do not produce sustainable

gains in productivity and employment; and their effects on profitability are usually no more than temporary. Flexibility in hiring practices should, therefore, go hand in hand with basic standards that will safeguard workers' rights in such areas as social security, an unemployment insurance system or other types of safety nets, and training systems that enhance workers' employability and promote re-entry into the labour market. Without these minimum levels of protection, flexibility in hiring practices has a negative effect on equity which is reflected, most notably, in sharp downturns in employment during crises.

There is another type of flexibility, however, a type that might more accurately be called "labour adaptability", which is in the interests of both employers and workers, boosts productivity and competitiveness, and improves resource allocation. This form of flexibility can be introduced in business enterprises, production processes and the market, and can help maintain competitiveness and employment levels by motivating workers to acquire multiple skills, to learn to perform a number of different functions and to adapt to technological changes. It can also, however, generate tension, particularly when workers perceive that the technological modernization process is primarily aimed at replacing them rather than incorporating them. One way of resolving this problem is to emphasize the firms' and workers' common interests and to provide incentives so that workers will strive to further the firm's technological progress as a means of preventing individual human resources from being wasted.

In order to accomplish this, profit-sharing systems, productivity bonuses and retraining programmes need to be set up. This task can be facilitated through a dialogue initiated within the context of labour negotiations, which would make it possible to avoid the costs associated with disputes resulting from unilaterally imposed measures. In short, technological progress can be socially legitimized if it is addressed within the framework of a societal dialogue that results in all parties being given a share in its benefits and in the compensation of those who are harmed in the process.

This approach also makes it possible to reconcile the conflict between the need for stability in employment and the need to achieve competitiveness. In reality, both workers and employers are interested in having stability in employment. Rather than seeking to establish greater stability through rigid legal measures, this goal can be attained through greater adaptability to technological change on the part of both business enterprises and those who work in them, thus maintaining and increasing firms' competitiveness and preventing the loss of specific human capital caused by layoffs.

The purpose of such flexibility should be to permit the allocation of resources to the most economically and socially profitable ends by facilitating the use of discretion in their apportionment among the various options. One of the main obstacles that still hinders labour mobility in a number of countries of the region is the differentiation of social security systems (pensions and health care). While some countries have reformed their pension systems (and in some cases their health care systems as well) by consolidating benefits and making them transferable from one sector of employment to the next, there are other countries in which the social security system is still differentiated by sectors and by firms and types of occupations. This reduces job mobility and hinders the economy's ability to adapt to changes in production patterns. The people who are harmed the most by this system are the workers who have paid into them, since they run the risk of losing their benefits if they are laid off as a result of production changes and are forced to switch to other activities or firms having different insurance schemes.

### **- Overcoming the lack of coordination in the labour market**

Reductions in employment resulting from downturns in demand are not only inequitable, since they tend to be concentrated in lower-income groups, but are also inefficient and expensive,

since they entail a significant loss of human capital and lead to costly labour conflicts. Means of reducing these inequities and costs must therefore be sought.

For the workers at a given firm, taken as a group, it is preferable to accept short-term wage adjustments as a way of minimizing the loss of jobs, provided that these workers are explicitly guaranteed the right to share in the profits realized as a result of their sacrifice. Employers, for their part, are interested in a solution that allows them to retain their workers at a reduced cost, thus preserving the firm's pool of human resources and avoiding the cost of labour disputes. In order to accomplish this, joint measures need to be taken and individual incentives need to be offered so that both parties will agree to this course of action. The absence of such mechanisms or of institutions to facilitate the agreement to a compromise solution of this sort by both employers and workers translates into a lack of market coordination that ultimately leads to net losses for both parties.

This is an area in which public participation is needed to complement the action of the market—not by replacing it, but by helping to overcome its shortcomings. What is required is a process of institution-building aimed at establishing a framework conducive to negotiation in which a transparent flow of information regarding the firm is received by both parties, formal commitments and verification mechanisms are established, and expeditious dispute settlement procedures are adopted.

The profit-sharing proposal put forward by the Commission (ECLAC, 1992a) is aimed in precisely this direction. Through the incorporation of a variable wage component that is determined by the firm's profit level, a portion of the wage bill is linked to the firm's economic performance; this affords two advantages. First, it establishes a link between wages and increased productivity, thereby setting up a virtuous circle. This positive interrelationship is based on the interest of workers and employers in raising productivity, since it will boost both wages and profits, and on the fact that, by helping to avert the loss of skills, this approach will maintain the firm's pool of capital (including human capital), thus preserving its long-term productivity.

Second, in the event of adverse fluctuations, it establishes an automatic adjustment mechanism that helps avoid layoffs and restore the firm's profitability as quickly as possible. In exchange, employers commit to maintaining the level of employment in the face of fluctuations in demand and agree to provide the necessary information on the status of the firm so that compliance can be monitored. Dispute settlement would be overseen by labour courts or other venues agreed upon beforehand.

The creation of mechanisms for the settlement of labour disputes and the transparency of information flows are crucial, since, its advantages notwithstanding, profit sharing is incapable of dealing with certain situations, such as the evaporation of demand for a given product as a result of technological progress, severe shocks (very sharp devaluations or deep recessions) or other phenomena that seriously undercut a firm's financial position. In such cases, the mechanisms provided by the relevant worker safety nets must be used to provide support for an orderly and transparent liquidation of obligations and for the job placement and retraining of those who have lost their jobs.

**- Establishment of worker safety nets: savings and unemployment insurance, retraining and job programmes**

Economic fluctuations can be expected to lead to high levels of unemployment even where appropriate coordination mechanisms are in place, yet there are very few systems in operation in the region for assisting people who lose their jobs; it should also be noted that unemployment levels are much higher among lower-income households (see chapter II).

Mechanisms for offsetting the loss of income caused by unemployment should be a key component of any worker safety net, since their existence will help to forestall increases in poverty associated with economic slumps. These mechanisms have consisted primarily of subsidies, but it is now being suggested with increasing frequency that unemployment insurance and compulsory savings systems be created. Subsidies are public in nature and their amount is not necessarily related to the individual's previous wage level. Systems based on unemployment insurance and compulsory savings can be managed by public or private institutions and are funded by contributions. In both cases, it is unlikely that compensatory mechanisms would be able to offset the entire loss of income resulting from unemployment, but they are increasingly coming to be seen as very important mechanisms for ensuring continued access to health services and for covering the social security contributions of the unemployed, as well as for ensuring that their children can remain in school and that families can meet their housing payments, thereby saving them from sinking into even deeper poverty.

In some countries of the region, a savings-based system has been established. An example of this approach may be found in Colombia, among other countries, where such a system has been in effect for several decades.<sup>69</sup> A number of countries in the region have employed subsidies to mitigate the loss of income resulting from unemployment. Thus far, most of these systems are not based on contributions but are instead financed out of tax revenues. In general, their scope is limited to wage earners in the formal sector and, in some cases, their benefits have been eroded by real reductions in the minimum wage, which is the parameter usually used to set the amount of the subsidy (see box X.1).

There has been virtually no experience with private unemployment insurance systems in the region, but given the increasing attention being devoted to this type of proposal in some countries, it may be helpful to draw lessons from other cases where insurance systems have been established. First of all, membership in and contributions to such insurance schemes should be permanent and compulsory for everyone in order to avoid problems of adverse selection (i.e., situations in which only those most likely to become unemployed would belong to the system). Adverse selection would not only raise insurance premiums considerably, but might also make the system economically unviable or lead to a sharp reduction in benefits.

Second, benefits and the means of financing them need to be determined in such a way as to avoid the problem of "market skimming" that has arisen in some private insurance systems used for social security purposes. If steps are not taken to prevent the skimming of risks, private mechanisms can lead to discrimination against the people who stand the greatest risk of becoming unemployed, namely lower-income groups.

In order to deal with the inequities that can be generated by insurance systems when they are used as social safety nets, incentives have to be found to encourage private agents to compete in this sector while at the same time ensuring that this does not lead to discrimination against those segments of the population that are most vulnerable to fluctuations in the level of activity. In order to do this, a public fund must be created so that offsetting payments can be transferred to private fund managers in order to de-link their profitability and the degree of protection provided to members from the risk they represent. This raises new questions regarding what means should be used to finance a public fund of this sort, what criteria should be used for determining the amount to be transferred to private fund managers, and what kind of regulatory and supervisory system should be established to ensure the solvency of private agents and of the public fund. In short, while insurance systems can certainly be used as a mechanism for offsetting the effects of

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<sup>69</sup> This takes the form of a right which the worker accrues for each year of employment with the firm in question, which becomes effective upon retirement.

unemployment, there are a number of issues and questions relating to their efficient and equitable use that will have to be addressed.

**Box X.1**

**BASIC CHARACTERISTICS OF UNEMPLOYMENT INSURANCE SYSTEMS  
IN OECD\* AND LATIN AMERICAN COUNTRIES**

Despite the growing interest in the possibility of setting up unemployment compensation mechanisms, a thorough evaluation of the region's experiences in terms of the strengths, weaknesses and effects of these systems on the labour market has not been made. However, a comparison of the main parameters of the existing systems with those used in OECD countries provides some idea of the relative progress of the Latin American and Caribbean countries in this area.

Many of the unemployment insurance systems in effect in OECD countries rely on contributions, though the contribution period required in Europe and Canada is usually relatively short (six months or less). In order to be eligible to receive benefits, it is usually required that unemployment be involuntary; only under certain conditions are those who voluntarily quit their jobs eligible. The benefits last a maximum of 15 months in six of the countries and from 15 months to 3 years in six other European countries. In Great Britain and the United States, the benefit period is less than one year.

In Europe, according to the legal formula used in the system, compensation should be equivalent to 60% of the individual's previous wage, but in practice it is less; in the United States, the figure is 36%.

The actual coverage of the unemployment insurance system also differs. Whereas it is above 60% in European countries and Canada, only one third of the unemployed in the United States are covered.

The Latin American countries that have some type of unemployment compensation system are Argentina, Brazil, Colombia, Chile and Uruguay; in some of these cases, the scheme supplements systems under which workers receive severance pay. In contrast to mechanisms established in the more advanced countries, implementation of the few existing systems in Latin America is limited, and in general their coverage is minimal (approximately 15% of unemployed workers). The benefit/wage ratio is lower and the duration of benefits is also shorter in Latin America. While, in terms of their design, these systems are not significantly different from the European systems, in practice the greater prevalence of informal labour limits their actual coverage and the amount of resources that can be obtained through contributions. In Europe and the United States, the systems are funded by contributions from both workers and employers; however, in the few systems in operation in Latin America, funding by the State and by employers is the norm, which makes the expansion of unemployment compensation systems conditional, to a large extent, on strengthening the State's revenue-collection capacity and on the growth of employment in the formal sector of the economy.

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**Source:** Alfredo H. Conte-Grand, "Seguro de desempleo, formación profesional y servicios de empleo. Sus relaciones y posibilidades en el proceso de reconversión económica", Working document, No. 57, Santiago, Chile, Multidisciplinary Technical Team (MTT), International Labour Organization (ILO), 1997.

\*Organisation for Economic Co-operation and Development.

Experience with the use of privately-run insurance systems as part of social safety nets designed for other segments of the population has demonstrated that risk selection is a source of serious problems in terms of incentives which discriminate against lower-income groups. Because of this problem and the need to ensure that resources are adequate to guarantee a minimum level of benefits, some of the most feasible options for the region are for the public sector to administer a solidarity fund that makes offsetting transfers between private insurers or to use a universal collective public insurance scheme financed by compulsory premiums, which could be administered on a tripartite basis. Either of these systems could be supplemented with tax revenues.

The chances for the success of such mechanisms in providing sufficient compensatory benefits hinge, to a great extent, on the adoption of preventive measures during economic booms so that a fund can be built up which will make it possible to isolate the availability of resources for this purpose from the ups and downs of the economic cycle. The presence of such a fund would protect the system from the cutbacks in public social expenditure that are usually made during economic adjustments. Consideration should also be given to the possibility of requiring prior contributions to the fund from potential beneficiaries, especially if the benefits to be paid out are to exceed the minimum payments needed to protect the unemployed from poverty.

Unemployment compensation systems can prove inadequate in periods of prolonged recession, however, and they fail to provide support for workers in the informal sector. An equitable worker safety net should provide coverage for these workers as well.

One of the methods that has proved to be most effective in dealing with unemployment among less skilled workers has been the implementation of employment programmes at the municipal level. The decentralized execution of these programmes made possible by their geographic proximity affords significant savings in terms of the resources needed to obtain information on job possibilities. This provides a way of surmounting some of the major barriers to the reduction of unemployment in the short run. Furthermore, since these programmes usually do not rely on contributions for their financing, they can also be used to assist informal-sector workers who have lost their jobs.

The objective of these programmes, of course, is not to take the place of job searches, which is one of the reasons why the participants' are paid an amount designed to avoid an increase in poverty, rather than completely replacing their previous wages. As in the case of unemployment subsidies, some of the most critical aspects of this mechanism are the availability of funding and the timing of the programme's establishment. Consequently, funds need to be built up which can then be distributed, on the basis of predetermined criteria, to assist persons affected by sharp increases in open unemployment.

These programmes provide a temporary or emergency solution, but programmes are also needed to assist chronically unemployed workers (hard-core poverty) by offering employment at a wage level that will allow them to meet their basic needs. These more permanent types of programmes should be administered locally but financed by the central government.

The safety net should also protect those who face unemployment as a result of technological changes or the restructuring of public utilities and government agencies (structural unemployment). Typically, these are skilled workers whose abilities have lost market value because of technological progress or structural changes, a situation which can be expected to become more common in the future. In this case, re-entry into the workforce will require retraining, and unemployment insurance schemes should therefore also be linked up to the types of training systems discussed in the following section.

### **- Overcoming labour-market segmentation and promoting equitable access to employment**

As indicated in chapter II, the informal sector of the economy represents a growing proportion of employment in the region, which has of course worked to the detriment of the formal sector. These two segments of the labour market differ markedly from one another, particularly as regards social security coverage and working conditions (the existence of contracts, length of the workday, health and safety standards, etc.). These differences often reflect attempts to evade legal and tax provisions in order to lower costs. In other cases, the development of an informal activity is a survival strategy for underprivileged sectors, since certain groups of persons have difficulty in

gaining entry into the labour market, and thus remain excluded from it. This exclusion is profoundly inequitable and constitutes a major obstacle to the elimination of poverty among these groups and the improvement of income distribution.

The segmentation of the labour market translates, in some cases, into inequitable treatment of workers. Some of this segmentation is a result of the economic and technological development process itself, while in other cases it results from the evasion of legal and tax provisions. While the origin of some instances of market segmentation falls outside the realm of labour policy, policymakers must still devise ways of counteracting its adverse impacts in terms of equity.

**Minimum wage** policies are primarily designed to offset asymmetries within the context of wage negotiations, particularly on the part of groups that have less bargaining power because they are not as well organized or are employed in the informal sector and therefore often lack labour contracts.

Minimum wage policies are something of a two-edged sword, since real increases in minimum wages can have a positive effect in reducing poverty, but such policies also have a negative effect on labour demand and act as an incentive for informal activity. The chances for a successful minimum wage policy depend on whether or not progress is made in controlling inflation, on the level of the real minimum wage relative to the productivity of micro- and small enterprises, and on increases in labour productivity.

Provided an economy is growing, it is feasible for a minimum wage policy to allow for real increases without having a negative effect on employment, provided that these increases are agreed upon in tripartite negotiations (employers, workers and government) and that certain basic guidelines are followed. First, the increases must be gradual so that they can be absorbed without spurring inflation. Second, if the real minimum wage has been sharply eroded, increases in excess of the economy's mean productivity gains can be instituted for a time; in the medium term, however, the minimum wage should not rise faster than the mean labour productivity of micro- and small enterprises, since this would probably reduce compliance and might hurt employment.<sup>70</sup>

### **- Overcoming barriers to labour-market entry**

A number of ECLAC studies have focused on the barriers that exist to potential entrants into the labour market. Low-income women, in particular, have a lower rate of participation in the workforce. Although in practically every case employment levels for women of all socioeconomic strata are on the rise, the poorest strata still have much less access to the labour market in relative terms. This is largely a reflection of low-income women's lower economic activity rates. Apart from cultural factors, this may also be attributed to the higher opportunity costs and more limited benefits of employment for these women. In point of fact, the relative cost of childcare in poor households is far more than double its cost in more prosperous households. In addition, because of their lower educational and skill levels, the wages that these women can earn may not cover the cost of leaving their children in the care of others. These women's chances of finding a job are also more limited, and this discourages them from looking for work. All of these factors combine to reduce the chances and incentives for poorer women to seek employment.

Along with the adoption of policies to strengthen the demand for low-skilled workers, overcoming the barriers that face lower-income women in accessing the labour market requires the formulation of policies to harmonize household tasks with employment, promote greater participation by men in reproductive tasks and offer more and better institutional (public, private and subsidized) childcare services. In conjunction with the above, training programmes should be

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<sup>70</sup> It is estimated that the efficiency of the market is negatively affected, which is reflected in higher unemployment and lower levels of compliance, when the minimum wage exceeds two-thirds of the average wage paid in microenterprises (ILO, 1997, pp. 40-44).



established that are geared to the characteristics and needs of women. Both of these mechanisms have a high redistributive potential, inasmuch as they increase the poorest households' ability to generate income.

Young people are another group that faces considerable problems in accessing the labour market. In every country of the region the unemployment rate for this group is far higher than the rate for the population as a whole (see chapter II). The prime policy option in this area is to avoid having young people join the labour market prematurely, since this leads to an inadequate acquisition of skills for subsequent job searches. Some of the policy options in this area are school meal programmes, which can help reduce the dropout rate, the provision of incentives for young people to remain in the educational system until the end of secondary school, and scholarships for vocational training.

Another reason for encouraging young people to remain in educational and training institutions is to prevent the emergence of conditions that contribute to juvenile delinquency. In many cases, low skill levels—and the more limited chances of finding employment associated with them—discourage young people from seeking productive employment, leading them to choose higher-risk activities as a means of escaping poverty. It is well known that in many cases this situation is one of the causes of juvenile delinquency.

Remaining in the educational system plays an important role in overcoming certain mechanisms for the intergenerational transmission of poverty as well. In fact, as has been widely documented, school attendance and the health of the mother strongly influence a child's school attendance and future health (see chapter IV). Thus, measures that will encourage women to remain in the educational system, at least through secondary school, and to participate in prenatal and postnatal care systems would help improve the educational levels and health of their children.

Incentives to help young people enter the labour market are needed to complement programmes designed to increase their skills and deter their premature entrance into the workforce. Experience shows that turnover rates and the frequency of unemployment are higher in the case of young people. This can be accounted for, in part, by the fact that young people have built up less firm-specific human capital and are therefore more easily replaced, thereby setting up a vicious circle. The adoption of measures that encourage firms to retain young workers, such as temporary subsidies to cover a portion of the labour cost while they acquire higher skill levels, would also strengthen overall productivity and reduce hiring costs. Every effort should be made to avoid measures that would worsen the working conditions of these workers and to find ways of promoting their participation in social security systems (health, unemployment compensation and pensions).

In summary, policies aimed at overcoming the various means by which people are excluded from participation in the labour market must, first of all, address the specific obstacles that hinder the productive, stable employment of certain groups. These obstacles can only be overcome through deliberate government action, since the spontaneous operation of the market generally tends to perpetuate them, thereby continually reproducing the cycle of exclusion and poverty. However, the success of these policies depends to a great extent on whether the growth strategy that has been adopted generates sufficient labour demand and whether microeconomic and macroeconomic incentives translate into biases against the utilization of manpower, which is the chief asset possessed by lower-income households.

### **- Promoting social dialogue and strengthening social agents**

One way to help create an environment conducive to growth and employment is to establish a framework for the enhancement of labour relations based on a broad-ranging social dialogue

oriented towards arriving at consensus-based solutions for the problems of poverty, low employment and wage levels, and labour-market rigidities that hinder growth and productivity (ILO, 1999). Broadening the three way dialogue —among trade unions, business enterprises and government— with a view towards incorporating sectors that have traditionally been left out of this process, such as independent workers, persons employed in the informal sector and agricultural workers, is the primary means of promoting the common interests of employers and workers. No agent, acting individually, can successfully meet the challenge of attaining higher levels of competitiveness in an economy that is increasingly integrated with foreign markets, since competitiveness is a systemic outcome of the consensus-based action of all agents in an economy.

This social dialogue involves both high-level debate and negotiations and consensus-building at the level of individual business enterprises and economic activities. It will also gradually begin to transcend national borders, especially as regional and subregional integration processes begin to raise a series of labour issues, since the consideration of those issues must take into account, on a flexible basis, the employment conditions and interests of the social actors of each country.

In order for this dialogue to take place, the relevant agents have to be able to deal with each other on an equal footing. To this end, a legal framework has to be adopted for collective bargaining that will allow for the legitimate airing of disputes and for their fair and transparent resolution, while at the same time promoting self-regulation. The adoption of measures to promote unionization and establish appropriate negotiation mechanisms is therefore essential.

Steps should also be taken to strengthen the analytical and bargaining capacity of union leaders. Training and support for debate and analysis on the part of labour organizations are necessary so that workers can participate in this dialogue on an equal footing with other participants.

Labour ministries also need to be strengthened so that they can build up their capacity to analyse and diagnose problems, shift away from their traditional focus on formal workers' groups and towards a more balanced approach, and play a more active role in the three-way negotiation process.

This dialogue should certainly address the most pressing issues of the day, but it should also be proactive. Negotiations often focus on pay levels and working conditions, considered within the context of the possibilities associated with the prevailing economic conditions at a given point in time. In other words, a static approach is taken which gives priority to existing disputes while failing to take into account the fact that, for both employers and workers, a sustainable and lasting increase in employment, in the rate of return on capital and in productivity, as well as an improvement in working conditions, are only possible if an environment is created that is conducive to competitiveness and that accommodates changing technological and production conditions. Considered from this vantage point, significant common interests can be identified that could be turned to advantage.

## **(b) Development of job skills and opportunities**

As a consequence of the ongoing process of technological change and the ways in which production patterns are shifting, production activities based on knowledge and on the provision of modern services are becoming increasingly important. These processes generate changes in labour demand that need to be addressed proactively by human resources policy. In addition, the training services market is, in most instances, incomplete and is subject to externalities that lead to a mismatch between the supply and demand for skills and to insufficient investment in job training programmes. The improvement of education and training systems and the adoption of measures

that will make them accessible to young people of all socioeconomic strata are key elements in any strategy for integrating productive development and equity (ECLAC, 1992b).

The increased pace of technological progress has translated into a significant and ongoing shift in skill requirements which can be expected to continue indefinitely. By contrast, the type of training that is available has tended, in many cases, to be determined by what skills and resources are on hand at any given time. The resulting mismatch between the demand and supply of training arises, in part, from the prevalence of a traditional approach that de-links training from production.

Vocational training covers skills of a general nature (or ones that are applicable in a number of firms or branches of production) and other more specific types of abilities, all of which are necessary in the performance of production activities. However, the possibility that workers will switch over to a different activity or firm once they have obtained the training leads employers to invest less in training than they otherwise would, since they try to minimize the risk represented by the chance that they will be unable to internalize the benefits of their investment. In order to overcome these obstacles, public action is called for on at least two fronts. On the supply side, the public sector should feed information to training and instructional centres on human resource requirements in each sector, region and business category. It should also assist public and private training institutions, professional and vocational schools, and institutions of higher learning to integrate their curricula with the requirements of production activities. The objectives of these initiatives would be to achieve a closer alignment between programme content and the needs of business enterprises and to place greater emphasis on practical training. On the demand side, in order to offset the externalities referred to earlier, the public sector needs to provide support through a variety of mechanisms, including the provision of subsidies, in certain cases, to stimulate investment in worker training.

The form that this support should take will depend on the nature of the training being offered. In the case of the more general types of training (management training, etc.) or of training applicable to a broad range of activities, it is more effective to provide support through incentives to demand (for example, the State could cover part of the cost of an individual's enrolment in a given programme). This use of these sorts of mechanisms presupposes the existence of a large number of public and private providers of this kind of training, since otherwise their end result may be the creation or consolidation of monopolies. In an environment that includes a large number of public and private suppliers, however, demand incentives make it possible for individuals to select the most suitable option for them and help ensure that the cost of training will not exceed socially efficient levels.

By contrast, support for more specific forms of training, which are often obtained only in close connection with the production activity directly concerned, may be provided in the form of supply-side subsidies, particularly in the case of the recruitment of trainees or the retention of existing employees. This method takes on special importance in the case of young people, who often face obstacles when attempting to join the labour market. In some of the more developed countries, public support for apprenticeship programmes has turned out to be one of the most successful means of facilitating training and entry into the labour market for young people. It is also an appropriate means of updating the skills of the workforce to keep pace with technological changes.

Training programmes and incentives should not be considered merely as a closed-ended means of training human resources who will subsequently join the economically active population. Instead, they should be designed as part of an ongoing process of worker retraining aimed at helping the workforce to adapt to technological advances and changes in production. This can also help to facilitate re-entry into the labour force if these programmes are linked with unemployment compensation mechanisms.

The restructuring and updating of training programmes should also be reflected in the work of the relevant private and public agencies, which have significant experience in this area but also tend to be reluctant to accept innovation and prefer to operate on the basis of existing skills and abilities. The relevant public authority should work to ensure the continued effectiveness of such programmes by establishing certification mechanisms that will enable the participants to make certain that the resources invested in their training will enable them to acquire up-to-date skills that will give them access to appropriate forms of employment.

Another useful form of support for the labour market is action aimed at overcoming the problems of information that hinder its operation. The cost to job seekers of searching out employment opportunities and the cost to employers of finding the skills they seek have a negative effect on the level of employment and on the productive utilization of the abilities available on the market. The main problem for job seekers is to identify potential employers. For employers, it is to make certain the potential employees possess the necessary skills and experience.

Public and private training institutions can perform an important role in facilitating this search for employment opportunities and skilled labour. The effectiveness of this type of assistance depends on two main factors: the timeliness of information and the certification of job skills. Modern technological media have paved the way for major advances in this area which, along with closer links between training institutions and firms, make it possible to provide up-to-date information on demand. However, individuals and firms that do not have access to such media also need the information they can make available, and labour intermediation agencies should therefore work together with local organizations, including municipalities, producer associations and trade unions, to this end.

If firms are actually going to make use of these sources of information, they have to be reliable in terms of the qualifications of job applicants. Consequently, certification systems are needed for training institutions and for technical and vocational schools, along with suitable verification procedures for use by institutions providing employment assistance.

Labour intermediation agencies can also help mitigate the consequences of recessions through coordination with unemployment compensation systems.

### **(c) Guidelines for the provision of support to micro-, small and medium-sized enterprises**

Small and medium-sized enterprises (including microenterprises) constitute the majority of businesses and account for nearly 85% of employment in the region. Progress in improving the quality of employment and in achieving satisfactory wage levels thus clearly depend on the efficacy of policies designed to support the modernization of production.

The chief factors that hinder the growth of small and medium-sized enterprises (SMEs) and weaken the demand for labour are a lack of suitable financing, difficulties in accessing technological knowledge and managerial expertise, and the existence of inappropriate marketing channels.

Given the important role they play as sources of employment and in determining the level of income generated by poor households, a highly active public policy stance should be adopted in assisting these enterprises.

The market presence of **microenterprises** tends to be extremely unstable. One of the reasons for this is the prevalence of informal business relations in respect of both marketing channels and suppliers, which restricts their time horizon to the short term. As a result of this, these enterprises are quite slow to absorb technological progress, lack stable quality-control procedures and are

highly vulnerable to swings in demand. Another factor is that some microenterprises function as refuges from economic slumps or employment problems. Accordingly, in order to devise an appropriate policy for this sector, it is first necessary to determine which activities and firms are of a more permanent, stable nature and which ones could increase their productivity.

The main policy objective and chief purpose of the services provided to assist these enterprises are to establish more stable production and employment conditions that will promote the accumulation of knowledge and expertise and spur productivity gains while also leading to a gradual improvement in employment conditions (stability, protective mechanisms). Within this sphere, priority attention should be devoted to mechanisms for helping microenterprises to position themselves within production chains by strengthening their relations with suppliers of raw materials, equipment, financing and business services, on the one hand, and with marketers, on the other.

Another consequence of the instability of these firms is that they generally lack means of forming associations that would enable them to take advantage of economies of scale when negotiating with marketing channels and suppliers of inputs. A second sphere of action in relation to the integration of production chains would therefore be the promotion of formal or informal associative mechanisms that would help such enterprises to absorb technology, negotiate more successfully with suppliers of inputs and engage in collective marketing initiatives.

A third priority is the establishment of a support network to help these enterprises become part of the modernization process. Accomplishing this will entail worker training, information on technology, management and assessment tools, and quality-control procedures. Because of the fact that the division of labour is much more limited in these enterprises and that they rely so heavily on the full-time efforts of their workers, training must be provided on an ongoing basis but must not take up the whole of the working day; in addition, the training and advisory services to be provided must be flexible enough to meet the specific needs of employers and workers.

A fourth area of policy has to do with access to funding (particularly credit) for use as working capital and for investment. The supply of credit should be both readily available and competitive and needs to be geared to the different stages of the production process (merchandising, lead times); government assistance should be provided in the form of loan guarantees.

Employment conditions in these sectors are clearly substandard, not only because of their often informal nature but also because of the virtual absence of any form of worker protection. The compulsory nature of such protection has not proved effective in ensuring that it is duly provided. Thought should therefore be given to creating a differentiated system whereby some non-essential benefits can be waived so that priority can be given to ensuring that workers will be covered by pension and health care systems.

Although microenterprises deal with problems similar to those of SMEs, in view of their special traits even greater emphasis and priority should be placed on policies designed to augment the stability of their production activities and employment conditions. In implementing such policies, consideration should also be given to the highly specific nature of their assistance needs. In the great majority of cases, the activities of these types of firms and occupations cater to the local market, since they are generally tailored to meet the specific demands of a given location and rely on local suppliers for their inputs. Policy measures must therefore take these specific characteristics into account and should preferably be designed and implemented with the help of local actors (producer associations, cooperatives, municipal governments).

An important trade-off must be addressed when setting priorities for the allocation of available resources to assist microenterprises. A majority of such businesses are engaged in the

provision of services or in commerce, while a smaller percentage are involved in the production of goods. Assisting these manufacturing activities generally calls for special efforts and is more costly, but at the same time they have a significant potential to contribute to productivity gains. Consequently, resource allocation should seek to strike a balance between the goals of job creation and the growth of production.

**Small and medium-sized enterprises** have three distinctive traits. First, they are more flexible because of their size and the fact that the level of their investments in fixed capital is lower. This enables them to move quickly to take advantage of opportunities when they arise. Second, these firms are very isolated, despite the widely known advantages of associative networks, joint ventures and complementarity agreements. Third, the firm's management and leadership are the exclusive responsibility of the owner-entrepreneur-manager. They deal in capital and technology markets and with marketing channels marked by sharp information asymmetries and various types of fixed costs that limit their access to credit or make it more costly. In addition, some of these disadvantages tend to be greater in international markets.<sup>71</sup>

Policies designed to support SMEs should be oriented in three main directions: the establishment and development of technical and institutional capabilities that will form part of a permanent, diversified support system. This system should include mechanisms for intermediation that will give these firms ready access to the available instruments and specific solutions and should permit the development of organizational profiles outlining the types of assistance needed. This means that the services provided to SMEs need to be expanded and professionalized, since they cannot rely on the horizontal or sectoral types of instruments used for large firms. Second, entrepreneurs should be actively involved in identifying their firms' own failings and in looking for solutions, since the entrepreneur and the institutional culture of each firm are an inseparable part of their problems and the solutions for them. In order to accomplish this, a locally-based institutional fabric and infrastructure are needed to act as a coordinator, intermediary and supplier of business services. The aim of public policy should therefore be to build a strategic consensus among territorially-based actors for the promotion of local development initiatives through the use of cooperative corporate networks, technology centres, universities, regional and local governments, and organizations formed by members of civil society.

Support for the modernization of the production activities of SMEs encompasses improvements in their access to information, technology, credit and suitable marketing systems brought about, wherever possible, by promoting the creation of private or semi-public services for SMEs in all the above areas. These programmes should work to further the development of SME associations or the formation of new firms specializing in the provision of these services (see box X.2).

### **- Access to information and technology**

The question of SME access to technology should be considered from a broad perspective that encompasses knowledge about production processes (including environmental and quality standards) and modern administrative, management and marketing techniques. This will call for efforts to promote the establishment of firms specializing in technological diffusion and advisory assistance, along with centres possessing expertise in the adaptation of technologies, the handling of materials, packaging and product design.

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<sup>71</sup> Whereas large firms have access to external sources of credit at lower rates and with longer maturities, smaller firms have to choose between informal or conventional lenders that offer them short maturities and comparatively higher rates as well as having strict requirements in terms of collateral.

**Box X.2**  
**BEST PRACTICE REGARDING SME SUPPORT POLICIES**

Among the institutional approaches that have yielded the best results in encouraging SME entrepreneurial activity are some of the following operative principles, which may be considered as recommended practices:

- Visibility and identification (small and medium-sized firms should perceive and recognize their presence and importance in order to participate in support programmes)
- Ready access for business executives and a clear orientation towards businesses' demands (proximity and local presence)
- Clear orientation towards making real improvements in the business activity, giving priority to measurable achievements in production, commerce and finance
- Proactive local institutions that have a clear commitment to local business development
- Credibility (building trust and a sense of belonging)
- Strategic specialization of services (giving priority to a key set of actions)
- Operative and synergetic linkage of support instruments and activities (should not be designed or implemented separately or in isolation)
- Preference for services to be provided by private agents, especially consulting, technology and marketing SMEs, in conjunction with the establishment of guidelines and quality standards for suppliers
- Additionality (institutional agreements that allow for combinations of measures and the generation of synergies, externalities and resource savings)
- Complementarity with financing system
- An open attitude towards change and ongoing learning as a basis for institution-building; strong results-oriented approach, which entails the development of active systems of incentives and performance evaluation mechanisms
- Transparency and accountability
- Cofinancing of services (part should be paid by the client) and generation of resources for special funds (launching new activities, giving a boost to new enterprises)
- Strong local identity, local roots, extensive participation by local institutions.

Under existing technological conditions, in order to provide access to information systems, programmes will be needed to greatly expand the use of computer technology and the Internet. These initiatives should be based on specialized support networks for small enterprises that will give them a way to access information on technology, credit and markets. The public sector's role in this regard is to stimulate these activities through the establishment of local telecentres that provide these firms will access to the tools they need to develop their businesses, take advantage of business opportunities and participate in fairs and exhibitions.

Promoting the technological modernization of small enterprises is one way of working towards the creation of systems for performance evaluation, benchmarking and certification of business experience and credit histories; these systems would then be implemented with the

support of organizations having expertise in these areas. This can also serve as a basis for the preparation, at the municipal level, of rosters of qualified firms and workshops which can then be used to simplify the purchase of goods and services by potential customers, thanks to the increased transparency of the market such rosters would provide. It will also enable firms to take part in central or local government tenders and will expedite the credit rating process.

Experience with the provision of technological support to small-scale rural producers indicates, first of all, that research and development should be oriented towards furnishing support for integrated production systems rather than for individual products, while at the same time safeguarding the sustainability of the ecosystems concerned. Attention should also be focused on both the agricultural stages of the production process as such and on post-harvest handling (processing, preservation, storage and transport). Second, steps should be taken to encourage the introduction of elements of technical progress in both cash and subsistence crops. Third, in order to foster the diffusion of technical progress in small-scale agriculture, programmes need to be developed to reduce rural energy costs, since otherwise its mechanization is not feasible. Other supplementary activities would include the installation of fixed and mobile telephone lines in rural areas, lending programmes to permit the purchase of machinery, and promotion and technical training programmes to help develop non-agricultural activities (crafts, commerce and tourism) in rural areas.

### **- Access to financing**

Financing policies have always enjoyed a privileged position among the measures aimed at supporting small and medium-sized enterprises. Basic financing schemes and mechanisms have gradually evolved from loans at subsidized interest rates, granted by public development institutions, into schemes that focus on improving small businesses' access to credit and these loans' maturity profiles, while eliminating interest rate subsidies.

In this new context, the subsidy components are focused on reducing the transaction costs associated with a large number of small-scale operations. From an institutional standpoint, the new approach gives priority to developing a second-tier public banking system that functions as a credit wholesaler and a first-tier private commercial banking system that deals directly with businesses.

There are basically four principles that should be observed by second-tier institutions:

(i) *non-redundancy*, which means that lines of credit or rediscounts offered by second-tier banks should be different from those available on the market, or if they are similar, they should have a quantitatively broader scope;

(ii) *targeting*, which refers to the need to ensure that funds reach the types of businesses that the development policy is designed to assist;

(iii) *additionality*, which means ensuring that the institution's operations are actually increasing the total amount of funds available to small businesses, rather than simply channeling funds that would have reached them in any case in the form of loans from suppliers or commercial institutions; and

(iv) *neutrality*, i.e., the rejection of sectoral or other selective objectives so as to make access to credit a function solely of the evaluation conducted by the first-tier banks or collective underwriters to determine borrowers' creditworthiness. Although the observance of these principles introduces greater technical rationality into SME credit policies, this is often not enough to surmount the asymmetries of information and risk that still limit financing for this segment, to which the majority of businesses belong.



Difficulties in obtaining information regarding SMEs' eligibility as borrowers and the fact that the risks associated with loans to this segment are generally higher<sup>72</sup> constitute major obstacles. Efforts therefore need to be made to support the compilation of financial statements and accounting reports and to train administrative personnel in project design and management. In addition, lenders should make every effort to evaluate the payment capacity of the small businesses concerned.

Two main mechanisms have been used to deal with the relatively higher risk posed by this category of business: guarantee funds (or co-signers) and credit insurance. The main problem with the former is that when they are composed entirely of government funds, they tend to be misused, sometimes for political purposes, by both borrowers and lenders. This takes up the fund's capital, whose operation is then limited by the depletion of its resources. For this reason, these funds should be designed so that they also receive contributions from financial institutions, and their coverage should be such as to provide an incentive to participating banks to correctly evaluate credit risks. Credit insurance is still quite new in the region, and its further development is hindered by the relatively greater risk that small businesses entail.

These mechanisms can be effective for financing small enterprises' current operations, but they are not as suitable for financing investment or providing capital resources. Two instruments that have been applied in the region are leasing and venture capital companies, both of which are still limited in scale, especially in the case of small and medium-sized enterprises.<sup>73</sup>

The higher costs of operating on small local markets (minimum scales) and the risks inherent in agricultural activity call for much more active measures aimed at establishing or strengthening lending institutions oriented towards the rural sector—private or mixed rural banks or credit cooperatives— or providing special subsidies for commercial banking operations in remote areas (for example, a fixed payment per loan granted to small farmers).

In summary, financial services for SMEs should be provided by an institutional structure comprised of an appropriate combination of public and private bodies. The idea is for these institutions to contribute to the creation of financial markets for small and medium-sized entrepreneurs, with the support of policies that help reduce transaction costs, the margin charged by guarantee funds, and credit insurance premiums. Because this undertaking entails a degree of risk and has externalities that translate into increased job creation, large direct subsidies from the State are required. In the face of the private sector's reluctance to develop such an institutional structure, in most cases public institutions have shouldered a major share of the burden in providing these services directly. The challenge here is to determine how to allocate subsidies in such a way as to encourage the private sector to participate actively in this development effort by helping to build financial markets for SMEs. When the State provides these services on a continuing basis, it also becomes necessary to establish institutional mechanisms for keeping the management of these services free from political pressures on a day-to-day basis.

### **- Access to marketing channels**

SMEs also need to expand their market horizon, nationally as well as internationally. In order to do so, they need to have ready access to information on new local and external markets and marketing methods so that they can choose the appropriate channels and niches. In view of the size of these businesses and the complexity of some of these tasks, public policy can make a

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<sup>72</sup> At least they are thought to be riskier owing to the more intense competition existing in this segment, in addition to the fact that collateral to ensure that the loans are actually recovered is less readily available.

<sup>73</sup> The former can help make up for the lack of collateral. Venture capital instruments can be adapted to accommodate the innovative nature of these projects, thereby permitting the companies to concentrate on managing production by making the cost of capital relatively independent of short-term fluctuations in the financial market.

contribution by coordinating and publicizing existing services and increasing their quantity and quality (market studies, identification of eligibility requirements, use of commercial computer networks, etc.).

The measures to be taken in this regard include devising an internationalization strategy for SMEs that capitalizes upon regional integration efforts as a springboard for foreign trade. Companies that already engage in export activity need to establish relationships with large distributors, develop promotional activities, open up new markets and forge strategic alliances with businesses abroad. An essential issue in the current context of more open markets is the advancement of quality, uniformity and pricing standards and the enforcement of technical and environmental regulations.

Another series of measures is related to the production of inputs for large firms, ancillary specialization, cooperation among SMEs and the development of business services. Support policies in this area should focus on reducing transaction costs, improving mechanisms and modalities of cooperation between large firms and SMEs, and enhance the advantages of SMEs by averting common bottlenecks and encouraging the formation of associations.

In the rural sector, the priority is to establish producer associations that will participate actively in processing and marketing tasks<sup>74</sup> or that will act as a bloc in negotiations with agroindustrial agents or commercial intermediaries with a view to developing a dynamic relationship between agroindustry and small-scale farmers. An element that therefore requires greater attention is the development of mechanisms for the provision of temporary subsidies to new enterprises created by associations of small-scale producers that are oriented towards marketing, agroindustrial processing and integration with fast-growing agroindustries.

Given the monopsonic or oligopsonic nature of most rural agricultural commodity markets, it is essential to establish modern pricing information systems that can reach even the remotest areas in order to prevent the traditional commercial practices characteristic of these areas from resulting in very low producer prices. Local producer associations are also important in this regard. It may also be a good idea to maintain some forms of direct or indirect public-sector intervention in local markets for non-perishable goods where peasant production plays a significant role, if it appears that the abuse of dominant positions may be a problem.

## 2. Education

Educational reforms should increase the level of equity in terms of the availability of educational services, academic performance and the future job opportunities that will be open to students.

The challenge here is two-fold. In the formal system, the quality of education has to be made less segmented and, at the same time, access to the educational system must be improved.

This calls for compensatory policies targeted on areas in which scholastic performance is lower; programmes for providing the poor with greater access to formal schooling; targeted programmes to help raise the academic performance of the most vulnerable groups; and mobilization of the community to improve the conditions affecting the demand for education.

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<sup>74</sup> In many advanced countries, the establishment of producer associations or cooperatives has made it possible to control not just regional farm product distribution networks, but also national ones, and some have managed to penetrate foreign markets as well. There are also examples of this in countries in this region.

### **(i) The demand for education and community participation**

The levels of equity and quality are not determined entirely by the amount and combination of inputs; they are also influenced by how schools and families capitalize upon those resources to generate a dynamic that will result in a sustained improvement in educational performance. Traditionally, efforts to achieve greater effectiveness have relied on supply-side educational policies relating to physical inputs, teaching methods, textbooks, etc. However, policy-makers should not lose sight of the fact that nearly 60% of the observed performance differential is attributable to non-school factors (World Bank, 1995) and that “the educational environment in the household (years of schooling completed by adult members of the household) is the most influential factor in determining children’s educational achievement, since it accounts for between 40% and 50% of the impact exerted by the socio-economic and family environment” (Gerstenfeld and others, 1995).

The educational environment for poorer students tends to be less conducive to continuance in the school system and educational achievement, and academic performance is also linked to the predominant sociocultural circumstances of the student body. For example, in Uruguay, 21% of the students coming from highly favourable sociocultural environments performed very well in mathematics, as opposed to just 2% of those coming from sociocultural environments considered to be highly unfavourable. In language arts (mother tongue), the results were 41.9% and 5%, respectively (Government of Uruguay, 1996).

To improve the conditions affecting the demand for education, the efforts of a number of different actors will have to be mobilized at the community level to build a support network for children and adolescents in households located in low-income areas.

The community can detect shortcomings and help to improve management. An informed and mobilized community can act as a strategic ally in furthering the learning process. Its empowerment can foster a stronger demand for education, can help ensure that the sources of that demand are listened to more carefully, and can encourage the use of innovative approaches.

### **(ii) Educational continuity: a viable and well-timed investment**

The improvement of the poor population’s levels of educational achievement hinges upon the continuity of education, which has three different aspects: school attendance, progress through the system (minimization of repeater rates) and continuance in the system (minimization of drop-out rates).

A comprehensive study of the region’s educational systems reveals high enrolment rates but little continuity, with high repeater, drop-out and non-attendance rates. These problems are concentrated in the poorest and most sparsely populated areas and among low-income families.

In order to achieve educational continuity (see table X.1) the countries in which educational attainment is still quite low should concentrate on ensuring educational coverage and continuity at the primary or basic level, while those whose educational systems are more highly developed should concern themselves with ensuring continuity at the secondary level.

If educational continuity is to be ensured, instruction must be both relevant and of high quality. If it is relevant, then the opportunity cost of remaining in school will be justified both for low-income students and for their families. If a quality education is provided, it will foster higher achievement and performance levels and will motivate the students to stay in school.

Table X.1  
ENROLMENT RATES, BY LEVEL

Country	Enrolment rates (%)				
	Primary (net)		Secondary (gross)		Higher (gross)
	Boys 1995	Girls 1995	Boys 1991-1994	Girls 1991-1994	
Latin America and the Caribbean					
Argentina	99	89	66	70	36
Bolivia	97	93	40	34	22
Brazil	86	88	42	49	11
Chile	86	85	66	70	27
Colombia	96	65	59	70	18
Costa Rica	89	91	47	51	30
Cuba	99	100	70	79	14
Dominican Republic	79	83	34	47	18
Ecuador	98	89	54	56	20
El Salvador	95	63	27	30	15
Guatemala	91	46	25	23	8
Haiti	52	21	22	21	1
Honduras	85	86	29	37	9
Jamaica	100	96	62	70	6
Mexico	99	99	57	58	14
Nicaragua	78	81	40	47	10
Panama	99	96	63	68	28
Paraguay	89	90	38	40	10
Peru	99	90	78	70	31
Trinidad & Tobago	84	84	74	78	8
Uruguay	94	94	74	88	27
Venezuela	98	83	29	41	29

Source: UNESCO, *World Cultural Report*, 1998.

In order to “ensure that children belonging to poor households go to school and stay in school, in addition to giving them a high-quality education, it is also necessary to have a longer schoolday to help offset the constraints that the home environment may place on their ability to learn, to establish meal programmes and perhaps even offer subsidies to cover the opportunity cost of forgoing the possibility of finding some sort of employment ” (Franco and others, 1995).

The effort required in order to increase educational continuity is economically viable, since it would entail raising annual expenditure on secondary education by between 0.5% and 1% of GDP. Countries with lower secondary school enrolment rates would have to allocate more resources for this effort, but for them, too, it is an attainable goal.<sup>75</sup> The main focus should be on convincing the large proportion of high school drop-outs who neither study nor work—and whose return therefore has a low opportunity cost—to go back to school (see box X.3).

<sup>75</sup> See Labarca (1996b) for a calculation of the cost-time ratio for an increase in educational continuity in the various countries of the region, categorized by enrolment rates.

**Box X.3**

**CHILDREN AND ADOLESCENTS WHO NEITHER STUDY NOR WORK:  
A LOW OPPORTUNITY COST FOR EDUCATIONAL CONTINUITY**

In the early 1990s, the percentage of children and adolescents between the ages of 13 and 17 (ages at which they should be attending secondary school) who were neither studying nor working was about 13% in urban areas and almost 23% in rural areas. The figures are close to 20% in urban areas and 30% in rural areas in the case of children and adolescents who live in households that are in the lowest income quartile.

If this population group could be enrolled and motivated to stay in secondary school, it is likely that the proposed goals could be achieved. The fact that this target group is, for all intents and purposes, idle, and thus has no social or personal opportunity costs, may make it somewhat more feasible to attain the necessary enrolment rate. In other words, the advantages to be gained from incorporating this group into the regular secondary education programme are obvious.

Nevertheless, the characteristics of this population group pose formidable challenges in terms of the social and educational policy tools that need to be employed. Whether because of flaws in the tools used or omissions, existing policies have failed to either prevent or remedy the fact that a large percentage of children and young people are not studying even though, since they are not working either, there is no opportunity cost that would have induced them to drop out of school.

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**Source:** ECLAC, "The strategic role of secondary education in achieving well-being and social equity" (LC/G.1919), Santiago, Chile, 1996.

Continuity in secondary education ensures a higher level of learning and symbolic integration. It also has two other benefits that make it preferable to any alternative investment.

First, investing in secondary education (and the corresponding age group) is economically beneficial and generates greater positive externalities than the equivalent compensatory programmes do (see table X.2). This investment enhances young people's cultural and social development; complements activities in other areas, such as health and sex education; helps to upgrade the educational environment in the home and its members' socialization; and provides the intellectual basis necessary to move on to higher education.

Second, given the extent to which the parents' educational level influences the level to be reached by their children, ensuring that the young people of today complete secondary school will help to enhance the educational environment for the next generation when they establish households and have children of their own.

Table X.2

**PRESENT VALUE OF COMPENSATORY ADULT EDUCATION PROGRAMMES  
(EQUIVALENT TO SECONDARY EDUCATION) COMPARED WITH THE VALUE  
OF FOUR YEARS OF CONVENTIONAL SECONDARY EDUCATION**  
*(In dollars)*

Country	Compensatory programme (20 months) (A)	Four years of secondary education (B)	A/B
Argentina	2,300	1,100	2.1
Brazil	1,200	790	1.5
Chile	1,700	770	2.2
Colombia	1,400	400	3.5
Dominican Republic	1,000	190	5.3
Ecuador	1,400	320	4.4
Guatemala	650	190	3.4
Honduras	900	320	2.8
Jamaica	1,100	750	1.5

**Source:** G. Labarca, "Inversión en la infancia: evidencias y argumentos para políticas efectivas" (LC/L.956), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC)/UNESCO Regional Office for Education in Latin America and the Caribbean (OREALC), 1996.

**Note:** The present value of education was estimated at a 10% annual discount on 1990 spending. The present value of compensatory programmes was estimated based on 1994 minimum wages with a monthly discount of 0.8%.

### (iii) A task to be done: the status of the teaching profession

The success of educational reforms depends in large part on how committed teachers are to their work, but the teaching profession no longer has the status it once had, and in many countries its level of professionalism has declined.

Although salary increases for faculty have absorbed at least three out of every four additional dollars spent on education during the 1990s in the countries of the region, their salaries remain low. This means that many teachers are forced to work two jobs, which greatly reduces the amount of time they can spend on class preparation, counseling students, updating their knowledge and teaching methods and programming teaching activities. Low pay levels also demotivate teachers and tend to lead to apathy and to the performance of teaching duties by rote.

On average, the annual income of a teacher working in a public school in the region is only one fifth of what teachers with comparable experience and work schedules earn in developed countries. This salary differential is in keeping with the GDP differential between the two groups of countries, but the ratio between teachers' incomes and those of other types of professionals is smaller in industrialized countries than it is in the region. As may be seen in table X.3, teachers' salaries in the region are in most cases between 25% and 50% below those of other salaried professionals and technical workers, and are even below the average for wage earners as a whole. Furthermore (as is shown in table X.4), in the countries where poverty levels are the highest, a large proportion of teachers live in poor households or in situations of extreme economic vulnerability. This state of affairs is critical not only from a material point of view, but also symbolically, since it reflects an enormous disparity between what teachers contribute to society and what they receive in return.

Table X.3

**LATIN AMERICA (EIGHT COUNTRIES): ACTUAL AVERAGE PAY,<sup>a</sup> STANDARDIZED PAY,<sup>b</sup> HOURS WORKED<sup>c</sup> AND NUMBER OF YEARS OF EDUCATION<sup>d</sup> OF TEACHERS, PROFESSIONALS AND TECHNICAL WORKERS, AND ALL WAGE EARNERS AND PUBLIC- SECTOR WORKERS**

Country	Year		All teachers		Primary teachers <sup>e</sup>		Secondary teachers		All professional and technical workers <sup>f</sup>		All wage earners	
			Total	Public	Total	Public	Total	Public	Total	Public	Total	Public
Bolivia	1997	Actual average pay	2.4	2.4	2.4	2.3	2.6	<b>2.5</b>	7.1	<b>6.2</b>	3.3	<b>3.5</b>
		Standardized average pay	4.8	4.7	4.4	4.3	5.5	<b>5.5</b>	8.1	<b>7.6</b>	3.6	<b>4.9</b>
		Hours per week worked	25	25	26	26	22	<b>22</b>	42	<b>40</b>	46	<b>37</b>
		Years of education	14.6	14.6	14.5	14.4	15.0	<b>14.9</b>	14.3	<b>15.1</b>	10.1	<b>13.3</b>
Brazil	1996	Actual average pay	4.2	4.2	3.3	3.4	5.6	<b>5.4</b>	8.1	<b>9.4</b>	4.2	<b>6.2</b>
		Standardized average pay	6.7	6.5	5.3	5.4	9.0	<b>8.3</b>	9.5	<b>11.7</b>	4.7	<b>7.8</b>
		Hours per week worked	29	30	29	29	31	<b>32</b>	41	<b>37</b>	43	<b>37</b>
		Years of education	12.2	12.3	11.3	11.3	13.8	<b>13.8</b>	12.1	<b>12.6</b>	6.8	<b>9.8</b>
Chile	1995	Actual average pay	6.7	6.3	6.6	6.3	7.2	<b>6.1</b>	15.4	<b>10.1</b>	5.3	<b>6.7</b>
		Standardized average pay	8.0	7.7	7.8	7.8	8.4	<b>7.4</b>	14.9	<b>10.4</b>	5.0	<b>7.0</b>
		Hours per week worked	39	37	39	37	39	<b>38</b>	46	<b>44</b>	48	<b>44</b>
		Years of education	15.8	15.5	15.6	15.2	16.5	<b>16.3</b>	15.6	<b>14.8</b>	10.1	<b>12.8</b>
Costa Rica	1997	Actual average pay	7.9	8.2	8.0	8.3	7.7	<b>8.1</b>	9.2	<b>10.4</b>	5.2	<b>7.9</b>
		Standardized average pay	10.1	9.8	10.4	10.2	9.6	<b>9.1</b>	9.5	<b>10.5</b>	5.1	<b>8.0</b>
		Hours per week worked	38	39	38	39	38	<b>40</b>	46	<b>46</b>	48	<b>46</b>
		Years of education	14.5	14.6	14.2	14.3	15.0	<b>15.1</b>	13.3	<b>14.0</b>	8.3	<b>11.9</b>
Ecuador (urban)	1997	Actual average pay	3.3	3.3	3.4	3.6	3.2	<b>3.0</b>	5.6	<b>4.7</b>	3.1	<b>3.9</b>
		Standardized average pay	3.7	3.6	3.9	3.9	3.4	<b>3.2</b>	5.6	<b>4.7</b>	3.1	<b>4.0</b>
		Hours per week worked	41	42	40	41	43	<b>43</b>	46	<b>45</b>	47	<b>44</b>
		Years of education	15.3	15.3	14.7	14.7	16.2	<b>16.2</b>	15.1	<b>15.6</b>	10.6	<b>13.5</b>
Panama	1997	Actual average pay	6.6	7.1	5.7	6.1	8.2	<b>8.8</b>	9.8	<b>10.2</b>	5.1	<b>7.3</b>
		Standardized average pay	8.1	8.5	6.9	7.2	10.1	<b>10.8</b>	10.1	<b>10.6</b>	5.3	<b>7.8</b>
		Hours per week worked	38	38	37	38	39	<b>39</b>	45	<b>43</b>	45	<b>43</b>
		Years of education	15.3	15.2	14.2	14.0	17.4	<b>17.4</b>	14.7	<b>15.1</b>	10.6	<b>12.7</b>
Paraguay (urban)	1996	Actual average pay	3.9	4.0	3.3	3.4	4.7	<b>4.9</b>	6.2	<b>6.0</b>	3.1	<b>4.3</b>
		Standardized average pay	5.0	4.8	4.1	3.9	6.2	<b>6.1</b>	6.6	<b>7.1</b>	3.2	<b>5.1</b>
		Hours per week worked	35	37	36	39	33	<b>34</b>	47	<b>42</b>	49	<b>42</b>
		Years of education	14.8	14.6	14.0	14.1	16.0	<b>15.5</b>	14.5	<b>15.1</b>	9.3	<b>12.6</b>
Uruguay (urban)	1997	Actual average pay	4.5	4.2	4.4	4.3	4.5	<b>4.1</b>	8.4	<b>7.4</b>	4.5	<b>5.4</b>
		Standardized average pay	6.8	6.6	6.8	6.7	6.7	<b>6.4</b>	8.9	<b>8.2</b>	4.9	<b>6.0</b>
		Hours per week worked	32	32	31	31	33	<b>32</b>	44	<b>43</b>	44	<b>43</b>
		Years of education	13.6	13.5	13.3	13.8	13.8	<b>13.1</b>	13.3	<b>13.4</b>	9.2	<b>10.3</b>

Source: ECLAC, *Social Panorama of Latin America, 1998* (LC/G-2050-P), Santiago, Chile, 1999. United Nations publication, Sales No. E.99.II.G.4.

<sup>a</sup> Monthly average pay, in multiples of the poverty line, for the number of hours worked per week. <sup>b</sup> Monthly average pay, in multiples of the poverty line, standardized on the basis of a 44-hour work week. <sup>c</sup> Refers to average hours worked per week. <sup>d</sup> Average years of schooling. <sup>e</sup> Includes preschool teachers. <sup>f</sup> Excludes primary and secondary teachers.

Table X.4

**LATIN AMERICA (NINE COUNTRIES): INCIDENCE OF POVERTY<sup>a</sup> AND VULNERABILITY<sup>b</sup>  
AMONG TEACHERS, PROFESSIONALS AND TECHNICAL WORKERS, AND ALL WAGE EARNERS<sup>c</sup>**  
(In percentages)

Country	Year	All teachers		Primary <sup>d</sup>				Secondary				All professional and technical workers <sup>e</sup>		All wage earners	
				Total		Public		Total		Public					
Bolivia (urban)	1992	31	<b>36</b>	33	<b>36</b>	34	<b>37</b>	28	<b>37</b>	31	<b>38</b>	11	<b>22</b>	37	<b>30</b>
	1997	29	<b>38</b>	30	<b>37</b>	32	<b>38</b>	28	<b>39</b>	30	<b>42</b>	13	<b>22</b>	42	<b>29</b>
Brazil	1990	18	<b>20</b>	22	<b>23</b>	...	...	6	<b>11</b>	...	...	12	<b>18</b>	38	<b>26</b>
	1996	11	<b>19</b>	16	<b>23</b>	17	<b>23</b>	4	<b>11</b>	4	<b>12</b>	6	<b>14</b>	27	<b>26</b>
Chile	1990	5	<b>27</b>	5	<b>28</b>	6	<b>31</b>	5	<b>23</b>	5	<b>25</b>	4	<b>15</b>	30	<b>35</b>
	1995	2	<b>10</b>	2	<b>11</b>	1	<b>13</b>	2	<b>9</b>	2	<b>12</b>	2	<b>7</b>	14	<b>31</b>
Costa Rica	1990	2	<b>9</b>	0	<b>11</b>	0	<b>11</b>	5	<b>6</b>	4	<b>6</b>	3	<b>15</b>	16	<b>31</b>
	1997	0	<b>11</b>	0	<b>9</b>	0	<b>10</b>	1	<b>13</b>	0	<b>10</b>	3	<b>12</b>	12	<b>29</b>
Ecuador (urban)	1990	31	<b>46</b>	36	<b>43</b>	35	<b>43</b>	23	<b>50</b>	22	<b>55</b>	20	<b>32</b>	50	<b>30</b>
	1997	30	<b>42</b>	31	<b>43</b>	28	<b>47</b>	30	<b>41</b>	30	<b>46</b>	17	<b>32</b>	45	<b>32</b>
Mexico	1989	12	<b>45</b>	11	<b>48</b>	...	...	15	<b>34</b>	...	...	11	<b>29</b>	38	<b>33</b>
	1996	6	<b>37</b>	6	<b>39</b>	...	...	5	<b>33</b>	...	...	12	<b>26</b>	44	<b>31</b>
Panama	1989	2	<b>20</b>	2	<b>23</b>	1	<b>23</b>	0	<b>14</b>	0	<b>12</b>	4	<b>15</b>	33	<b>27</b>
	1997	2	<b>9</b>	3	<b>12</b>	2	<b>13</b>	0	<b>5</b>	0	<b>5</b>	3	<b>12</b>	21	<b>27</b>
Paraguay (urban)	1990	33	<b>36</b>	44	<b>33</b>	45	<b>44</b>	23	<b>39</b>	19	<b>41</b>	7	<b>30</b>	32	<b>36</b>
	1996	7	<b>41</b>	8	<b>50</b>	9	<b>52</b>	6	<b>30</b>	4	<b>42</b>	6	<b>21</b>	28	<b>37</b>
Uruguay (urban)	1990	1	<b>16</b>	1	<b>17</b>	1	<b>19</b>	1	<b>16</b>	1	<b>18</b>	2	<b>10</b>	11	<b>30</b>
	1997	0	<b>4</b>	0	<b>5</b>	0	<b>6</b>	1	<b>3</b>	1	<b>3</b>	1	<b>6</b>	6	<b>21</b>

Source: ECLAC, *Social Panorama of Latin America, 1998*. (LC/G.2050-P), Santiago, Chile, 1999. United Nations publication Sales No. E.99.II.G.4.

<sup>a</sup> Percentage of employed persons in each category who live in households with per-member income lower than the per capita poverty line. <sup>b</sup> Percentage of employed in each category who live in households with per member income between one and two times the per capita poverty line. <sup>c</sup> Figures in bold type represent percentage of employed persons living in vulnerable households. <sup>d</sup> Includes pre-school teachers. <sup>e</sup> Excludes primary and secondary school teachers.



The gap between the required and the actual quality of human resources widens as income declines. As in every activity subject to market forces, the most highly qualified professionals choose to work in those places that offer better pay and working conditions. The end “result is that the worst teachers are placed in schools in low-income areas, which are precisely where the best teachers are needed to address the serious problems that the students there have”.<sup>76</sup> Hence, the problem of teaching quality ties in with that of social stratification. It is not only a question of more or less training, but also of teachers’ **attitudes** and **expectations** about their students’ learning capacity: “numerous studies have shown that teachers working in deprived areas go in with a very fatalistic attitude about the their students’ chances of success, which becomes a self-fulfilling prophecy, since it leads them to pay very little attention to those who exhibit learning problems at the outset, since they consider the problems insurmountable” (Solari, 1994, p. 43).

Teachers’ receptiveness to educational reform is highly important. Not infrequently, governments view teachers as part of an unwieldy, protected bureaucratic structure that survives by virtue of a “pact” of mediocrity. It is thought that, with the exception of a few “vocational extremists”, people who go into teaching as a career have done so because they were unable to enter other, more prestigious professions. Viewed from another standpoint, teachers constitute the micropolitical dimension of the teaching institution, and their resistance to change is the result of pedagogical traditions that have grown out of consolidated ideologies, interests and values, static organizational procedures and management styles, and power struggles within educational institutions (Suárez, 1998, p. 103).

Having educators take an active part in the reform process is an essential step. If this is to be achieved, it will be necessary to strengthen the teaching profession by creating new incentives, offering continuing education and rewarding merit. Mechanisms that could be used in this connection would include material bonuses to be awarded in addition to regular salaries, such as extra time off to allow the teacher to work on and implement institutional projects or productivity incentives, as well as symbolic sanctions that would reinforce the desirability of participating in or accepting the proposed changes (Suárez, 1998, p. 97).

Means of **changing the employment status of teachers** include:

- Making Improvements in wage levels based on participation in advanced training and commitment to educational reform;
- Fostering increased professional self-esteem through the promotion of greater social recognition of the role teachers play in society;
- Reaching agreements with teachers’ unions on ways of improving teacher training;
- Setting performance and quality standards and establishing procedures for refresher training and, on that basis, instituting salary increases and improvements in other benefits.

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<sup>76</sup> Brazil is currently in the process of creating a fund devoted to maintaining, promoting the further development and enhancing the status of the teaching profession at the elementary school level. The fund’s purpose is to ensure a basic investment per student and to improve the wages of teachers in the poorest areas of the country (Solari, 1994, p. 31).

#### **(iv) The dissemination of new sources of knowledge and learning**

The mass dissemination of information via video, software, cable television and remote interactive media change the distribution channels for training and for the transmission of knowledge to children, adolescents and young adults. Although access to these goods and services is socially stratified in the region, the pace of technological development is such that the price of these devices is dropping rapidly, thereby making these instructional and information resources increasingly accessible to the majority of the population.

By virtue of this situation, **learning abilities** come to have a higher priority than acquired knowledge.

The recipient is often an active consumer or information processor who is obliged to develop the intellectual faculties necessary to handle and use newly developed cultural goods, and that recipient must develop a capacity to discern and select among a very wide range of supply.

Given these circumstances, schools need to make use of the multimedia industry in order to motivate students and provide greater means of expression, but they must also maintain a spirit of critical analysis in guarding against the “scatter effect” often associated with the use of audiovisual media and thus maintain an emphasis on the cumulative learning process.

The use of audiovisual resources in the classroom is a valuable tool, since it can considerably increase the students’ attention span, motivation and absorption capacity as well as allowing the classroom experience to be organized on a more horizontal, conversational basis.

Another basic element is the dissemination of computer hardware and instruction in the schools. A number of the countries in the region have made a determined effort in this regard (see box X.4), but much remains to be done. The availability and use of computers opens up learning opportunities and sources of information for students and familiarizes them with different languages and ways of using information media, all of which is necessary in order for them to go on to higher education and productive jobs, as well as participating in new symbolic forms of exchange and remote communication. It has been said that the new division between computer users and non-users is the modern-day version of the long-standing differentiation between people who can read and write and those who are illiterate.

#### **(v) Education and how it relates to the issues of equality and differences**

The traditional difficulty in reconciling the principle of equality and individual differences has a correlate in the changes now being made in the educational system and in the abandonment of the idea of “systemic simultaneity” (Gvirtz and Narodowski, 1988, pp. 39-56), which posited that all students were essentially the same, had the same learning abilities and derived the same benefit from the same educational content, and which therefore contended that the use of standardized curricula would foster greater equality of opportunity.

In addition to inculcating egalitarian values and a respect for diversity, the educational system also needs to embody that same type of balance in its own curricular flexibility. The principle of **equity** calls for a combination of egalitarianism and respect for individual differences. In the interests of equality, the educational system needs to ensure universal, progressive coverage up to the end of secondary school and to reduce the socioeconomically-based differences in the quality of education. In order to uphold respect for individual differences, the curricula have to be adapted to the needs of specific groups (including those requiring bilingual instruction, where appropriate), an effort needs to be made to show how the curriculum is relevant to the local

environment, and special allocations have to be made for socially vulnerable and economically depressed areas.

**Box X.4**

**INFORMATION SCIENCES IN FORMAL EDUCATION: COUNTRY EXAMPLES**

Latin America and the Caribbean are still at an experimental stage in terms of the educational applications of information sciences and computer media, but the usefulness of these tools for the organization of data and the acquisition of practical skills is widely recognized. They also facilitate the direct involvement of the family in the learning process, and various countries in the region have therefore been actively pursuing research in this field.

The goal of Brazil's National Programme for Information Science in Education (ProInfo), run by the Ministry of Education and Sports, is to equip all primary schools that have more than 150 students and offer grades 5-8, and all secondary schools, with computers. The purpose is to promote the use of computers as a way of supporting teaching and learning, teacher training and modernization of school management. In the media area. The National Programme for Distance Education: TV School aims to support teaching and the public teaching network with pedagogical methodology and technologies, and with support materials for classroom work. It uses a television channel exclusively devoted to educational communications. Begun in 1995, the programme had covered 45,000 public schools across the country by July 1996 and had been on the air for a total of 2,004 hours.

In Costa Rica, the Computers for Education Programme (PIE MEP-FOD), on which work was begun in 1988 by the Ministry of Public Education and the Omar Dengo Foundation, seeks to improve the quality of education throughout the country by putting computers in public primary schools. It is directed at preschool and at the first two levels of primary school. After 10 years in operation, it reaches almost half of the country's primary school population each year and more than 7,000 teachers and other members of the educational establishment.

In Chile, the Links Network (Red Enlaces) of the Ministry of Public Education has been established to create a communication network among schools using computers and linking together students, teachers, and professionals working in other education-related institutions. Begun experimentally in 1992, it included 955 secondary schools and more than 2,000 elementary schools by 1998. Its goal was to serve 5,300 institutions by the year 2000. The main benefits of the programme, according to standard tests for measuring educational quality applied in 1993 and 1995, have been increased creativity and improvement of reading comprehension in eighth-grade students after one year of being in the programme.

Mexico has the projects Telesecondary and Educational Television Satellite Network (EDUSAT), both developed by the Ministry of Public Education. Telesecondary began in 1968. Its purpose is to use television programming to support the education of rural and marginalized children throughout the country. It currently operates at 13,000 sites, benefiting around 800,000 students and 38,000 teachers. The EDUSAT programme, operating since 1995, offers television programmes on scientific, cultural, historical, pedagogical and computer subjects for schools and other educational institutions. In 1998, the installation of a total of 33,500 computer equipment units had been completed, and the programme had aired 15,000 hours of programming.

**Source:** Partnership for Educational Revitalization in the Americas (PREAL), "Base de datos. Mejores prácticas de política educacional y reforma educativa" [<http://www.preal.cl/innovaciones/index-ca.htm>], 1999.

Special importance should be given within the educational context to historical and cultural diversity and to the "recognition of the Other, beginning with communication between men and women or between young people of different ages, and moving on from there to all forms of intercultural communication". The educational system has to exhibit a willingness to rectify

inequalities in conditions and in opportunities, since, “whereas the classical model posited a social hierarchy based on merit rather than origin, this new model’s point of departure is the recognition of existing inequalities and it then seeks to take action to remedy them. This approach takes a realistic rather than idealized view of collective and individual situations...” (Touraine, op. cit., pp. 330-331).

Efforts need to be focused on achieving greater quality and relevance in mixed sociocultural contexts with the help of innovative action in areas where the majority of the students come from ethnic groups whose native tongue is not the dominant language and the adaption of curricular content to the local culture. Care must also be taken, however, to ensure that these measures do not translate into the segmentation of employment opportunities.

Respect for differences must encompass not only ethnic identities but also those deriving from social class, geographic area and gender. Curricular innovations and changes in the way teachers and students relate to one another should therefore also take the specific characteristics of these different groups into consideration in order to avoid discrimination and increase the curriculum’s relevance.

### **3. Health care**<sup>77</sup>

The objectives of **health care reform** are to achieve greater equity, efficiency and effectiveness in health care policy and in the regulation, funding, management and provision of health care.

If progress is to be made towards these goals, a number of policy shifts are required: (i) from a strictly sectoral focus to one that provides for cross-sectoral action; (ii) from an inefficient State to an efficient, promotional, regulatory State; (iii) from centralized management to decentralized and autonomous management; (iv) from unmonitored, rubber-stamp public spending to supervised expenditures that prioritize the needs of the poorest sectors of society; and (v) from initiatives with indeterminate outcomes to programmes and projects that have been evaluated on the basis of suitable cost-impact analyses.

To make this possible, the following policy components need to be in place: (i) cross- and multi-sectoral health care measures; (ii) the design and implementation of a basic health care “shopping basket”; (iii) targeted health care programmes and measures; (iv) a recognition of the increasing diversity of agents and roles in the spheres of funding, regulation, management and health care services delivery; (v) development of the capacity to monitor the profiles of priority health problems in different social sectors; and (vi) investment in basic health care infrastructure.

#### **(a) The public/private mix**

Although a governmental presence is essential in the health care sector, many of its responsibilities can be carried out through regulatory activities rather than through direct action. Establishing “third payer” mechanisms is a key step in increasing the efficiency and equity of health care systems.

There is no “correct” or universally valid public/private mix in health care. All proposals in that regard should be adapted to the existing health care structure and to the government’s political judgement and required freedom of action. This does not imply, however, that suggestions cannot be made to the countries regarding strategic criteria they could adapt and apply within this framework. With this consideration in mind, and given the widespread problems of inefficiency

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<sup>77</sup> Based on ECLAC/PAHO (1998).

and inequality, the following strategic recommendations are aimed at reversing the possible negative aspects of the public/private mix, which can then be brought into line with specific national situations.

Reforms should provide for the development of **management systems and methods** in all finance, management and insurance organizations; training in the operation of the relevant systems and, most importantly, in decision-making procedures; and a legal and administrative structure that embraces all public and private agents within the national health care system while respecting each one's autonomy, working to harmonize their joint action and regulating competence at the micro level.

For vertically integrated entities, ways must be sought of improving their ability to adapt to the needs of the public. A competitive context, with multiple agents, will tend to generate greater efficiency, but this will not suffice to surmount all the problems faced by these organizations, nor will it immediately bring about the necessary improvements in their productivity and effectiveness. To attain these goals, they must be provided with adequate financing and encouraged to develop their financial, administrative, and production management capacity and must be given progressively greater independence as they improve.

The granting of more freedom to these units should not be construed as a step towards the atomization or fragmentation of the institutional apparatus, but rather as a means of paving the way for greater efficiency, while simultaneously ensuring the integrity of the system. It is for this reason that the agenda for decentralization also includes the design of mechanisms for overall programming and budgeting, compliance with institutional guidelines and policies (formulated jointly by central and local management units), and a varied range of systems for reporting and for ensuring accountability with regard to productivity, efficiency and results.

## **(b) Regulation**

The structure and organization of the health care sector are being influenced by a growing number of agents and an expanding range of options for patients. This can be expected to improve the efficiency of resource allocation and service delivery. However, these positive effects will not come about spontaneously, but instead require the active involvement of the State. In this new role the State must assume a leadership role in policy design, monitoring, and evaluation and in the adoption of selective measures. At the same time, the State must perform a regulatory function in coordinating all the relevant agents, establishing standards and providing incentives to guide scientific and technological development and promote greater equity in the provision of services.

## **(c) Decentralization and participation**

Decentralization is inevitably an item on any government's political agenda. It involves a search for the most efficient forms of management, the deconcentration of resources and action, and the achievement of greater social participation. In order to achieve equity, the heterogeneous characteristics of the population have to be taken into account in order to address their needs and provide access to services. This cannot be accomplished by offering a uniform set of services that are organized by a central authority; instead, there has to be a progressive transfer of responsibilities to local governments. In each case, various organizational options need to be identified: when services are to be provided, how they are to be delivered and what level of quality is to be attained. If the administrative and financial duties involved in the management of health care staff are to be performed by the decentralized agency, it will also be necessary to establish guidelines for recruitment, employment contracts and wage levels as well as for the method to be used in organizing community participation.

Decentralization seeks to improve the quality of services and access. However, in some cases, services deteriorate during the transfer of authority as a result of the limited capacity of subnational administrative agencies to administer them, the shortage of available technical staff at this level — especially in the smaller municipalities— and the reluctance of central government personnel to be transferred. Effectiveness can be improved at this level, however, through human resources training. The introduction of career development mechanisms based on merit and competition can also act as an important incentive.

For local governments to help defray health care costs, their fiscal revenues must be increased. Attempts to do this have been made through the redistribution of sources of revenue and the establishment of revenue-sharing mechanisms, as well as transfers of State revenues to the municipalities.

The largest-scale decentralization initiative in the health care sector within the region has been the creation of **local health care systems** which are known by their Spanish-language acronym, **SILOS**. This initiative has been promoted by the Governments of the region with the support of the Pan American Health Organization.

**Community participation** facilitates the implementation of measures to promote preventive health care, disease control, nutrition, basic hygiene programmes and health education. It can also be a means of allowing agents of civil society to take part in setting priorities.

#### **(d) A basic basket of health care services**

The entire population should have guaranteed access to a specified set of health care services that have been selected on the basis of the population's epidemiological profile and its members' varying degrees of risk. This basket of services must also be geared to the resources available to each country and social preferences, as well as meeting technical and medical standards and being economically viable.<sup>78</sup>

The first step in designing a basic basket is to identify existing gaps in coverage<sup>79</sup> and then to formulate various options for reducing them, determine how much each of these options will cost, and prioritize the alternative baskets on the basis of the targeted reduction in coverage gaps and the resource use they entail. The final step is to choose, based on a consensus decision, which basic basket is to be made available across the board in each case.

**Targeting** can be helpful in taking suitable action to assist homogeneous high-risk or needy groups, since it can boost the efficiency of resource use and enhance programme effectiveness and impact.

There is a particularly urgent need for the use of this tool to be introduced in countries where health care coverage is insufficient and where health care systems are lacking in coordination and resources. It is also relevant in countries with ample coverage, however, since it will benefit those groups that are identified as being highly vulnerable on the basis of social criteria, which place

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<sup>78</sup> The design methodology for the basic basket of health care services must reconcile technical and medical considerations relating to epidemiological factors and modes of health care delivery with social preferences and with economic and financial considerations. These latter considerations have to do with determining the cost of the alternative packages (alternative baskets) that could be prioritized to optimize the cost-effectiveness ratio. The State of Oregon, in the United States, has developed a methodology for reconciling the various epidemiological, technical, economic, financial, and sociopolitical factors to be considered in defining the health care services to be offered to persons covered by its social security system. Thus use of a formula for calculating the cost of morbidity —based on years of life adjusted for disability (AVAD), which is a measurement that takes into account the years of healthy life lost as a result of premature death with those lost as a result disability— also makes it possible to compute the cost-effectiveness ratio of various options.

<sup>79</sup> Gaps in service and in coverage may be defined as the differences between the coverage required to meet specified needs and the coverage that can actually be attained at different levels of expenditure and resource use. Thus, these gaps can be reduced to differing degrees, depending on the available resources.

priority on "...the care of specific high-risk groups whose health is more acutely affected than that of the population at large or who usually have difficulty in obtaining health care," and of an "...epidemiological criterion, which emphasizes highly prevalent health problems that can usually be addressed with technologies of proven cost-effectiveness" (Vieira, 1993, p. 5).

One possible sphere of participation is provided by trade unions, since many of the demands voiced by union organizations have a clear impact on health: better working conditions, which include stricter worker safety measures, increased access to health care services and social security coverage to defray costs in the event of an accident or prolonged illness. Moreover, the connection between health and occupational activity is becoming increasingly evident.

A second area is citizen participation in the field of health care, which translates into community programmes for disease prevention and basic care which may be promoted by non-governmental organizations and municipalities, or public information and adult education programmes on hygiene and disease prevention.

Community participation ties in with decentralization: "This would make it possible to serve demands such as the following, in an effective and decentralized manner: greater presence of the poorer sectors in the management of social programmes; greater presence of local organizations in decisions on the channeling and use of resources in the municipal sphere; greater public and private support for the non-governmental organizations that work most closely with grassroots sectors; adaptation of health services, public education, and low-cost housing programmes to the specific needs of the different groups; and greater access to and presence in the mass media" (ECLAC, 1992a).

With regard to citizen participation, consideration should also be given to the growing responsibility of families and individuals for their own health. There is a consensus that lifestyles have a great influence on health and the incidence of disease, and the public therefore needs to be provided with information as a means of fostering increased citizen participation in the field of health.

In the context of democratic societies, community participation can permit the socialization of knowledge that promotes the adoption of better preventive measures and improves the judgement of users in relation to the services they use. Consensus-building among a range of different agents may also give rise to a political commitment to providing a basket of services to the entire population. Since this implies a distribution of responsibilities among different public and private agents, building a consensus on health care constitutes an opportunity not only for participation, but also for the legitimization and consolidation of commitments of this kind.

### **(e) Financing**

With regard to financing, the core elements of this proposal is to avoid additional pressures that could destabilize existing macroeconomic balances and to moderate increases in overall spending on health. Funding sources should include the mandatory contributions paid by wage earners and employers for health care; general tax revenues, which should be earmarked for subsidies for the indigent and poor populations; measures aimed at promoting a greater willingness on the part of households to pay for health care, at opening up channels for increased voluntary contributions, and at ensuring that groups that are economically able to cover their own health care expenses do so rather than having them subsidized; and the reallocation of international aid so that an increasing amount of those resources are used to achieve greater equity.

Consideration should be given to the question of whether taxes earmarked specifically for health care should be levied. In general, the experts oppose this solution, since they advocate a single pool of treasury funds and the maintenance of the greatest possible flexibility for the

allocation of resources. Many countries do levy taxes of this type, however, and they are regarded as playing an important role in protecting social spending from countercyclical effects by protecting them from cutbacks in times of crisis. Taxes on alcohol consumption and tobacco ("sin taxes"), which are used in many countries to finance health programmes, are interesting tools because they have a dual positive impact.

The financial base of the social security system should be strengthened, and transfers from other programmes to cover deficits in spending on curative and maternity care should be eliminated. The system needs to become financially self-reliant, either by increasing contributions or cutting back on outlays. Social security revenues can be increased by reducing evasion and the frequency of delinquent payments and by levying social security taxes on the entire salary rather than only on a portion of it. Steps should also be taken to renegotiate and index the debt owed by the State and by individuals to the social security system and to raise the contributions to be paid by beneficiaries or other percentage-based contributions, if they are insufficient. Mandatory contributions should be proportionate to income, and tax exemptions should be limited. Individuals should be allowed to make additional voluntary contributions in order to obtain extra benefits. It is also necessary to create incentives to encourage informal workers to join the system as contributors, which would help reduce the drain on the health care system caused by the provision of free services to persons able to pay for them.

Some of the possible incentives and financial mechanisms for facilitating the access of informal workers and the poor to social security coverage are: (i) setting the contributions to be paid by independent workers, informal workers, and rural groups at a level lower than what an employer would pay (except in the case of individuals earning high incomes); (ii) guaranteeing a basic care package with benefits commensurate with the contribution paid or supplemented by subsidies; (iii) reserving State subsidies for the expansion and improvement of health care for the poor; and (iv) when effective supervision or enforcement is impossible, promoting voluntary plans, in combination with social welfare programmes for the indigent.

International support for the health care sector in the form of loans and donations should be encouraged so as to strengthen its role as a supplement for domestic financing, particularly in targeted programmes involving the provision of a basic health care basket, basic sanitation, nutrition and health education to needy areas and groups. This concentration on specific aspects will also facilitate greater coordination of international cooperation.

Other resources may come from sources outside the public sector. Non-governmental organizations (NGOs) and households spend considerable amounts directly on health. In some countries, Household expenditure has been growing in recent years and currently accounts for 60% of total spending on health in the region. The development of private health services, geared mainly to meeting the demand of those with the ability to pay and are interested in using private services, would make it possible for governments to focus public resources on poorer population groups.

There is a trend towards cost recovery through the establishment of commensurate user fees. However, in most cases, the funds secured by this means are not very significant, although there are other cases in which the share of funding provided by user fees has tended to grow and could grow even further. Everything depends on the type and level of the fees that are charged. Cost-recovery mechanisms also have drawbacks, however. In some cases they may lead to a reduction in the demand for care (Makinen and Bitrán, 1993) by deterring those people who cannot afford to pay those fees from seeking care.

When subsidies and discounts are to be provided, it is important to make recipients cost-conscious and aware of the need to keep expenses down. This can be done by placing controls on service use by, for example, setting maximum levels based on normal use and requiring specific



medical approval for any services in excess of that level and special authorization for prolonged treatments or chronic diseases, or other similar measures. Monitoring of spending levels is also recommended to limit excessive consumption and promote reasonable use rates. Subsidies should primarily benefit the poor, who should be given the option of choosing both the fund manager and the service provider. It is also important to accord subsidized users the same status as better-off users and to allow them to make choices regarding service payments so that they can maintain their bargaining power in relation to the supplier. Suppliers must be made to understand that the payment they receive depends on the quality of the service they provide.

Consideration also has to be given to determining the best ways of transferring resources to vertically-integrated service providers. It will always be preferable to establish a proportional ratio between the supplier's level of activity and financing, and a direct ratio between rates and relevant costs for the supplier, in accordance with its degree of autonomy. If the supplier is a private organization, the rates should cover the entire cost as well as providing a profit margin to cover the opportunity cost of the capital involved and an additional risk premium commensurate with the activity in question. If the supplier is a public agency, does not handle its own investments, and receives additional resources for the maintenance and repair of equipment and facilities, then the rates need to cover only the operating costs.

Results-based payments (discharges of patients after treatment or surgery and on the basis of related diagnostic groups) tend to be more efficient than conventional fee-for-service payments. Budgeted payments should be forward-looking rather than mirroring past budget allocations. This facilitates aggregate budget estimates of financial resources and makes it possible to establish spending caps. The drawback is that differences between budget estimates and real needs are covered through quantity restrictions (implicit rationing that increases towards the end of budget periods) or reductions in quality. For this reason, budgets are not the best way of transferring resources to health care providers, except in cases in which product lines are very stable over time or are determined by other activities whose level of output is controllable.

Capitated payments provide the supplier with a fixed sum corresponding to a basket of preventive, promotional and restorative services to deal with certain risks to which each of its patients is exposed. This method has the advantage of encouraging suppliers to control costs, since it transfers the risk to them. Some of the conditions necessary for using systems of this type are: (i) a sufficiently large pool of members to allow risks to be diversified; (ii) the possibility of transferring risks to reinsurers, although this must be done selectively, with limitations, and the supplier must be required to make copayments in order to prevent it from losing the incentive to economize; (iii) rates set on the basis of community ratings in order to reduce risk selection, which would be detrimental to the members of the community most prone to becoming ill; (iv) the prohibition of risk selection by providers; (v) systems for monitoring personal health indicators and the effectiveness and quality of the care provided (this information should be made available to the public so that each individual can select his/her provider on an informed basis).

#### 4. Pensions <sup>80</sup>

In Latin America, social security systems have primarily covered middle-income sectors (with the help of government subsidies), have either lost money or made a very meagre profit on their investments, and have, in some cases at least, had a regressive impact on income distribution.

In attempting to confront and solve these problems, it should be remembered that there are a variety of models from among which policy-makers should select the most suitable one for the

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<sup>80</sup> Based on ECLAC (2000b) and Mesa-Lago (2000).

needs and characteristics of each country. There is no one, all-encompassing model that would be valid and of optimum effectiveness in any and all situations.

All reform measures should be debated by the public, and especially by the main actors involved, so as to reach a consensus that will permit their passage in Congress.

In some countries in which social security agencies are still fragmented and stratified, an effort should be made to bring all the programmes under a single umbrella and to standardize the requirements for rights acquisition and the elimination of special privileges. The laws on these issues, which are often variegated, disconnected, contradictory and highly complicated, also need to be streamlined and simplified.

Social security agencies need to be modernized through the introduction of information sciences and computer techniques, improved accounting procedures and management methods. If an appropriate regulatory environment exists, then NGOs, cooperatives, private providers and other agencies or bodies could help fill in the gaps that exist, pose a competitive challenge to the social security system, supplement benefits, boost efficiency and improve the quality of health care services.

Each country needs to choose the reform model that is best suited to the characteristics of its economy, society, demographics, labour market, capital market and political environment. Once the choice is made, it then has to make the necessary modifications.

The State must also help to restore a financial and actuarial balance by increasing the revenues and cutting the expenditures of administrative agencies. This requires a reduction in evasion and delinquency, the maintenance of computerized records, individual accounts for each insured person, improved inspection and effective enforcement and sanctions. The State must also pay its employer contributions on time, set its third-party contributions at a realistic level subject to social security reform and the achievement of universal coverage, and the payment of the government's debt.

Salary caps on social security contribution also need to be eliminated, and an attractive environment for investment needs to be created; in the case of financial markets, this entails, *inter alia*, the establishment of general rules for investment funds.

It is also important to eliminate, or at least restrict, liberal access conditions for social security systems and ensure that they are not over-generous. For example, age limits for retirement pension should not be lowered, nor should pensions be calculated on the basis of the wages earned in the most recent years or at a very high replacement rate. Nor is it advisable to add to or relax the requirements for benefit payments to persons who are already covered if the necessary resources are not forthcoming. Staff should be downsized and retrained, and the extra benefits they often receive should be done away with.

Especially in countries with limited coverage, government social security subsidies should primarily be used to expand coverage to include low-income groups that have had difficulties in entering the system or to fund anti-poverty programmes. This approach will help correct existing inequalities, expand coverage and make income distribution more progressive.

Special measures are required in order to expand coverage. Under the existing system, it would not be economically feasible to expand coverage in the less developed countries. A variety of additional funding sources are needed to supplement wage-based contributions (including income taxes, the VAT, government subsidies, etc.) to permit the entry of underprivileged groups, to design programmes that will provide the most urgently needed benefits at the least possible cost to low-income groups, to set priorities—starting with the expansion of health care coverage—and to introduce basic pensions when the prevailing economic conditions make this feasible.

In sum, an effort has to be made to achieve universal coverage for the social security system—something which is currently no more than a stated intention. Solidarity components, which would provide for cross-subsidization, are an essential component in this regard.

## 5. Social welfare<sup>81</sup>

Steps need to be taken to evaluate the viability of devoting a larger percentage of total resources to social welfare, of prioritizing nutritional and maternal/infant health care, childcare and training systems, and of adjusting retirement ages on the basis of poor workers' life expectancies. Care should be taken to maintain an appropriate differential between the amount paid out in social security pensions and the sum provided as social welfare payments, which have to be financed with government resources. Separate funds should be set up for these two programmes in order to prevent transfers of insurance coverage to welfare recipients and to avoid creating incentives for insurance premium evasion and poverty simulation. Income checks to verify eligibility for welfare payments should be carried out in a simple, efficient manner on a regular basis in order to detect changes in economic status and to guard against political interference and fraud.

The State should coordinate all anti-poverty programmes (social welfare and basic social safety nets) as well as related programmes, such as those dealing with primary health care and those targeting vulnerable groups (women, children, ethnic groups), in order to achieve a comprehensive, integrated policy to combat poverty. The management of basic social safety nets should be politically neutral, should use effective programme targeting techniques, select projects on the basis of objective, predetermined criteria aimed at achieving a substantial reduction in poverty and maximizing the utilization of available resources. It is also important to have such projects executed by decentralized and local agencies and to use suitable performance evaluation procedures.

## 6. Housing

The first step in designing a social housing policy is to obtain accurate estimates of existing needs. Housing shortages are often underestimated, either because inappropriate definitions are used or because of the inherent difficulties in obtaining measurements of housing deficits. An accurate quantification of the problem will permit an appropriate targeting of resources. Once this basis has been established, an approach emphasizing the use of market instruments can be applied.

### (a) Regulation and supply-side support

The main challenge is to create incentives that will effectively promote the development of a competitive, private low-cost housing construction industry that will maintain and enforce strict quality standards.<sup>82</sup> In most countries of the region, the trade-off between quality and quantity has resulted in projects in which non-quantitative considerations have been neglected. The outcome has been the construction of extremely small or poor quality housing that does not constitute a long-term investment.

In large-scale housing construction projects, the requirements to be met by construction firms need to be specified at the outset and contract performance guarantees need to be obtained. In highly profitable construction projects, this is important in order to guard against the formation of

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<sup>81</sup> Based on Mesa-Lago (2000).

<sup>82</sup> These standards include minimum requirements concerning floor space, the quality of construction materials, design and the hook-ups and other basic infrastructure required for low-cost housing units.

“ghost” companies that disappear after the project’s completion and take no responsibility for problems that may arise later on.

Escalating real estate prices must be dealt with through a land policy that will make the construction of low-cost housing feasible. The development of cities and outlying districts has to be guided by a combination of economic, social and environmental considerations. One option is for the State or municipalities to reserve land which can then be opened up for bidding. Another is for the government to try to internalize the externalities generated by its expenditures on infrastructure by charging a set percentage of the increased value of the land. If this option is chosen, it is important for there to be progressive property taxes based on market value.

### **(b) Demand-side support**

Subsidies are essential here, since housing deficits have a disproportionately strong impact on indigent and poor households, although non-poor households are also affected, especially in qualitative terms. The effective demand of the groups that are most affected by this problem is insufficient.

Traditional housing finance models based on nominal interest rates, quotas and fixed terms have, in the presence of high inflation rates, failed to address this problem satisfactorily. Countries that have been relatively successful in dealing with the housing problems of low-income households have used a financing scheme based on three elements: State subsidies, pre-purchase savings plans and mortgages.

Experience has demonstrated the advantages of having the State provide one-time, non-reimbursable direct demand subsidies. Their most important virtue is that they respect individual preferences by providing at least some degree of free choice. In order to gain confidence and credibility, a policy of this type should meet certain requirements to ensure equitable access. The first requirement is *suitable targeting* to ensure that the subsidies reach the people they are intended for. The second is *transparency*, so that the people receiving these subsidies understand what their options are and so that anybody who meets the eligibility requirements will automatically have access to the subsidy. The last requirement is *progressivity*, so that the the neediest households will receive the most help.

Correlations exist between certain socio-economic characteristics of household members – gender, age, occupational category, educational level— and housing deficits, and information on these characteristics can therefore help policy-makers target housing subsidies more accurately. For example, although housing subsidization programmes should include a prior savings requirement, the subsidy allocation process should also assign a suitable weighting to household size.

Consideration should also be given to the possibility of providing subsidies to persons occupying dwellings that need major repairs, extensions or improvements. Estimates indicate that qualitative deficits are numerically equal to or greater than quantitative shortages. Although the two problems are related, their solutions are quite different.

In households whose members live in extreme poverty, housing subsidies may cover as much as 100% of the value of the dwelling unit. At progressively higher levels on the income scale, however, subsidies should provide only a portion of the financing and should be supplemented by prior savings and mortgages.

Prior savings requirements make it possible for families to play an active part in solving their own problems and lead them to value the dwelling they obtain as a result of their own effort. Prior savings requirements must therefore be backed up by a solid financial system that will ensure the profitability, security and liquidity of these funds. Accordingly, either some sort of *fund indexation*

*system* needs to be set up or variable nominal interest rates should be used in order to take into account both the actual shortage of funds and expected inflation.

A number of countries that have established this type of financing system have used an indexation scheme in which assets and liabilities are expressed in a unit of account whose value is adjusted for inflation.

In order to provide access to mortgage credits, the State must take direct action on two main fronts: it needs to minimize the uncertainty generated by inflation rates if they climb to double-digit or higher levels, and it must develop the financial market in order to increase the availability of medium- and long-term funds.

In order to channel private funds appropriately, the expansion of the long-term capital market should be promoted, as should the development of a secondary mortgage market. This will also help strengthen the construction industry.

If these policies are to be successful, both the subsidies and mortgage credits need to be sustainable over time and should be part of a balanced financial package. It is therefore advisable to link the mortgage collateral for subsidized housing to loan repayment.

Recently a new tool, known as securitization, has been developed to channel finance into the housing sector. This new instrument consists of putting together packages of a number of individual mortgage assets or credits having specified payment flows; these packages are then used as backing for issues of standardized securities that can be traded on the secondary market. The originator of the credits obtains liquidity when these securities are purchased by large-scale institutional investors looking for long-term financial investment instruments. Obviously, the development of this instrument requires the presence of a long-term domestic capital market capable of providing sufficient depth and liquidity for the securities market.

### **(c) The role of the State**

In addition to serving as a facilitator and subsidiary actor, the State must also play a leadership and normative role by creating providing a suitable environment and favourable conditions to encourage private investment in housing construction and finance. In addition, it is the State's job to furnish the urban infrastructure that the private sector cannot provide in order to make investment in the housing sector viable. Finally, in cases where the private sector will not undertake housing construction projects because they involve very low-cost dwelling units, the State will have to build them itself.

In countries that are further along in the process of solving their housing problems, steps should be taken to increase the flexibility of the low-cost housing market in order to give the market greater mobility and counteract the emerging qualitative deficit. To accomplish this, regulations need to be established that will allow greater freedom of action so that the housing units that have been acquired can be sold or rented, subject to certain limitations, without requiring repayment of the subsidy; the housing subsidies for low-income groups can then also be brought into the secondary market.

In summary, the new economic policy schemes devised for the housing sector require the active participation of both the public and private sectors on a complementary basis.

## 7. Policies to combat poverty in rural areas

In recent years a number of programmes have been carried out in the region to combat poverty and improve living conditions among rural populations. Some of these programmes have been designed to extend the coverage of basic and social services to the rural population, while others have mainly been aimed at improving production and productivity among small-scale producers. In some countries, integrated rural development projects have also been undertaken, such as: the Education, Health and Nutrition Program (PROGRESA) and the National Solidarity Programme (PRONASOL) in Mexico; the Integrated Rural Development Programme (DRI), the Integrated Peasant Development Programme (PDIC) and the Social Solidarity Network (RED) in Colombia; programmes run by the Solidarity and Social Investment Fund (FOSIS), the Agricultural Development Institute (INDAP) and a private organization (AGRARIA) in Chile; the Rural Development Institute (IDR) in Nicaragua; and reforms to the rural social security system in Brazil. Work has also been done by the National Social Compensation and Development Fund (FONCONDES) and PRONAMACHS in Peru.<sup>83</sup> In addition, agrarian reform and a variety of programmes for generating employment and income that have been implemented in the region have had an important role to play.

The problems encountered include selecting beneficiaries, which involves carrying out studies that sometimes create problems within the local community. The fact that beneficiaries are badly organized, poorly informed and have little capacity for executing projects has encouraged the development of cronyism, and has weakened or failed to strengthen social organization. Apart from this, the dispersal and scarcity of resources has led to many small-scale projects being promoted with scant impact on rural poverty.

### - Programmes for broadening the coverage of social services among the rural population

Among the programmes to reduce rural deficits in drinking water and electrification, and the improvement of education and health services, it is interesting to analyse the experience of PRONASOL in Mexico. During its six years of operation, 11 million people benefited from rural area drinking water programmes, and 13 million people were included in electrification programmes; this was seen as an encouraging result in Mexico. The programme also aimed at extending health service coverage to 32 million Mexicans “without entitlement”, but in the space of six years it only managed to benefit 4.5 million people. The most significant effort to broaden medical coverage was made through the IMSS-Solidaridad programme to develop and operate rural clinics and hospitals. The expansion of medical-sanitation infrastructure made much slower progress during the 1990s, however, owing to the scale of the problem and the cost of the necessary civil works (Cordera and Lomelí, 1999).

Apart from this, programmes to improve child nutrition linked to school attendance and parental participation in rural areas also played an important role during the past decade (Scott, 1999).

### - Productive support programmes

Programmes to support production by the poorest peasant farmers have yielded modest results. To some extent they have managed to assuage the negative effects of bad economic conditions among the most vulnerable rural producer groups, but they have been unable to make a

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<sup>83</sup> The studies were used as preparatory documents for the seminar on “Successful experiences in combating rural poverty: lessons to be drawn for reorienting policy”, organized by ECLAC, FAO and RIMISP and held in Santiago, Chile, on 27 and 28 January 2000..

decisive impact on productive patterns so as to generate the incomes needed to lift these sectors out of poverty.

Efforts to promote development among the most deprived agricultural producers sets them apart from the rest of agriculture. Much of the investment here has been made without a strategic vision for rural sector development, and it has failed to complement macroeconomic policies.

### **- Policies to expand pension coverage**

An example of this type of policy is the universalization of the rural social security system in Brazil (Dias David, 1999 and Costa Delgado, 1999), which substantially increased the average rural household incomes, producing significant changes also in family welfare and productive investment. This reform to the rural social security system, mandated by the 1988 Constitution, began to have effects as from 1992 and involved significant changes in the implementation of the new social security regime: (i) equal access to social security systems for men and women; (ii) lowering of the retirement age limit to 60 years of age for men and 55 for women; (iii) establishment of a minimum retirement pension equal to one minimum wage. As a result, family incomes have improved (over 3 million people managed to move out of poverty in rural areas); improvements to families' housing conditions (especially in the north east); access to consumer durables; and the release of children from child labour to spend more time at school (this also occurred in families that were not part of the programme). In the case of families engaged in agricultural activities, capitalization and productive investment were both increased, which has led to extensive growth for small-scale producers.

### **- Integrated rural development programmes**

These programmes took account of the need to coordinate actions and investments of various types to ensure comprehensive development. They cover production aspects (technical assistance and credit), marketing, basic infrastructure (rural roads, electrification, aqueducts) and social services (education, healthcare).

The great strength of integrated rural development programmes is that they sought to endow the small-scale peasant economy with entrepreneurial capacity, through technical assistance and training, accompanied by improved basic social services and adequate infrastructure. One of the main limitations has been their rigid resource allocation, which failed to take the opinion of local stakeholders into consideration, with the result that needs were not always adequately detected. There were also cases of disproportionately high administration costs, sometimes exceeding 35% of the budget. Moreover, the absence of appraisals of quality and depth, together with shortcomings in public administration, did not always allow for the feedback needed to improve the quality and efficiency of interventions.

### **- A new actor in land management: the municipality**

A new actor has joined fight against rural poverty in recent years, namely the municipality (Vargas del Valle, 1999). In some countries this occurred just when the popular election of municipal authorities was being approved — for example, in Colombia at the end of the 1980s, and in Chile and Brazil in the 1990s— thereby opening the way to a new regulatory framework with new functions to be assigned. In this way, the municipality became a coordination and planning unit.

This has highlighted the need to support municipalities in carrying out their new job of directing and managing rural development, by improving municipal management capacity in drawing up and administering rural development programmes.

### **- Current challenges facing policies to combat rural poverty**

The still-high incidence of rural poverty calls for lessons to be drawn from experiences gained in the recent past, to highlight strengths and avoid replicating their shortcomings. In the first place, macroeconomic policies should encourage agricultural development, via the exchange rate, interest rates, and adequate access to financing for agricultural activity.

Secondly, coverage needs to be extended in healthcare, education and social security, and in the other subsidies that are essential for satisfying the basic needs and requirements of any policy to support production.

Productive activities also need to be promoted so as to link poor small-scale producers to agribusiness and the export sector, and seek out market niches through differentiated products that are labour-intensive and high in value-added.

The isolation of rural areas needs to be brought to an end by building roads to afford easy access to urban centres, and at the same time non-farm employment needs to be encouraged in the countryside by providing incentives for industries to invest and set up in rural areas, thereby helping to create jobs for rural dwellers.

Efforts to overcome rural poverty entail drawing up coherent plans to restore and manage natural resources in the countries of the region, given that the rural poverty map tends to coincide with the map of natural resource destruction. These efforts should be accompanied by actions to combat desertification and mitigate the effects of drought, both of which are closely related to rural poverty.

These policies presuppose active involvement by the State, the private sector and civil society, in reaching the agreements and identifying the complementarities needed to develop conditions for overcoming rural poverty. From the State, appropriate incentives are expected to enable the different private-sector actors to make investments. A strengthened civil society will ensure well organized beneficiaries who are capable of participating in decision-making and able to ensure accountability in public activity.

## **8. Guidelines for strengthening social integration**

Greater social integration requires improved conditions of employment, income, housing and education. Guidelines for action in these spheres, which are proposed in other chapters, are also valid for this policy goal.

In this section, guidelines are proposed in five areas: ethnic minorities, gender, family, citizen safety and reduction of violence, and citizenship broadly defined.

### **- Comprehensive social policies to attack exclusion**

The criterion of comprehensiveness is important to these policies in three ways: (a) exclusion is multidimensional; (b) there is a plurality of actors involved in these policies; and (c) it is essential for the beneficiaries themselves to be involved in policy design and implementation.

These policies pose new challenges, given the sectoral nature of conventional social policies. Transverse policies make it possible to coordinate programmes and projects more appropriately, by linking the various effects of policies and the different actors in their drafting and implementation.

These new multi-sectoral policies call for awareness-raising not only among the population in general but also among public policy decision-makers. They also require new ways of thinking and acting by public administration in pursuit of the key issue of equity; the design of suitable



mechanisms of bureaucratic management; the development of transverse rationales and participation; and a move from discourse to practice in reducing social exclusion.

### **(a) Gender policies**

Actions that could help to improve gender equity include the following:

- Constitutional and legal amendments, and changes in legal practice to safeguard equal rights between men and women, adapting national regulations to the Convention on the Elimination of All Forms of Discrimination against Women, and the Nairobi and Beijing accords. Apart from this, mechanisms need to be established to ensure equal rights and to train staff on these issues, especially in the area of justice.
- Promotion of equity in education and in access to all careers; and elimination of sexist biases in curricula, didactic materials and teacher attitudes.
- Promotion of equal participation by women in the labour market. This means providing information and vocational guidance, and diversifying job alternatives for young people; adapting training to market needs, without job segmentation or unequal wages for the same work; reconciling the holding of a job with the exercise of both paternity and maternity; regulating home-based, part-time and seasonal work; stimulating female entrepreneurial capacity; and improving social security coverage for working women.
- Encouragement of women's social and political participation, and incorporation of women's interests into the public agenda; encouragement of associative practices, and expansion of participation by women in decision-making.
- Improvement of women's access to health systems; provision of special assistance to victims of violence, the reporting of such situations, covering aspects with a strong gender component.
- Strengthening of the public institutional framework for implementing and appraising gender policies.
- Design and improvement of information systems to facilitate appropriate diagnosis, and the follow-up and appraisal of gender equity policies.

### **(b) Policies aimed at families**

The target population for this type of policy are: (i) single-parent households headed by women, which tend to be more precarious in terms of income, security and the possibilities for intergenerational mobility; (ii) families where the parents have low schooling levels tend to replicate low educational achievement in their children; (iii) households located in precarious settlements, which face major difficulties in avoiding physical insecurity or school dropout, and where there is a high probability of socialization in delinquency.

Special programmes need to be promoted in these cases to support families and households in risk situations, and draw them into the educational system (or prevent them from dropping out of it); to support the work of child care, organize the community to increase protection against violence and anomie, and expand family income opportunities.

This type of policy is difficult to design. In general there are no organizations in charge of ensuring the development and coordination of such policies, whose structures and functions have profoundly changed. Another problem is the high sensitivity-value of issues relating to families; moreover, most social policies are designed for individuals but usually fail to envisage their

implementation in the family group. Policies are also basically directed at families that are in danger of break-up, but they do not encourage families to overcome their difficulties through collective actions that would enable each member to associate his or her efforts with achieving greater collective wellbeing (ECLAC, 1994).

In addition, designing policies for families becomes even more difficult when the interests of their members are heterogeneous and in some cases mutually conflicting (in extreme cases, this expresses itself through intra-family violence), which raises doubts as to whether policies should be aimed at families as such, or at certain of their members. Lack of coordination between the agencies and organizations responsible for providing services to family members with deficiencies undermines the efficiency with which nearly always scarce resources are used. Selection criteria favouring the poorest population groups tend to identify certain problems with certain social groups — intra-family violence, child abuse and abandonment identified with poverty, for example— ignoring the fact that such problems frequently transcend all social categories.

There are several entrenched myths that impede the adequate design of policies towards families: the nuclear family as an exclusive model; the harmonious and functional family in which the man provides economically for the household while the mother only carries out domestic tasks (most Latin American women actually work a double shift, and many young people and children are actively participating in the labour market). Although the large-scale influx of women into the labour market is now a well established phenomenon, the need for a redistribution of domestic chores needs greater recognition both in public policy and in the family domain. Policymakers hold on to the image of the traditional family, where the mother is the sole agent of socialization for the children.<sup>84</sup>

This complexity shows that it is not family type but family functions that need to be strengthened by appropriate policies. Different ways of supporting family functions have been devised, and each country needs to adopt them in accordance with their own appraisal of the situation of their families, the coverage and quality of their services, the relative emphasis on prevention or dealing with problems detected, among other aspects (Arriagada, 1998). In addition, the following criteria should be considered as guidelines for the formulation of policy for families:

- Recognize the specific aspects of the new family arrangements, and identify the needs that arise from these arrangements so as to make provision and provide mechanisms for satisfying them (Rico, 1997).
- Rather than supporting families as such, support some of their functions, and recognize their heterogeneity.
- Ensure the State guarantees all family rights, protecting heterogeneity and making it respected in family organization.
- Promote greater equality of rights and duties between men and women in carrying out their family roles and responsibilities, and reaffirm the importance of the roles and functions of adults as providers for the family, preventing children and adolescents from assuming these duties.
- Promote the right to freely exercise family planning in order to exercise responsible paternity.
- Promote respect for cultural diversity and its influence in forming and strengthening family identity.

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<sup>84</sup> For example, the education and health systems are demand more of mothers than of fathers, ignoring the fact that mothers mostly also have jobs outside the home.

### (c) Support programmes for indigenous and Afro-American groups<sup>85</sup>

The basic principle for achieving greater social integration of indigenous and Afro-American groups is the recognition and appreciation of cultural diversity. This poses the huge challenge of overcoming inequalities and exclusion based on discrimination and on what is referred to as “cultural uniformity”. The first, because it marginalizes indigenous groups, the second because it “deculturizes” them with respect to their own life styles.

Recognition of multicultural and pluri-ethnic diversity implies that States and Governments recognize the rights of such groups, enact legislation to reinforce that recognition and provide the necessary means for the real exercise of those rights as well as institutions that enable them to develop their potential and receive training in the basic codes of modernity, without this occasioning a loss of identity.<sup>86</sup>

In **legal** terms, this means enacting general or sectoral laws to strengthen, protect and promote ethnic and racial minorities (or, majorities, as the case may be). The first step should be to establish a special legal framework setting forth the conditions for the implementation of equitable policies which recognize ethnic and racial diversity and specificity. One policy criterion in this regard is affirmative action or positive discrimination in favour of racial minorities. Various examples of this include the Act on Indigenous Peoples in Chile, the Communities Bill in Ecuador and the Bill for the Autonomous Development of Indigenous Peoples in Costa Rica.

With respect to **education**, tailoring the education system to the cultural realities of indigenous groups is a crucial element that not only enables such groups to strengthen their cultural identity but also ensures that indigenous children perform better within the formal education system. A case in point is the application of language policies, which, for the most part, incorporate bilingual, intercultural and educational programmes and projects; they are based on the constitutional recognition of indigenous peoples, their language and culture (see Box X.3). In this case, equity in education means incorporating appropriate strategies to ensure that indigenous peoples and racial minorities have access to the basic cultural codes of modernity without this implying the loss of their language and culture.<sup>87</sup>

At a more specific level, policies for promoting greater educational opportunities for ethnic minorities should be aimed at the following:

- Providing sufficient budget appropriations to ensure that intercultural education meets the needs of indigenous peoples.
- Promoting use of the mother tongue in the educational process and of a second language for inter-cultural relations, depending on the linguistic characteristics of each country or region.
- Building awareness among the population as a whole of cultural and linguistic pluralism in each country and region at all educational levels and modalities.

<sup>85</sup> Based on Bello and Rangel (2000).

<sup>86</sup> Handling codes of modernity implies the ability to read and write and do calculations, the capacity to communicate using the mass-media and to face various interlocutors. These skills are instruments and as such do not necessarily pose any threat to cultural identity of the trainers. On the other hand, it enables them to project their identity in a world of on-going dialogue between different groups and opens up greater prospects for productive development without this necessarily implying giving up the systems to which they belong symbolically.

<sup>87</sup> See previous footnote.

## LANGUAGE POLICIES IN LATIN AMERICA

Bilingual education is being institutionalized through the creation of specific bodies within the ministries of education. National general directorates have already been set up for this discipline in Mexico since 1978, in Ecuador (the National Directorate for Bilingual Intercultural Education - DINEIB) and Peru, (DIEB) in 1988, (although the Peruvian office was dispensed with shortly afterwards); in Chile, the National Indigenous Development Corporation (CONADI) in 1995; in Nicaragua, a department in 1989; and, in Panama, an Indigenous Section. For some countries, more important than the creation of new bodies was the clarification of ministerial responsibilities in this area. Thus, in Bolivia (National Bilingual Education Project (PNEB), 1990) and Guatemala (National Programme for Bilingual Education (PRONEBI), 1985, the relevant activities were conducted at the project and programme level respectively, although they will should be pursued continued until the necessary economic and social support has been obtained.

**Source:** Barnach-Calbó "La nueva educación indígena en Iberoamérica.", *Revista Iberoamericana de Educación Bilingue* (<http://www.oei.org.co>), (1999).

At the **communications** level, access by indigenous peoples and Afro-Americans to new communications technologies should be encouraged. The construction of an active and modern citizenry calls for "communications literacy", with the use of carrier media and audiovisual technologies by ethnic groups who should be interlocutors in the public dialogue. In the last few years, the indigenous organizations of the Americas have demonstrated their capacity to adjust to technological change, which is reflected in the use of audiovisual resources and above all, of the Internet. These resources must be harnessed for the benefit of the communities in order to promote cooperation networks, the exchange of experiences and knowledge at the national and regional scale.

As regards **employment and labour**, Governments must take steps to avoid discrimination against indigenous and Afro-American workers, by offering them equal access to education under intercultural conditions, while seeking to ensure full access to employment, with equal pay for equal work, respect for social rights for workers and compliance with health and safety standards relating to accidents and job-related illnesses.

In terms of **health**, special measures must be adopted to ensure that the health and other social services are more accessible to the indigenous populations and correspond better to their needs. Moreover, the validity of traditional medicinal and pharmacological treatments should be recognized and the use of well-established medicines whose efficacy has been proven should be accepted to help to cultural reintegration of communities.

As regards **access to land**, States should guarantee the ancestral territorial and land tenure rights enjoyed by these peoples either through the enactment of general and specific legislation or through recognition of customary laws and uses and historic professions. As established and defined in Convention No. 169 concerning Indigenous and Tribal Peoples in Independent Countries, 1989 of the International Labour Organization, the bias should be towards establishing measures and programmes of action to give indigenous peoples authority to administer and manage their own territories and natural resources.

The management and protection of natural resources and biodiversity in indigenous territory is a central issue that should be addressed by the countries of the region. The growing demand for new lands for cultivation, the patenting of phyto-pharmaceutical products by traditional consortia,

the applications for the use of water- and oil-bearing mining concessions and for timber exploitation have led to a situation that is threatening the survival of indigenous peoples who live on their ancestral lands. Agenda 21 of the United Nations Conference on Environment and Development recommends that States establish regulatory frameworks and participatory arrangements for joint work with the communities, whereby plans of action and joint management of their lands, natural resources and biodiversity can be implemented. States can tap into the experience and knowledge of indigenous peoples in managing their natural resources and biodiversity, while supporting training programmes for the management and use of their resources, within a framework that will lead to dynamic generation of autonomous development and empowerment.

As regards **participation**, at the national level, Governments are urged to commit to promote participation of civil society, communities and associations of the groups concerned in generating mechanisms for consultation, negotiation, conflict settlement and the elaboration of policies and short-, medium- and long-term programmes.

#### **(d) Actions for strengthening public security<sup>88</sup>**

In the treatment of criminal violence, activities implemented in Latin America and in other parts of the world have attested to the need to assume more integral perspectives that combine prevention (both primary and secondary) and control. The adoption of two-way programmes, as they have been called (for prevention and control) are major challenges, since, in addition to serving the most urgent needs, they seek to achieve long-term solutions that can effectively reduce the levels of violence affecting the region. But, moreover, they are a challenge because in many cases, they imply restoring trust between police authorities and civil society as a step towards promoting the participation and commitment of the public in the area of public safety, initiating judicial and penal reforms that require far-reaching political and social consensus and promoting a long-term cultural change, such as the move towards a peaceful settlement of disputes in different spheres of society.

Against this background, the proposal is to adopt integral policies centred on the prevention of violence and which affect the different factors involved, that is, individual, as well as family, social and cultural factors. In this connection, the safety programmes propose to combine the following:

- **Integral measures and activities targeted** at those risk factors which are most likely to lead to violence;
- Short-term **measures for police control** and which affect specific trends and at times for limited periods and **reforms** of the judicial, police and penal systems, which require political and social consensus that make their implementation more complex;
- **Preventive measures**, such as control over the carrying of weapons and consumption of substances associated with violent behaviour (for example, closing hours for the sale of alcohol and the “carrot hour” in Bogotá;
- **Secondary preventive measures**, targeted at high risk groups such as young men, and witnesses or victims of violence when they were children, with a view to changing behaviour patterns, and implemented in conjunction with **primary preventive measures** aimed at changing social attitudes, standards and behaviour patterns of the population, as a whole, many of which are aimed at reaching groups at an early age;

<sup>88</sup> This sub-item is based on Arriagada and Godoy (1999).

- **Inter-institutional coordination**, aimed at the need for simultaneous action at different levels to curb crime and enforce punishment – coordination of actions taken at the community, local government, private and governmental levels, those taken by police, judicial and penal authorities, as well as educational and labour organizations and so forth;
- **Citizen participation**, which implies promoting the creation of networks of relationships and the organization of the community itself for the prevention, reporting and even, to some degree, the control of crime;
- **Prevention through education programmes** that transmit values and practices for the peaceful settlement of disputes, which can generate changes in aggressive behaviour, provide a wide range of responses to conflicts and reinforce conducts that favour discussion, collaboration and understanding;<sup>89</sup>
- **Job creation** in those segments that are most exposed to risk factors in terms of violence and lack of public safety, given the importance of work for social integration and for the future prospects of many young people in the region, who account for more than half of the total unemployed in urban areas in Latin America;<sup>90</sup> and
- **Reforms to the judicial and penal systems** aimed at reducing impunity for the majority of crimes, strengthening the system's capacity to control and sanction crimes, fostering a climate of greater security and trust in existing institutions, and ensuring that the time spent in prison, often in poor conditions, does not result in greater socialization in, and exposure to, violence. Alternative justice programmes, closer to citizens, based on the peaceful settlement of disputes can be an expeditious and opportune way of solving many minor offences. One experiment in this regard involves the Centres for Conciliation and Mediation in Colombia, which are facilities and approaches that promote settlement of disputes by civil society. Other mechanisms created in this country are police offices for family matters, whose purpose is to protect and advise families with respect to their fundamental rights, to enforce respect for such rights, especially for minors, and to help to find peaceful solutions for family conflicts. This type of institution has contributed to an increase in the number of cases of domestic violence actually reported.

Currently, there are experiences with programmes that combine measures for control and prevention. Two-way public safety programmes have been developed in three cities in Colombia.

The Development, Security and Peace Programme (DESEPAZ) in Cali acts on three fronts: application of the law, education for peace and community institution-building for restoring family, social and individual values considered to be prerequisites for coexistence. For example, the Social Pact for Coexistence signed by army officers and gang leaders falls under this programme. The system of recording crimes under the programme has allowed for the adoption of specific, localized measures, which have been successful. In Bogotá, a security programme was created in 1994, based on the strengthening of social and cultural limits that act as a deterrent to the violation of standards, physical attacks against human life and public safety. In this context, the actions aimed at enhancing coexistence and negotiation in times of conflict assume a great significance in reducing

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<sup>89</sup> Some educational campaigns implemented in this regard have even helped to shed light on certain types of violence, in particular, domestic violence. This is of special interest because of the impact of violence in the home, which makes it difficult for children to internalize patterns of control and self-control that would enable them to restrain aggressive feelings; hence, in adulthood, they tend to adopt violent means for resolving conflicts.

<sup>90</sup> These factors are present in the programme designed for young gang members in Cali, where army officers and band leaders signed the "Social Pact for Coexistence" under the Development, Security and Peace Programme (DESEPAZ), in which authorities pledged to provide loans and technical training to young people as well as job opportunities and legal aid.

the number of acts of violence as demonstrated by the sound policies for addressing the problem of lack of public safety. The Office of the Mayor in Medellín has prepared preventive projects and, with the help of the peace programmes promoted by the national Government, has implemented programmes to assist children and young people of poor communities affected by conflict. Some of the objectives of these actions are education, recreation and resocialization for young people, community participation, the influence of the communications media in preventing violence and improving police/community relations.

The activities organized in these three Colombian cities have coincided with the reduction in urban violence, suggesting a connection between the two. The homicide rate in all three cities has declined steadily and markedly. For example, in 1994, Bogotá recorded 3,885 homicides; the number was down to 3,531 in 1996 and 2,813 in 1997, a decline of 27%. In Cali and Medellín, the situation was similar. Total homicides (in absolute terms) declined by 27% in Cali and 35% in Medellín during the same period. This decline is in sharp contrast with the national average, which has declined by 5% and with the average for the other major cities in the country, where the homicide rate went up 3% (Salazar and Castro, 1998).

Box X.6

**MEASURES FOR GENERATING GREATER PUBLIC SAFETY**

Preventive measures	Control measures
Educational programmes: Reducing the drop-out rate from schools Education for peaceful settlement of disputes	Reforms to the police system: - Creating strategic plans - Creating a more professional police force - Reducing the functions of the police - Increasing staffing - Awarding pay rises to police officers - Strengthening mechanisms for control of the police system.
Organization of the community	- Judicial reforms: - Flexibility with procedures - Coordination between the judicial and police system - Increased resource allocations - Punishments in proportion to offences - Treatment of victims
Control of the sale of alcohol, drug trafficking and carrying of weapons	Reforms to the penal system: - Applying international instruments to prison systems - Making adequate and effective budgetary allocations - Speeding up processes and eliminating biases in the administration of justice - Attacking corruption and impunity - Improving use of time during imprisonment - Promoting alternative sentences that may be served outside of prison
Combating poverty and inequality	Creating mechanisms for alternative justice

### **(e) Criteria relating to greater exercise of citizenship**

In order to extend the exercise of citizenship to the sectors of society least integrated in political and social life, the challenge is to reconcile equal opportunities for all with respect for differences. This poses the challenge of moving towards full recognition for civil, political, social, cultural and economic rights: civil rights, since individuals should have the autonomy to take decisions in respect of their lives and their values without coercion; political, because it is a question of allowing for the participation of different social actors in the deliberation and decision-making processes and for ensuring that this participation is conducted democratically; social and cultural, since the aspiration is to ensure that equal opportunities are harmonized with respect for differences; and economic, because a basic income is indispensable if one is to be in a position to make plans for the future and for self-fulfilment.

Given the foregoing considerations, integration policies in this field refer, in the first place, to the full application of the criterion of non-discrimination, as asserted in relation to indigenous groups and Afro-Americans. This includes **affirmative action** policies not only for those groups, but also for other socio-economic, cultural, age and/or gender groups, who are in a more vulnerable position.

Affirmative action should give preference to enforcing the rights of those who are most deprived. This refers not only to social rights, such as education, work, social assistance and housing; it also refers to the right to take part in public life, the right to respect for cultural practices other than the predominant ones and the right to participate in public dialogue, to name a few. Both the State and civil society must work concurrently in this area. It is not just a matter of having the State set the conditions conducive to respect for differences, but also of ensuring that society, based on its own social capital, reinforces the affirmation of their specificities. Citizenship implies making demands, ensuring distribution, but it also requires leadership. Social achievements are, to a large extent, the State or extended community's responses to mobilization by social actors and it is therefore important to recover the public domain in which different groups meet to raise their demands and put forward proposals.

In order to be effective, the extension of rights to underprivileged groups must go hand in hand with the incorporation of actors who have been excluded from the mechanisms for political representation, full access to justice and participation in public dialogue. Hence the need to harness the current wave of reforms to the judicial and political systems as well as the trend towards decentralization of government, in order to promote greater equity by giving excluded groups access to the different bodies responsible for decision-making, reform and application of the law and use of public facilities (above all mass-media facilities) to express their views and their grievances.





## Chapter XI

# Further social reforms

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## 1. Guiding principles and criteria for social policy

### (a) Guiding principles for social policy

The Commission (ECLAC, 2000b) has emphasized recently that social policy should be informed by certain guiding principles: universality, solidarity, and efficiency.

#### (i) Universality

This principle accents the need for all members of society to have access to certain fundamental benefits or protections, which are considered necessary for these individuals to participate fully in the society in which they live. This is important not only because it enables people to meet their basic needs, but also because it helps develop a sense of belonging to the community, and therefore strengthens social cohesion.

It should also be noted that this principle posits the need for total coverage, which does not happen in practice, especially because social policies —beyond mere rhetoric—do not tend to reach the poorest segments of the population. This has given rise to the notion of apparent or exclusive universalism, which emphasizes the achievement of “**universality of satisfaction**” with respect to what are considered minimum needs, depending on the level of development of each society. This satisfaction should be guaranteed

by the State, relying on the participation of a vast array of social actors. The problem is not just the lack of resources. In the majority of cases, extending coverage is impeded by political circumstances, based on the varying abilities of organized and unorganized groups to exert pressure.

To broaden the satisfaction of needs, the concept of **targeting** becomes important, by which is meant seeking to identify as precisely as possible the population of intended recipients (potential beneficiaries) and to design the programme or project with their characteristics in mind. The more precise the identification of the problem (unmet needs) and of the individuals affected (target population), the easier it will be to design **differentiated and specific** measures to solve it.

Furthermore, targeted policies avoid spreading resources too thinly and concentrate them on those most in need. Thus, “targeting increases the magnitude of the impact per unit of resources invested, and reduces final costs” (Schejtman, 1989, pp. 118 and 119). Also, there is a greater likelihood of achieving the intended impact, given that there is not a uniform method of meeting needs, but an approach that takes into account the peculiarities of the target group. In short, it makes allowances for the heterogeneity of society, and especially for poverty. At the same time, at the technical level, it does as much as possible to prevent non-priority groups from obtaining benefits.

It has been said that “the distribution of social services is not neutral with respect to income groups” (UNDP, 1990, p. 83). It is even argued that “If substantial benefits accrue to undeserving groups or do not accrue to deserving groups, the intervention is poorly designed” (UNDP, 1990, p. 44). Both propositions stress the importance of targeting.

Targeting is a criterion that is both inclusive and exclusive. Thus, those who do not need services do not receive them, and often this even prevents harmful effects. For example, school meal programmes that distribute food indiscriminately end up creating problems of obesity in children who are already fed adequately at home.

## **(ii) Solidarity**

This principle is based on the notion of different degrees of participation in the financing of social policy and access to social protection, depending on individuals’ economic capacity, as a means of making universality and social equity a reality (ECLAC, 2000b, p. 79). It contends that access to well-being should not depend exclusively on the person’s ability to pay.

There are two ways of achieving this objective. One, through taxation, by obtaining more revenues from those who are not poor; and the other, through public spending, by giving preference to the poor.

With respect to the first method, the Commission (ECLAC, 1998e) has highlighted the fact that in Latin America a bias has emerged in the structure of taxation that favors indirect taxes, particularly consumption taxes, in the form of the VAT. Indeed, nearly every country in the region obtains 70% to 80% of its tax revenues in this manner. In the OECD countries and the Caribbean, in contrast, between 40% and 66% of revenues come from direct taxes.

For this reason, it has been noted that, although the redistributive capacity of tax policy should not be overestimated, the role of direct taxes should be enhanced by broadening the tax base and including more taxpayers. This will result in more horizontal and vertical equity (ECLAC, 1998e, p. 70).

With regard to the second method, emphasis has been placed on the need to improve the design of social programmes with a view to achieving a greater impact.

The combination of both alternatives, obviously, would yield a greater redistributive impact. If it is not possible to do that, however, special attention should be given to technically correct and progressive allocation of resources.

### **(iii) Efficiency**

This principle emphasizes the demand for proper management of public resources, which should result in obtaining the largest quantity of products of similar quality with the same quantity of resources. The proper management of resources, which are always in short supply, contributes to social equity in that it allows for some resources to be freed up to produce more goods and services to meet individuals' needs.

Achieving efficiency requires the establishment of an incentive structure that rewards better utilization and allocation of resources within each activity, and among different activities. It also requires that the various players' interest in maximizing their benefits contribute to the achievement of the objectives and to the maximum overall efficiency of protection systems. Moreover, it ensures that the benefits achieved in each area have the least possible negative consequences in other spheres of social and economic development.

It is important to bear in mind that perverse incentives can be created. Thus, there should not be universal guarantees that encourage beneficiaries to deliberately bring about circumstances in which they become eligible for the guaranteed benefit (moral hazard). The same is true of improperly designed mechanisms for income transfer, which may discourage savings and insurance coverage, or, among other things, of minimum guaranteed protections that do not meet expectations, which cause people to seek ways to avoid paying their contributions (ECLAC, 2000b, p. 80).

## **(b) How can the guiding principles of social policy be implemented?**

The practical implementation of the principles of universality, solidarity, and efficiency requires sufficient political will, financing, and institutional development, as well as a management approach that stresses effectiveness and impact. The first two elements are analyzed below, and the latter three are examined in detail in later special sections.

### **(i) Political will**

Technical proposals are not enough to bring about change in social policy. Political will (and power) is also necessary, and it, in turn, requires the support of the citizenry and a political consensus that will provide ongoing support for social policies, programmes, and projects to ensure success. This is only possible in the medium and long terms. Such basic agreements on social reform must be achieved in dialogues not only with political parties, but also with social actors in the areas of production and civil society.

In the coming years, there will probably be a propitious climate for the emergence of accords and coalitions intended to facilitate the establishment of a new social policy. There are a variety of reasons for this assertion. On the one hand, governability requires that the population achieve an appropriate standard of living, which makes social policy a fundamental tool for helping to restore the legitimacy of the State. On the other hand, social policy is also critically important because of the need for skilled human resources with the flexibility to adapt to constant changes in production processes resulting from technical progress. Thus, social policy contributes simultaneously to the functioning of both the economic and the political spheres.

## (ii) Financing

Social policies cannot be carried out without resources. As shown in chapter VIII, the countries in the region are increasing the financing provided for social programmes. In addition, various studies conducted by the Commission (ECLAC, 1998e, 2000b) have demonstrated that the redistributive impact of the public budget is highly dependent on which sectors receive the funding (ECLAC, 2000b, p. 171) and how public spending is financed (ECLAC, 2000b, p. 172 and 1998e, chapter VI).

It should be stressed here that the purpose of boosting social spending is not only to have a redistributive impact but also to achieve the stated objectives of that expenditure.

It is obvious that social policies compete with other possible targets of public spending. Public funds are always in short supply in relation to the many needs to be met. In fact, once a need that is considered basic is satisfied, another one requiring even more resources will probably emerge. Thus, for example, once quantitative coverage is achieved in primary education, the problem of **quality** education arises. The solution cannot be to expand the resources devoted to social programmes ad infinitum, because at some point, it would even become an obstacle to productive investment and job creation, resulting in deplorable social consequences. Consequently, reasonable priorities must be established and a balance must be struck between social investment and productive investment.

It has been stressed, therefore, that more public spending is not always the answer when it comes to improving the well-being of the poor. It is often more important to bring about a better allocation within the sector and more efficient use of funds. Additional spending on social services in general will not automatically help the poor. The existing structure for providing these services must be reoriented in their favour, in terms of both quantity and quality (World Bank, 1990, pp. 46 and 79).

When more funds are required for social programmes, the primary consideration should be the **restructuring of public spending**, shifting funds from military spending and regressive subsidies. According to some studies, “the potential is enormous for restructuring national budgets and international aid in favour of human development” (UNDP, 1991, p.1).<sup>91</sup> In addition, in countries where little funding is devoted to social policy and social indicators are precarious, the role of international cooperation becomes extremely important as a complement to government efforts to bolster that funding, according to the decisions made in Copenhagen with respect to the 20/20 Initiative (UNDP/ECLAC/UNICEF, 1999).

It is also worth noting that the level of social spending is not a good indicator of social development—which is strongly linked, for example, to the country’s economic performance— or of investment in human capital, so it is of no use in determining whether results have been achieved in this regard. There may be high social spending without necessarily yielding any improvement in living conditions or the population’s supply of human capital. Conversely, low social spending— as evidenced by some countries that have higher social indicators than their per capita income and per capita social spending figures would suggest— may have a positive impact in both areas if the limited resources are used efficiently and targeted at programmes with a high social impact.

Increased social spending does not necessarily translate into improvements in social equity. Studies of distributive incidence assume that the allocation of resources will necessarily bring

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<sup>91</sup> There are persuasive arguments that reallocation is viable. Firstly, democratic procedures oblige officials to pay attention to the needs of the majority of the voting public; secondly, the new development model requires investment in human resources; and thirdly, in recent years poverty has become predominantly urban in most countries in the region, and therefore, it has become more visible, worrisome, and disturbing to established groups.

about the desired result, which is far from the truth. It should be recalled that 90% of public spending on social programmes goes to current expenditure, which does not tend to be evaluated.

In short, it is not known whether programmes work or not; or if they do work, how much good they do and the extent to which their cost is justified; who the true beneficiaries of them are, and who is actually harmed by their implementation.

For all of the above reasons, it can be argued that the level of social spending, considered in isolation, is a poor indicator of social development (ECLAC, 1997a, p. 188). Mere efficiency in providing services and delivering goods does not necessarily guarantee that social problems are being solved.

To rationalize the use of resources, they must be employed efficiently, and the desired results must be attained. This does not automatically follow from the allocation of resources. Efficiency demands solutions to recurrent problems stemming from errors in the design and implementation of programmes; traditional, bureaucratic management techniques; the lack of monitoring and evaluation; and the loss of resources due to malfeasance.

## 2. Institutional framework

The term “social institutional framework” refers to the configuration, structure, and functions of the agencies involved in financing, designing, implementing, and overseeing social programmes.

In the last two decades, the need for an institutional reorganization has been stressed repeatedly. Traditionally, the State was responsible for financing, designing, implementing, supervising, and, sporadically, evaluating such programmes. Increasingly, other agencies—commercial, philanthropic, and the like—have begun to take on some of these tasks, although the State has retained responsibility for functions such as financing (at least partial), particularly of programmes aimed at the low income population; promotional activities; and even the execution of programmes, when outsourcing is not possible or appropriate.

Other changes have been reflected in a shift in emphasis towards the need to establish a **social authority**; to give priority to an **intersectoral** approach to the design and coordination of policies; to promote **decentralization** as a mechanism for favouring public social action at the territorial level, and social **participation** in its various forms. Emphasis has also been placed on encouraging **closer ties with the economic authority**, which will be examined below.

### (a) Social authority<sup>92</sup>

Most of the countries in the region have an entity in the executive branch that deals specifically with social policy. There is a great diversity of situations. One approach is supraministerial (exemplified by Bolivia in the previous administration), another is ministerial (Argentina, Chile, Mexico), and a third is through a secretariat of social development (Paraguay) or a council (Colombia).

Bolivia’s experience was unique, in that an institutional and planning structure was set up among three ministers representing different sectors: Human Development, Economic

<sup>92</sup> The analysis is based on materials presented at the seminar-workshop “Social Institutionalality for Overcoming Poverty and Promoting Social Equity”, conducted by the Organization of American States (OAS), the Economic Commission for Latin America and the Caribbean (ECLAC), and the Committee of Ministers in the Social Area of the Government of Chile, in Santiago, Chile, 15-16 May 1997. Represented at the meeting were Argentina, Bolivia, Chile, Colombia, Costa Rica, Mexico, Paraguay, Peru, Uruguay, and Venezuela. See OAS/MIDEPLAN/ECLAC (1998).

Development, and Sustainable Development and Environment. The first was in charge of social policies, and the National Secretariats of Health, Popular Participation, and Ethnic, Gender, and Generational Affairs, among others, operated under its aegis. The Planning Secretariat was under the Ministry of Sustainable Development and Environment. The idea was to draw on these overlapping fields of interest to develop an intersectoral, integrative effort.

In Argentina, an attempt has been made to devise a comprehensive system that encompasses all government agencies involved in the eradication of poverty, with special emphasis on systems that provide information and evaluation of social programmes, through the Social Programme Reporting, Evaluation and Monitoring System (SIEMPRO). In Chile, the Ministry of Planning and Cooperation (MIDEPLAN) is the coordinator of national social development. In some countries, the task has been assigned to an institution with great autonomy, such as the Mixed Institute for Social Assistance (IMAS) in Costa Rica, although the social sector, as part of the government's responsibility, is under the purview of the Office of the Second Vice-President of the Republic. In Colombia, it is the National Council on Economic and Social Policy (CONPES) that is responsible for this task, defining policies and incorporating them into operational programmes for the allocation of resources, while the National Planning Department (DNP) plans and assesses the management and impact of policies as a whole.

There are countries that do not have a single entity in charge of this area, and the scope, institutional structure, and projects that are carried out are rather diverse. Venezuela has centralized its efforts in the Ministry of the Family, though the actual implementation has varied from one administration to the next. Uruguay's sectoral social policies are spread out, but it hopes to establish a national social policy system.

Several countries in the region are in transition from a more traditional, sectoral approach without a social authority to a new model in which various social areas are being integrated.

A high-level social authority, with a rank equal to that of the economic authority, and with clearly defined strategic planning and promotional functions and guaranteed budgetary resources, seems to be a key element in the coordination of social policies. There must also be a great deal of flexibility and a new approach to management, with an information system that allows for adequate follow-up and assessment of policies and social programmes currently under way.

This does not imply advocating an absence of pluralism in the design of social policy. On the contrary, as mentioned earlier, achieving consensus on the general lines of state social policy is essential for maintaining consistency over time and enjoying the support of the citizenry. Consequently, avenues must be opened up for participation and expression of informed opinions in a broad-based social dialogue. Once the corresponding decisions have been adopted, however, it is important to have a high-level coordinating body.

Linking the social and economic authorities is also critical for the allocation of resources. In an institutional framework in which social equity is promoted, economic policy should favour initiatives that will advance social development and eliminate poverty.

## **(b) Decentralization**

Historically, Latin America has exhibited a tendency toward centralization. This tendency has been influenced, on the one hand, by purely economic considerations, the gradual concentration of the population in large cities, political characteristics such as latent centralism, and cultural influences from traditionally centralized countries. On the other hand, it is reinforced by the weakness of local institutions and their lack of experience in decision-making on matters that affect them.

Criticism of centralism highlights the fact that decision-making takes place without any familiarity with local peculiarities, which leads to the advancement of homogeneous solutions for heterogeneous situations, and consequently, the inefficient use of resources and the failure to solve problems.

It is also argued that centralism has favoured the capital city at the expense of the rest of the country, bolstering the power of a government bureaucracy that is out of touch with the concerns of the affected parties and has its own interests to pursue.

Critics further contend that centralism inhibits participation, in that the manner and ambience in which decisions are made makes it difficult for citizens to exert influence or even monitor the handling of matters of interest to them.

Decentralization could generate more consensus through the participation of those involved. Smaller geographic and demographic dimensions would also make it easier to estimate the costs and benefits of actions to be taken, and would even allow for the selection of alternative methods in the delivery of services.

Critics of this approach counter that with respect to the relationship between decentralization and democracy, in many cases centralism has contributed to the dissolution of regional oligarchies and the spread of “modern” values by consolidating the nation-State. They maintain that the local provision of social services could lead to an unacceptable variation in standards of service in different areas. The classic argument is that redistribution activities should be centralized to assure balance between supply and demand, and to prevent migration toward areas where greater benefits are offered and away from those where tax pressures are lower (Larrañaga, 1994).

In practice, the results of the decentralization processes under way in the region have been extremely varied. Expectations have not been met in all cases. Sometimes, the central government transferred social responsibilities to subnational entities, but did not transfer the corresponding resources. Thus, it was able to balance its budgets at the cost of providing adequate services. In other cases, decentralization led to adverse fiscal effects stemming from the design of the transfer systems and the absence of incentives to generate resources at the local level. Sometimes national revenues are shared with local entities, which reduces freedom of action in tax policy, since any increase in tax revenues automatically translates into higher spending as transfers rise, or because there is greater decentralization of resources than of the responsibilities associated with them (ECLAC, 1998e, chapter VIII, and 2000b, p. 177).

It is evident, then, that decentralization demands a balance between responsibility for providing services and the corresponding resources, and decentralized spending must be consistent with sound fiscal policy.

It is also a good idea to set up incentives for territorial entities to contribute to the financing of their competencies and services, strengthening local finances.

Aside from its political value, decentralization should also be judged for its contribution to efficiency and impact; in other words, it must be verified whether a program works better on a national scale or at the regional or local level. To answer this question, the allocation of resources and the delegation of operational competencies must be analysed.

There are cases in which decentralization can entail more problems than benefits. A recent study states, in this regard: “There is a general tendency to recommend the functional decentralization of social programmes and institutions ... Nevertheless, ... considering the difficult economic and technical situation of many municipalities and local communities, an inadequately managed decentralization could seriously compromise social equity and exacerbate regional inequalities” (OAS/MIDEPLAN/ECLAC, 1998, p. 18).

Decentralization processes inevitably affect redistributive systems. Persistent differences can be seen from one area to the next in terms of the quantity and quality of services available to the population. Although family income depends more on the members' participation in the labour market than on their place of residence, this territorial differentiation is apparently contributing to the reproduction, rather than the reduction, of unequal conditions (ILPES, 1998).

To ensure that decentralization achieves the objectives of bringing the government closer to the citizenry and improving the efficiency and transparency of service delivery, the following basic conditions should be present:

#### CONDITIONS FOR DECENTRALIZATION IN SOCIAL PROGRAMMES

Prerequisite	Risk	Adverse effects
Institutionalization of social participation based on shared information and adequate mechanisms	Reproduction of centralist model (given the asymmetry of information and the absence of participation mechanisms)	Programmes and policies lack legitimacy, thereby weakening their impact and relevance. In the long run, the government distances itself from the citizenry
Adequate, modern normative framework (transfer of resources, autonomous management, delegation of functions, etc.)	Inability to generate local resources and exercise more autonomy in management	Leads to mere administrative deconcentration and delegation of minor responsibilities
Increased management capacity in decentralized units: institutional development	Inefficiency and inability to seize opportunities offered by the decentralization process	Failure to meet goals; weak governance and management of policies and programmes; accentuated regional disparities
Adequate process of transfers and support in: Technology Financial resources Human resources	Inefficient allocation of resources	Impossible to appropriate the benefits of decentralization; accentuated regional disparities
Strengthened redistributive systems (local percentages of contribution and return)	Inequity	Territorial differentiation with respect to quality and quantity of services delivered
Mechanisms for follow-up and evaluation to make process and decision-making transparent	Inefficiency and inadequate decision-making process	Limitations in determining scope and weaknesses of decentralization process
Mechanisms for transparency in procedures for allocating and utilizing resources	Opportunism	Inefficiency, diminished impact

### (c) Participation

The dynamic of decentralization is closely linked to participation. Decentralization is an instrument for reforming the State, and within this process, participation is a means of strengthening civil society and ensure that the provision of public services is in keeping with the demands and needs of the community.

Participation makes it possible to achieve the impact objectives of social programmes by orienting the provision of public services towards the social demands of the populace. In addition, it can enhance democratic procedures and institutions, thus expanding social cohesion, promoting collective decision-making and the development of public institutions, and contributing to economic and social development.

These experiences also improve administrative oversight, evaluation, and co-management of the programme's activities.

To achieve this broad array of objectives, participation requires certain minimum conditions.



A bureaucratic organization does not necessarily have the proper conditions for social participation. There is a lack of adequate mechanisms for fostering effective participation and internalizing it as a contributing factor in decision-making. On the contrary, the very rigidity and administrative rationality of the organization may delay participation and dampen community groups' expectations in that regard. There is even a risk of turning the participation into a mere consultative formality that becomes fragmented and ad hoc, and is viewed as a burden by the public apparatus.

#### CONDITIONS FOR PARTICIPATION IN SOCIAL PROGRAMMES

Prerequisite	Risk	Adverse effects
Availability of information to beneficiaries, stimulating their involvement in the design, execution, follow-up, and evaluation of the programme	Asymmetry of information between social actors and the programme	Limited and passive participation, without the ability to generate proposals. Inadequate delivery of products
Streamlined mechanisms or channels for participation	Opportunism (interest groups co-opt participation)	Manipulation and subjugation of social aspirations; forums for participation lack legitimacy
Technical competencies: the complexity of some issues requires analytical and proposal-making capacity	Inefficiency (derived from technical incompetence)	Ad hoc solutions to structural problems
Legal and institutional framework	Limited effectiveness	Participation not linked to norms and mechanisms for decision-making
Organized social base, particularly in vulnerable sectors	Inequity, opportunism (interest groups coopt participation)	Postponement of attention to vulnerable sectors
Programme able to incorporate contributions from different entities and actors involved in the participation process	Decision-making and resource allocation processes lack legitimacy	Loss of credibility of forums for participation

Moreover, social programmes cannot resolve the demands or challenges of participation on their own. Contextual changes are needed, which requires active policies.

### 3. Management of social programmes

There has been a growing consensus in recent years about the need to introduce a new concept of the tasks of public administration, to replace the predominant patrimonial model with a more "post-bureaucratic" management approach (Bresser Pereira, 1997). The key features of this approach are:

**(i) Client (citizenry) orientation**, ensuring that the clientele of the organizations in question are the ultimate recipients or beneficiaries. This requires (i) improving the interface between the administration and the citizenry, cutting red tape by introducing one-step service and deregulation; (ii) clarifying user rights; and (iii) giving the client a voice by creating positions with the legal-administrative features of an ombudsman or advocate in order to encourage oversight.

**(ii) Market orientation.** Although the State should guarantee the provision of certain products, it need not produce them directly, especially when there are other agents that have comparative advantages. But empirical evidence<sup>93</sup> shows that outsourcing requires certain prerequisites, among which are the following:

<sup>93</sup> For a further discussion of the conceptual and methodological frame of reference for this research project, see ECLAC (1998f).

- **Contextual factors:** What yields good results in *post-bureaucratic* organization and management models may fail when patrimonial, “*pre-bureaucratic*” forms persist. For this reason, it is essential that the design and implementation of policies be based on an understanding of the institutional reality in which they will be applied.
- **The market:** The market is not born from spontaneous generation, but is a consequence of effective interaction among agents and a cultural framework that facilitates social acceptance of the rules of play (Mendoza, 1991a). For market mechanisms to stimulate innovation and cost reduction, there must be sufficient competition and government regulatory mechanisms, plus the political will to enforce them.
- **Implementation:** The key question is not just whether a function should be carried out by a public or a private organization, but also what is the most appropriate configuration of public and private organizations for carrying out a specific function. This necessitates an analysis of the institutional reality in which they will operate and the technical competence of the human resources that will carry them out.

### (a) Outsourcing

Outsourcing has become very common in social programmes. It is not limited to outside contracts for the production and/or distribution of goods or services (food supplements, credit support, training, or healthcare services), but also includes other dimensions of management, such as selection of beneficiaries, *ex ante* and *ex post* evaluation of projects, and the supervision and contracting of special services (informatics development, cost studies, etc.).

There are certain prerequisites for the introduction of market mechanisms. The most important ones are:

- An adequate regulatory framework;
- A large enough pool of providers with the appropriate technical capacity and degree of competition;
- Clearly defined conflict resolution procedures and arbitration systems;
- Comprehensive planning, evaluation, and monitoring systems to guarantee the quality of providers’ performance and foster organizational learning;
- Training for the personnel involved in the contracted service;
- Evaluation of results in terms of impact and efficiency; and
- Promotion of symmetry of information among the various actors involved.

The principal conditions that must be present for the outsourcing of services in social programmes, and the risks inherent in failing to provide them, are listed below.

**OUTSOURCING OF SERVICES: CONDITIONS, RISKS, AND EVENTUAL ADVERSE EFFECTS**

<b>Prerequisites</b>	<b>Risks</b>	<b>Adverse effects</b>
Efficient market: "sufficient" competition among providers	Collusion	Price hikes, market fragmentation, elimination of competitors
Provider commitment	Opportunism	Poor quality, failure to meet objectives
Technical and financial capacity of providers	Incompetence, closure of business	Failure to meet production targets, poor quality, inefficiencies resulting in transaction costs
Selection of beneficiaries: Conducting demand studies Selecting beneficiaries on the basis of programme's impact objectives Provider commitment	Selection of wrong beneficiaries	Errors of exclusion or inclusion in targeting Low impact levels
Contractual relationship: Precise definition of standards Mechanisms for arbitration and conciliation Incentives for predicting contingencies	Opportunism in response to ambiguous standards, absence of clear mechanisms for resolving disputes, or emergence of unforeseen situations	Unforeseen transaction costs, price hikes, failure to meet objectives
Personnel with the skills required to carry out contracts	Opportunism	Transaction costs
Monitoring and revision of performance to ensure that the product delivered fulfills the contractual requirements and promotes the correction of discrepancies	Inefficiency	Benefit of outsourcing impossible to measure
Specific forums for conciliation and arbitration	Negotiation without subordination to a specific authoritative body	Transaction costs, closure of business

**(b) Organizational and management models**

Models for the organization and management of social programmes tend to assume a deterministic relationship between products and impact. For this reason, the central concerns are coverage and costs, rather than the impact of the programme on the intended recipients. The results are presumed to be satisfactory to the extent that budget execution goals and production objectives are met and services are delivered at the established coverage levels.

Management therefore focuses on efficiency in creating and delivering products (goods or services) rather than impact, which is generally taken for granted. This is expressed in a "traditional model," which is comprised as follows:

**Organization Model/Management Model → Processes/Activities → Products**

In fact, the objective function should be to maximize the impact on the beneficiaries and optimize efficiency in the allocation and utilization of resources for the creation of products. Graphically, this “innovative model” can be depicted like this:

**Impact → Products → Processes/Activities → Management Model/  
Organization Model**

The management and organization model depends on the maximization of impact. This does not mean that efficiency should be ignored, but it should be subordinated to the programme’s *raison d’être*, which is to achieve the desired results.

### **(c) Evaluation**

The correlation between resources allocated and impact is affected by the management of a programme. Good management requires that economy, efficiency, and effectiveness be taken into account, along with an assessment of the quality of services, client satisfaction, and the political effectiveness of the programme (Gaebler and Osborne, 1993). However, initiatives in this regard are limited to physical-financial follow-up, adherence to standards and procedures, and indicators of intermediate goals, which tend to give priority to volume over quality of goods and services delivered, and to show coverage achieved without indicators of results. Consequently, it is not known whether the target population’s needs have been met, and that is really the only justification for the programme.

The predominant tendency is to examine management processes by measuring how many people are served, how quickly, what percentage of applications are filled out over a given period of time, and how much each unit of result costs. Indicators of budget execution, coverage, and minimum service delivery costs are used for this purpose.

Designing and implementing these systems requires technical staff, an adequate institutional framework, and a clear understanding of scope and limitations.

The evaluation of public management:

**(i) Is a democratic need.** Evaluation presupposes interaction with the beneficiaries to elicit their perception of the programmes, which allows for constant improvements and enriches social and political debate in society. This makes participation more viable and social interventions more democratic.

**(ii) Involves organizational learning.** Evaluation provides feedback between institutions and decision-makers and encourages rational thinking in bringing about change. In this context, it is an **integral part of the social planning process** rather than an isolated, self-contained activity.

**(iii) Contributes to informed decision-making.** Evaluation provides the necessary input for decisions on the relevance of social programmes and policies (i.e., whether to continue, alter, or eliminate them).

**(iv) Allows for the effects and impacts of social interventions to be measured.** The growing need to quantify the changes that result from various social intervention processes is the only effective way to rationalize public social spending.

In short, evaluation is designed to lend greater coherence to any social intervention process by supplying the objective information necessary for ongoing improvements.

## Box XI.1

## WHAT IS IMPACT?

**1. Coverage is not impact.** For example, coverage is the number of people who receive food rations under a given programme. Impact is the reduction in the malnutrition rate that is achieved by the programme. Increasing the number of beneficiaries (coverage) may be a misguided objective if the target population is not adequately identified and, as a result, rations are distributed to individuals who do not have unmet calorie-protein needs.

**2. Investment in social infrastructure is not impact.** For example, erecting or remodeling school buildings is investment, whereas the impact of educational programmes is learning on the part of the children.

**3. Current expenditure is not impact.** Current expenditure is the funds spent on salaries or operational inputs for service. Impact is the degree to which the services satisfy the recipients.

In fact, these elements are the means for attaining the objectives of social policies. Impact is simply the measure of whether these objectives have been achieved.

**Impact** is the amount of benefit the recipients derive from the programmes, in accordance with the established objectives.

**Cost-impact analysis (CIA) methodologies** make it possible to analyse both the efficiency and efficacy and the impact of programmes and projects. **Efficiency** is the ratio of the costs of inputs to the products (goods or services) obtained. **Efficacy** is the degree to which the objectives of a programme or project are achieved in a given period of time, irrespective of costs. When the contextual effects are eliminated and the net effects of the project are considered, this is called **impact**.

The evaluation of impacts requires an initial measurement called the "baseline," followed by one or more "comparison lines" to measure results. The difference between the two reveals the magnitude of the changes attributable to the project. These measurements are made during the implementation of the programme or at the conclusion of it, and even after it has finished, once sufficient time has passed for the full range of effects to become apparent.

(a) In *ex ante* evaluations, **CIA makes it possible to select the best alternative** for the project, or to choose among different projects that have the same objectives. Costs, products, and impact are all estimated. Within the margin of uncertainty that any estimate entails, costs can be predicted and standardized much more than impact can. Impact must be estimated on the basis of *ex post* assessments of similar projects and the opinion of experts.

(b) In *ex post* evaluations, **CIA makes it possible to determine which alternative has the best cost/impact ratio, and the reasons behind it**, as lessons are drawn from the experience of implementing the project.

**Source:** E. Cohen and R. Franco, *Evaluación de proyectos sociales*, Mexico City, Siglo Veintiuno, 1992





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