

# Defeating poverty through social inclusion



UNITED NATIONS

ECLAC



SIXTY YEARS WITH LATIN AMERICA AND THE CARIBBEAN

# Defeating poverty through social inclusion



SIXTY YEARS WITH LATIN AMERICA AND THE CARIBBEAN

This document was prepared at the request of the Ministry of Foreign Affairs of Peru as a contribution to the fifth Summit of Heads of State and Government of Latin America and the Caribbean and the European Union, to be held in Lima on 16 May 2008. The purpose of this text is to lay the conceptual groundwork for a Lima agenda against poverty, inequality and exclusion in Latin America and the Caribbean.

The document was coordinated by the Social Development Division under the direction of Andras Uthoff, in collaboration with the Office of the Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC), under the direction of Ernesto Ottone.

The chapters were written by Martin Hopenhayn, Rodrigo Martínez, Andras Uthoff and Carlos Vergara, who were assisted by Simone Cecchini, Ernesto Espindola and Nora Ruedi in the preparation of supporting material.

The document was produced as part of the project "Cooperación interregional para el fortalecimiento de la inclusión social, la equidad de género y la promoción de la salud en los objetivos de desarrollo del Milenio", financed by the United Nations Development Account.

United Nations publication

LC/W.174

Copyright © United Nations, February 2008. All rights reserved  
Printed in Santiago, Chile – United Nations

Applications for the right to reproduce this work are welcomed and should be sent to the Secretary of the Publications Board, United Nations Headquarters, New York, N. Y. 10017, U.S.A. Member States and their governmental institutions may reproduce this work without prior authorization, but are requested to mention the source and inform the United Nations of such reproduction.

## Contents

Presentation.....	5
Poverty, inequality and exclusion: basic aspects of the programme.....	5
1. The challenge: public policies and solidarity.....	5
2. The key factors: social policy, high-quality growth and political will .....	6
Introduction .....	9
First part	
The importance of high-quality growth .....	13
1. Unstable and inadequate growth .....	13
2. Inequality and poverty .....	14
3. Productive development .....	17
4. The public finances: more resources available for social policies .....	18
Second part	
The main aspects of poverty and social exclusion .....	23
1. Low activity rates, low productivity, high unemployment and high dependency ratios .....	24
2. Lack of education and the intergenerational reproduction of poverty.....	26
3. Teenage motherhood: a poverty reproduction syndrome.....	29
4. Housing risks affecting health and socialization .....	30
5. Infant malnutrition and the life cycle: another vicious circle.....	31
Third part	
Strategic intervention areas .....	33
1. High-quality growth .....	34
2. Effective social policy.....	38
3. The sense of belonging.....	42
Bibliography .....	47



## **Presentation**

### **Poverty, inequality and exclusion: basic aspects of the programme**

This document presents the bases of discussion for a joint programme between Latin America and the Caribbean and the European Union to fight poverty, inequality and exclusion.

The study examines the evolution of economic and social development in Latin America and the Caribbean and its main proposals take account of the most recent and significant studies on the issue, in accordance with the guidelines on social cohesion and protection prepared by ECLAC in the last four years.

The argument here is that a programme to combat poverty, inequality and social exclusion needs to be structured on the basis of three essential pillars: (i) strong, sustained and high-quality economic growth, (ii) social policies that include strong investment in human capital and equitable distribution of the benefits of this growth, and (iii) political will, democratic institution-building and the development of large-scale agreements in the interests of progress along the path of development.

### **1. The challenge: public policies and solidarity**

The programme needs to acknowledge that there is not, and never has been, a welfare State in Latin America. The region's production system is heterogeneous and characterized by the existence of a large, unproductive informal sector whose workers lack access to social security. In a society of this type, with a large number of unprotected workers, many citizens are prevented from paying into the social protection system, and are consequently unable to contribute to a revenue base for the financing of non-contributory systems. Ending this situation will mean creating new social policy financing mechanisms, as most current designs respond to the needs and risks of favoured sectors, leaving the poorest and most vulnerable without protection.

Given this context, the great challenge for Latin America and the Caribbean and the European Union is to collaborate in the creation of what ECLAC has termed a framework of integral solidarity (ECLAC, 2006b). This consists in creating the conditions necessary to establish institutions that appropriately combine different financing mechanisms so that the policies implemented really can help to reduce poverty and social exclusion. Reforms of this nature need to make citizens feel they are participating in and benefiting from the fruits of economic growth

and to meet the needs of those who do not succeed in integrating fully into this process. Relations between Latin America and the Caribbean and the European Union should provide the basis for a new social covenant to combat poverty and achieve social cohesion on a normative basis of economic, social and cultural rights and with due recognition of the limitations imposed by budgetary constraints.

## **2. The key factors: social policy, high-quality growth and political will**

To deal with this challenge, the programme must be based on a consensus about the need for the region to take integrated action in three fundamental areas. The problems of poverty, inequality and exclusion cannot be solved by means of social policies alone, since they are very serious, far-reaching problems which require more than compensatory policies if they are to be resolved. First, social policies need to be applied to improve access to benefits, ensure the soundness of institutions and provide the degree of solidarity they require. The second requirement is to address the causes of unstable growth and structural heterogeneity and to stimulate productive development that manifests itself in high-quality growth, improving primary income distribution through better jobs, more training and better employment prospects for members of the most vulnerable households.

It is vitally important to foster a decent, equitable and inclusive level of social development by creating and implementing more effective social policies. To this end, there is a need to review social protection mechanisms in each of the countries, firstly to enhance the quality of social security systems and access to their benefits by means of innovative financing systems that make the necessary provision for solidarity, and secondly to boost the impact and efficiency of social policies aimed at the most vulnerable sectors of the population. Reforms need to combine contributory and non-contributory public- and private-sector financing both to deal with chronic coverage deficits and to adapt benefits to changes in the employment, family and risk profiles of the groups covered. The targets set in the Millennium Development Goals need to be met and exceeded within a framework of greater equity and social cohesion, in the recognition that decent employment was a neglected issue in the Millennium Declaration, even though it is an essential factor if progress is to be consolidated.

The programme also needs to recognize that the best way of achieving greater social inclusion is through high, sustained economic growth that generates productive employment and tax revenues. Consequently, it is necessary to consolidate the region's role in the global economy through institutional development and macro- and microeconomic reforms aimed at achieving a higher and more stable rate of good-quality economic growth associated with the generation of decent employment and the raising of fiscal revenues in ways that do not undermine the conditions for competitiveness.

To validate the programme, society's members will need to participate in the effort to fight poverty, inequality and exclusion. There will need to be a system for reaching strategic agreements between political and social actors in order to strengthen democracy by instilling a feeling of belonging to a common project. It will be necessary to generate political will behind the fundamental right to a decent life, promote mechanisms to facilitate dialogue between social and political actors and translate their agreements into prescriptive policies and instruments that can guide concrete measures in respect of health, social security and sources of income to cover basic needs, including the establishment of acceptable minimum levels and rates of progress and growth. The programme should increase citizens' presence and participation in the democratic institutions that drive socio-economic development.

These three areas are complementary and are the key factors in the success of the programme. Inequalities can be overcome if job creation and protection systems are effective, something that in turn requires the economic sustainability provided by growth and the political legitimacy conferred by social covenants.





## Introduction

Latin America is a mixed-population middle-income continent where, however, a high proportion of people live in poverty, and it has the worst primary income distribution of any region in the world.

The continent's history has an undeniably European cast. As Simón Bolívar put it at the Congress of Angostura in 1819: "We are not Europeans, we are not Indians, but rather a species midway between aboriginals and Spaniards. American by birth and European by rights, our dilemma is that we are disputing rights of possession with the natives and sustaining ourselves in the country of our birth against the opposition of the invaders; thus, we are in the most extraordinary and complicated predicament" (Castedo, 1999). Or as the great writer Carlos Fuentes put it, Latin America is the best of Europe outside Europe (Fuentes, 2000).

While Europe has attained a high level of economic development, however, the Latin America and Caribbean region has, to differing degrees and in different ways, been left behind.

With the advent of globalization, the great challenge for Europe has been to maintain simultaneously a competitive economy and a high level of social justice, without sacrificing the historical gains won through the welfare State.

Latin America does not have and never has had a welfare State of the kind instituted in Europe. The demands of competitiveness call for long-term goals in the areas of education, innovation and science and technology, while at the same time opening up opportunities and posing challenges through their impact on employment and wage levels. In short, the spontaneous forces of globalization are creating a context which is expected to exacerbate our historical situation of poverty and inequality.

Our challenge, therefore, is more complex: to be able to compete in the globalized economy while at the same time reducing the level of poverty and income inequality by creating efficient and effective protection networks based on principles of solidarity.

Globalization's complex array of opportunities and threats has aroused uncertainty among the people of Latin America and the Caribbean. This uncertainty is compounded by the structural heterogeneity of the economy, informal working, volatile growth, the low level of social protection and acute social inequality whose roots go very deep into our history.

The feeling that the future is uncertain, that poverty is not retreating, that institutions are working poorly, that individualism is the only thing that matters, that democracy is not meeting our needs, all tends to corrode the collective sense, the feeling of belonging—in short, social cohesion.

In Latin America's current state, cohesion is taking on other meanings associated with the urgent needs characteristic of non-inclusive development, such as the need for democratic governance as wage and social divides worsen, for credible institutions that citizens trust, for social protection networks that protect people from adverse events and the instability of economic growth, for appropriate public policies to cope with employment crises, and for institutions capable of dealing positively with the consequences of increased cultural individuation in the new phase of modernization.

In Europe, the welfare State is something that the members of society value enough to accept a social covenant and a fiscal covenant whereby substantial transfers are made from active to inactive members of society, from those who have most to those who have least, from adults to minors and the elderly.

Societies with higher levels of social cohesion are capable of building better institutions and generating the trust needed to implement indispensable reforms, since citizens are more willing to accept short-term losses when they are convinced that these will be more than offset by the long-term gains.

This requires a strong State (which is not necessarily the same as a big State) capable of carrying through effective public policies in three key areas.

First, public policies to generate opportunities for economic growth and employment. Without sustained growth in the economy, the minimum resources needed to finance social policies responsibly are not available. It is not just a matter of growing, however, but of growing in such a way that economic dynamism generates a supply of high-quality jobs.

Second, public policies to increase the capabilities of individuals, i.e., education and occupational training. At the minimum, the Millennium Development Goals must be met. It is not enough to meet them in terms of coverage, however; it is necessary to offer a high-quality education to the whole population, be able to educate people in respect for difference, and make a qualitative and quantitative leap in investment in innovation, science and technology.

Third, solidarity-oriented public policies, i.e., rights-based social protection. The coverage of systems that depend on contributions alone is steadily shrinking and, what is more, they reproduce the inequalities deriving from poor income distribution. There needs to be a shift towards mechanisms that are not only financed out of social security contributions but have a solidarity pillar as well.

Opportunities, capabilities and solidarity are the three pillars upon which the immediate future of our societies has to be constructed.

We want to reduce poverty and inequality, but we would also like citizens to feel they are part of a common project from which everyone gains. To break the logic of underdevelopment, we need to create our own equations of State, market and family that can provide equitable well-being for the whole population.

The great decision facing the countries of Latin America is whether, in constructing more equitable welfare and social protection nets, they are to follow the road marked out by their European counterparts or the logic of satisfying private interests that has prevailed elsewhere.

## **Latin America has an opportunity**

Although fragile in several of our countries, democracy is on the whole firmly established in the region. Again, in 2007 the region completed its fourth year of rapid economic growth. This is the strongest period of economic expansion since the post-war boom that culminated in the debt crisis. Four years of growth after almost 25 years of weak, unsatisfactory development punctuated by the so-called “lost decade” of the 1980s and the “lost half-decade” of 1998 to 2002.

This rapid growth has been combined with a current account surplus and a substantial improvement in labour market, poverty and income distribution indicators. The region needs to take this opportunity to make a major development leap, and for this the cooperation of the European Union is essential.



## First part

### The importance of high-quality growth

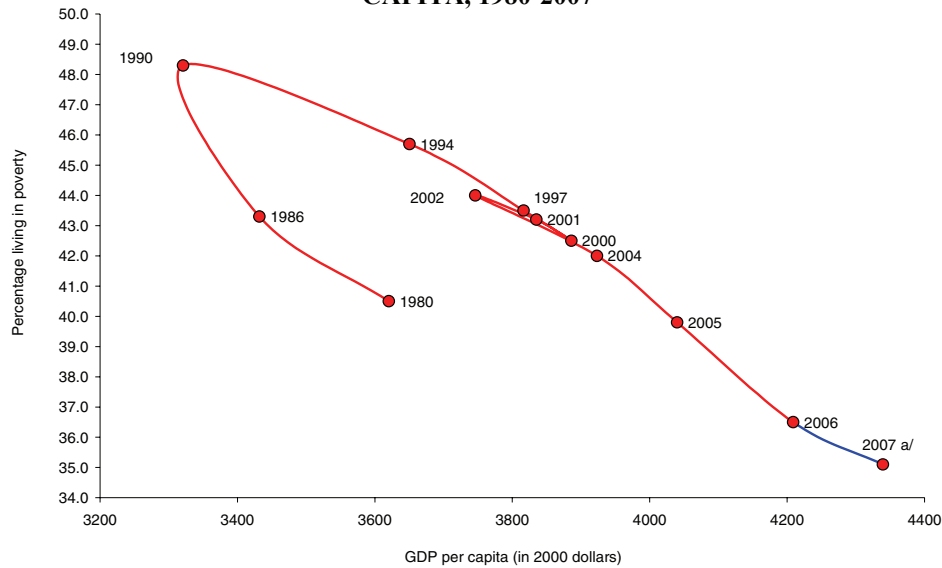
It is vital for growth to be steady and driven by high investment if formal employment is to expand and the problem of productive heterogeneity be resolved. This needs to be supplemented by distributive mechanisms that can translate economic growth into greater social inclusiveness. The role and reach of the public finances are essential here, since both taxes and public spending can have an enormous influence on equity and social inclusion.

#### 1. Unstable and inadequate growth

In the 30 years from 1975 to 2004, the level of economic growth in Latin America and the Caribbean has lagged far behind that of the European countries. The per capita gross domestic product (GDP) of the countries of the Organisation for Economic Co-operation and Development (OECD) increased from roughly US\$ 15,000 to US\$ 26,000, calculated at purchasing power parity (PPP) in 2000 dollars, while the region's increased from US\$ 5,000 to just over US\$ 7,000. During the same period, growth in the region was more unsteady. While the annual variation in this indicator in the OECD countries did not exceed 1% on average, in Latin America there were years when it was as high as 4%, both upward and downward.

The combination of economic instability and low growth has had doubly negative effects: unimpressive long-term economic performance, and a worsening relationship between GDP and the incidence of poverty, also in the long term (see figure 1). Shorter and shorter cycles of expansion and contraction in economic activity and investment have eroded the assets of the poor, especially their access to jobs and financing.

**FIGURE 1**  
**LATIN AMERICA (19 COUNTRIES): POVERTY AND GROSS DOMESTIC PRODUCT PER CAPITA, 1980-2007**



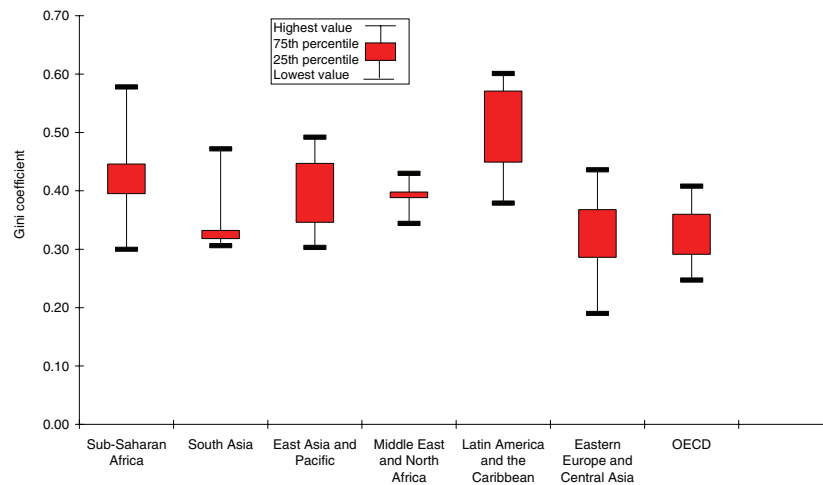
Source: Economic Commission for Latin America and the Caribbean (ECLAC), using estimates and projections based on household surveys and official country figures.

<sup>a</sup> Projections.

## 2. Inequality and poverty

The Latin America and Caribbean region not only has much more widespread poverty than would be expected from its development level, but has the world’s most regressive income distribution, being the only region to average well over 0.50 on the Gini index (see figure 2). For this reason, there is an urgent need to address the systemic, endemic character of these inequalities, wherein different divides associated with income, productivity, employment, social and cultural capital, education, geographical location, ethnic origin and gender are mutually reinforcing.

**FIGURE 2**  
**GINI COEFFICIENTS BY GROUPS OF COUNTRIES, 1997-2004**



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, World Development Indicators [online database] <http://devdata.worldbank.org/dataonline/>.

Acute income inequality has been with our societies for a long time and is explained by the segmentation of the economic, social, gender and ethnic structure. The fact is that “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” (ECLAC, 2000).

Only in the last three years, with higher growth, has the incidence of poverty fallen below the level it stood at a quarter of a century ago. In point of fact, the poverty level in 2006 averaged about 36.5% of the population in Latin America and indigence averaged 13.4%, as against 40.5% and 18.6%, respectively, in 1980. However, population growth means that there are now 194 million people living in poverty and 71 million in indigence in Latin America, as compared to 136 million and 62 million, respectively, in 1980.

**TABLE 1**  
**LATIN AMERICA (18 COUNTRIES): POVERTY AND INDIGENCE, 1989-1995 AND 2003-2005**  
(Percentages of the population)

Country	1979-1988			1989-1995			1989-1999			2000-2002			2003-2005		
	Year	Poor	Indi-gent	Year	Poor	Indi-gent	Year	Poor	Indi-gent	Year	Poor	Indi-gent	Year	Poor	Indi-gent
Argentina <sup>a</sup>	1980 <sup>b</sup>	5.8	1.5	1990 <sup>b</sup>	21.2	5.2	1999	23.7	6.6	2002	45.4	20.9	2006	21.0	7.2
Bolivia	...	...	...	1989 <sup>c</sup>	52.6	23.0	1999	60.6	36.4	2002	62.4	37.1	2004	63.9	34.7
Brazil	1979	45.1	21.9	1990	48.0	23.4	1999	37.5	12.9	2001	37.5	13.2	2006	33.3	9.0
Chile	1987	45.1	17.4	1990	38.6	13.0	1998	23.2	5.7	2000	20.2	5.6	2006	13.7	3.2
Colombia	1980	42.3	17.4	1994	52.5	28.5	1999	54.9	26.8	2002	51.1	24.6	2005	46.8	20.2
Costa Rica	1981	23.6	6.9	1990	26.3	9.9	1999	20.3	7.8	2002	20.3	8.2	2006	19.0	7.2
Ecuador <sup>a</sup>	...	...	...	1990	62.1	26.2	1999	63.5	31.3	2002	49.0	19.4	2006	39.9	12.8
El Salvador	...	...	...	1995	54.2	21.7	1999	49.8	21.9	2001	48.9	22.1	2004	47.5	19.0
Guatemala	1980	71.1	39.6	1989	69.1	41.8	1998	61.1	31.6	2002	60.2	30.9	...	...	...
Honduras	1988	76.1	57.7	1990	80.8	60.9	1999	79.7	56.8	2002	77.3	54.4	2006	71.5	49.3
Mexico	1984	42.5	15.4	1989	47.7	18.7	1998	46.9	18.5	2002	39.4	12.6	2006	31.7	8.7
Nicaragua	...	...	...	1993	73.6	48.4	1998	69.9	44.6	2001	69.4	42.4	...	...	...
Panama	1979 <sup>a</sup>	36.1	16.4	1991 <sup>a</sup>	39.9	16.2	1999 <sup>a</sup>	25.7	8.1	2002	34.0	17.4	2006	30.8	15.2
Paraguay	1986 <sup>d</sup>	51.5	18.6	1990 <sup>d</sup>	43.2	13.1	1999	60.6	33.8	2001	61.0	33.2	2005	60.5	32.1
Peru	...	...	...	...	...	...	1999	48.6	22.4	2001 <sup>e</sup>	54.8	24.4	2006 <sup>e</sup>	44.5	16.1
Dominican Republic	...	...	...	...	...	...	2000	46.9	22.1	2002	44.9	20.3	2006	44.5	22.0
Uruguay <sup>a</sup>	1981	12.8	3.3	1990	17.9	3.4	1999	9.4	1.8	2002	15.4	2.5	2005	18.8	4.1
Venezuela (Bol. Rep. of)	1981	25.0	8.6	1990	39.8	14.4	1999	49.4	21.7	2002	48.6	22.2	2005	37.1	15.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of household survey data from the countries concerned.

<sup>a</sup> Urban areas.

<sup>b</sup> Buenos Aires metropolitan area.

<sup>c</sup> Eight departmental capitals and the city of El Alto.

<sup>d</sup> Asunción metropolitan area.

<sup>e</sup> Figures from the National Institute of Statistics and Informatics (INEI) in Peru. These values are not comparable with those of earlier years because of changes in the household survey sampling rules.



**TABLE 2**  
**CARIBBEAN (21 COUNTRIES AND TERRITORIES): POVERTY AND INDIGENCE, 1989-2005**  
*(Percentages of the population)*

Country	Year	Poor	Indigent	Country	Year	Poor	Indigent
Anguilla	2002	23.0	2.0	Haiti	2001	75.0	56.0
Antigua and Barbuda	Around 1990	12.0	...	Jamaica	1990	28.4	...
Bahamas	2001	9.3	...		2005	14.8	...
Barbados	1997	13.9	1.0	Puerto Rico	1989	58.9 <sup>b</sup>	...
Belize	2002	33.5	10.8		2005	44.9 <sup>b</sup>	...
British Virgin Islands	2002	22.0	1.0	Saint Kitts and Nevis	2000 (Saint Kitts)	30.5	11.0
Cuba	1999	20.0 <sup>a</sup>	...		2000 (Nevis)	32.0	17.0
Dominica	2002	39.0	15.0	Saint Vincent and the Grenadines	1996	37.5	25.7
Dominican Republic	2000	46.9	22.1	Santa Lucia	1995	25.1	7.1
	2005	47.5	24.6	Suriname	2000	69.2	...
Grenada	1998	32.1	12.9	Trinidad and Tobago	1992	21.2	11.2
Guyana	1993	43.2	20.7	Turks and Caicos Islands	1999	25.9	3.2
	1999	35.0	21.3	United States Virgin Islands	2000	32.5	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Social Panorama of Latin America 2006* (LC/G.2326-P/I), Santiago, Chile, 2006. United Nations publication, Sales No.: E.06.II.G.133.

<sup>a</sup> Urban areas only; the figure is for “population at risk of poverty”.

<sup>b</sup> Official poverty line of the federal Government of the United States of America.

It should be added that the high income concentration of the region’s countries is largely explained by the proportion of income going to the wealthiest population decile. This becomes apparent when we observe the huge gap between the average per capita income of households in the wealthiest decile and those in the four poorer deciles (Machinea and Hoppenhayn, 2005).

Despite this poor income distribution, in the last three years some countries have managed to reverse the endemic tendency towards concentration.

This situation has been accompanied by economic growth averaging some 4.5% between 2003 and 2006, while in 2007 the region is expected to grow by 4.9%, whereupon it will have completed a phase of expansion lasting five consecutive years—an achievement that is unprecedented in Latin America’s economic history and that stands in stark contrast to the experience of the two previous decades. The recent pick-up in growth has also led to a substantial recovery in per capita output, which grew at a rate of 3% between 2003 and 2006, as compared to a modest 0.1% between 1980 and 2002. At the same time, the current expansionary cycle in the regional economy has been characterized by a lessening of vulnerability to external shocks, making today’s growth much healthier than that of the early 1990s.

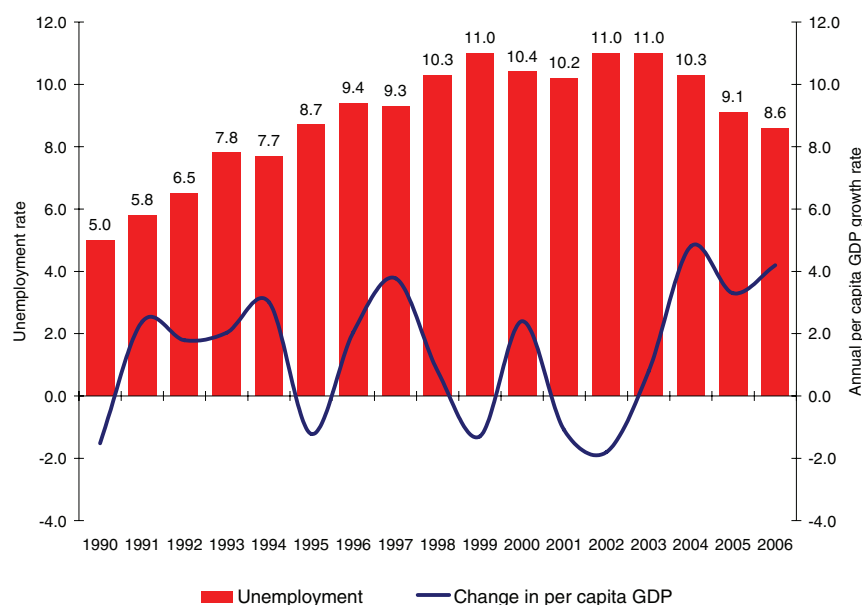
The great question is whether Latin America and the Caribbean will be able to use this opportunity—five consecutive years of economic growth and social progress—to take a qualitative leap in their development. It is with this question in mind that one of the main aspects of future cooperation between the European Union and the region needs to be defined.

### 3. Productive development

Four decades ago, ECLAC coined the concept of structural heterogeneity to describe the region's segmented pattern of production, and it has recently conceptualized this segmentation with the idea of a "three-speed economy" (ECLAC, 2004a) consisting of a group of large local and foreign companies, both publicly and privately owned, characterized by formal employment and greater human capital and operating closer to the international technology frontier; an intermediate level of less productive medium-sized firms; and a group of small businesses and microenterprises, in which employment is informal and capitalization levels low, but which have created seven out of every 10 new jobs in the last decade.

As figure 3 shows, the region experienced 15 years of great economic instability, with unemployment rising sharply in years of lower growth and remaining stubbornly high in years of greater dynamism. Average unemployment has fallen in the last four years, however, as has the level of informal working, and growth seems to have resulted in a renewed job creation capacity.

**FIGURE 3**  
**LATIN AMERICA (21 COUNTRIES): URBAN UNEMPLOYMENT AND PER CAPITA GDP GROWTH, 1990-2005**  
*(Average annual rates)*



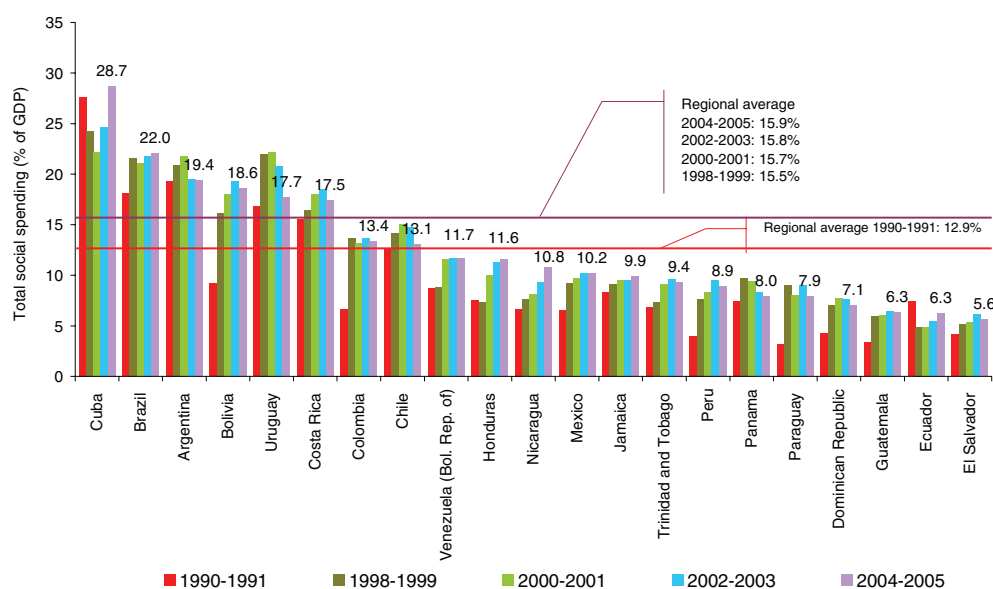
Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Economic Survey of Latin America and the Caribbean 2006-2007* (LC/G.2338-P/E), Santiago, Chile, July 2007. United Nations publication, Sales No.: E.07.II.G.2.

It should not be forgotten that, for the great majority of people in the region, access to jobs is the only way of generating income to meet household needs, with the share of family income that comes from work ranging from a low of 63% in Brazil to a high of 90% in Nicaragua (Machinea and Hopenhayn, 2005). For this reason, problems such as unemployment and underemployment and the heterogeneous structure of occupations in terms of productivity, pay, economic formality, social protection, generation of value added and access to broader markets are decisive factors in the dynamic of social inclusion and exclusion in the region's countries.

## 4. The public finances: more resources available for social policies

Poverty reduction in Latin America and the Caribbean during the last five years has been due to higher rates of economic growth, more job creation and a steady rise in social spending over more than a decade, both in absolute terms and as a share of GDP (see figure 4).

**FIGURE 4**  
**LATIN AMERICA (21 COUNTRIES): PUBLIC SOCIAL SPENDING AS A SHARE OF GDP, 1990-1991 TO 2004-2005**  
(Percentages)



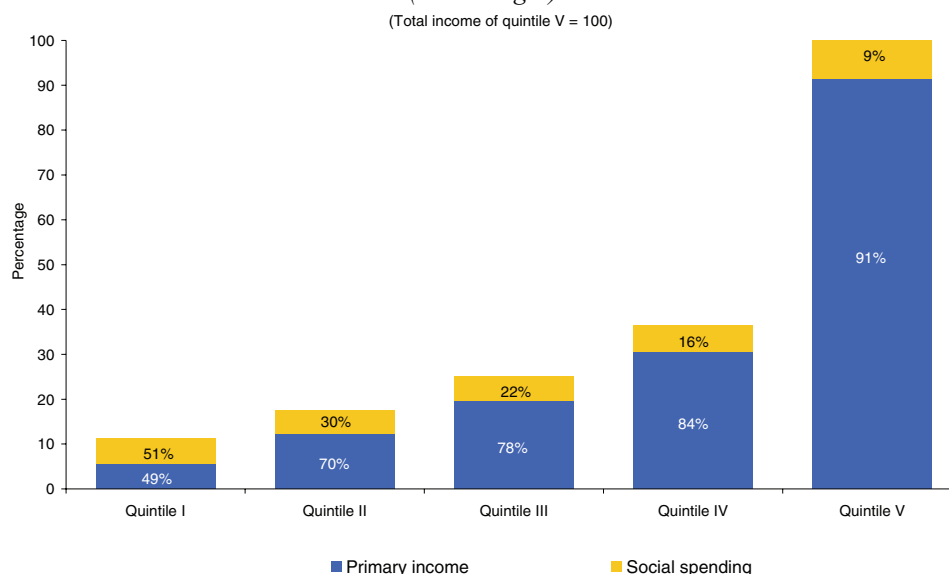
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Commission's social expenditure database.

There is no getting away from the importance of social spending as a way of reducing poverty, or its association with growth. After falling sharply because of the effects of the debt crisis in the early 1990s, it increased again by 50% in per capita terms between 1990 and 2005 and this trend has persisted since then thanks to the recovery of growth.

Quintile V captures the largest share of social spending in absolute terms (see figure 5). This is because of the large percentage of resources going to social security, which in Latin America is mainly contributory (i.e., the amounts received depend on the contributions made) and is therefore regressive in distributive terms.<sup>1</sup> Thus, there are two major challenges involved in targeting current social spending and future increases on the poorest, in the interests of greater social inclusion: to develop a solidarity component in social security and allocate the funds available to the policies that are most effective in improving the situation of the poor, especially those relating to nutrition, basic health care and primary education.

<sup>1</sup> In 2002, an average of 54.9% of all those in employment in quintile V in Latin America and the Caribbean paid into the social security system, as compared with 20.4% in the poorest quintile. Different breakdowns show that the percentages contributing were 45.4% in urban areas and 21.9% in rural ones, 68.2% in the urban formal sector and 21.7% in the urban informal sector, and 32.3% of men in work as against 18.9% of women in work.

**FIGURE 5**  
**LATIN AMERICA (18 COUNTRIES):<sup>a</sup> REDISTRIBUTIVE EFFECTS OF PUBLIC SOCIAL**  
**SPENDING, BY PRIMARY INCOME QUINTILE, 1997-2004**  
*(Percentages)*



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of national studies.

<sup>a</sup> Average weighted by the effects of spending on primary income in each country.

The fact is that, while targeted spending can substantially increase the well-being of the poorest and has a more egalitarian impact, it is too limited in quantity to counteract the inequity associated with primary incomes.

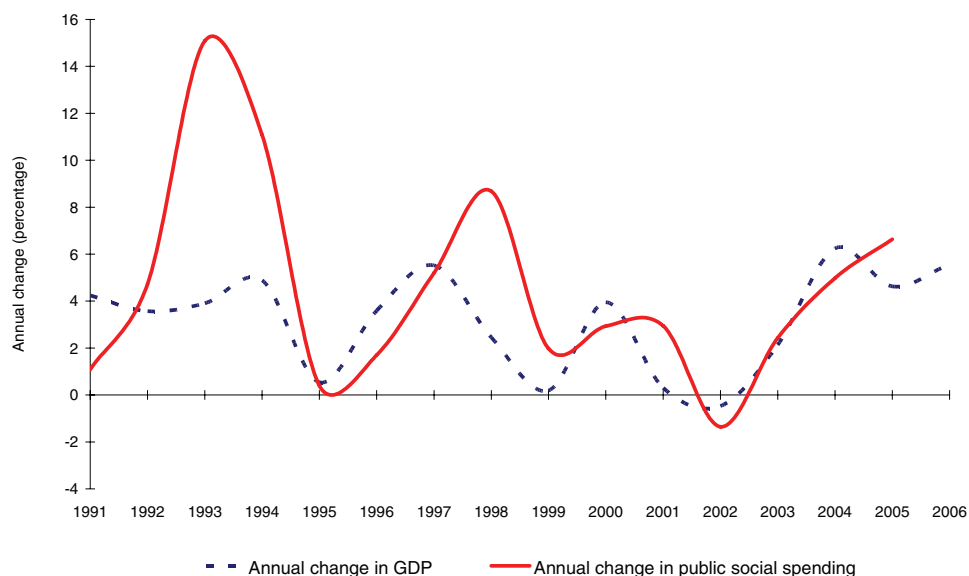
At the same time, it is important to highlight a risk associated with the procyclical character of public social spending in the region. Because the volume of resources available is directly related to economic growth, the impact of downturns on the well-being of the poorest is compounded by cutbacks in the resources going to social protection (see figure 6).

To improve the public finances and their redistributive effects on the poor, governments should treat tax revenue, official development assistance or both as sources of social policy financing, given a particular level of growth.

Where tax revenue is concerned, its amount and structure affect the State's ability to transfer resources from those who have most to those who have least, i.e., to exercise its role as guarantor of the full exercise of people's social rights. The tax burden in Latin America and the Caribbean is low compared to other parts of the world, and while it obviously needs to bear a relation to output and growth levels, there is clearly room for expansion in many countries.<sup>2</sup> The average tax burden ranges from a high of 31% of GDP to a low of less than 10%, and the trends of the last 25 years seem to show that most of the countries have exerted themselves not so much to improve their relative position in terms of resource collection as to maintain their position among those which collect least (Gómez-Sabaini, 2006). This is compounded by the problem of tax evasion and avoidance, which also varies from country to country.

<sup>2</sup> The tax burden averages 17% of GDP in Latin America, far below the figures of 41% in the European Union, 36% in the OECD and 26% in the United States. With a few exceptions such as Brazil, the level of taxation is very low in the region.

**FIGURE 6**  
**LATIN AMERICA AND THE CARIBBEAN (21 COUNTRIES): ANNUAL CHANGE IN SOCIAL SPENDING AND GROSS DOMESTIC PRODUCT <sup>a</sup>**



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Commission's social expenditure database and national accounts

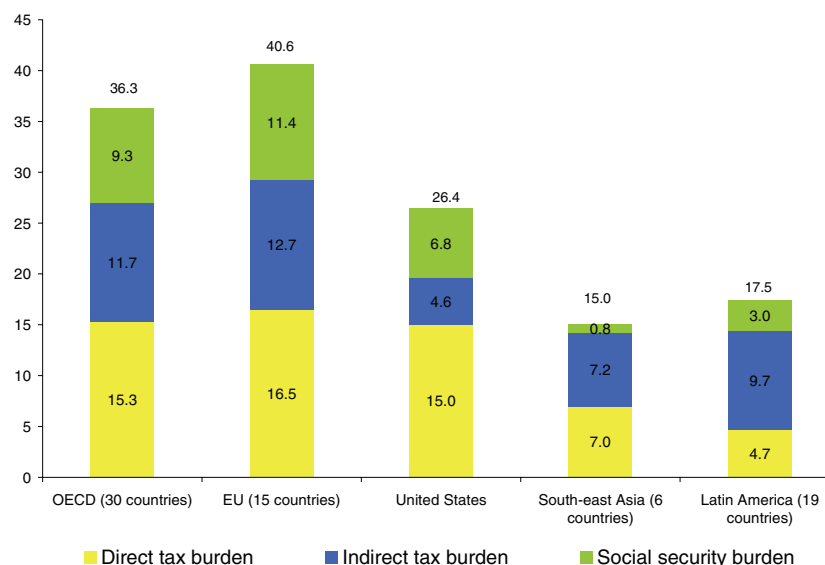
<sup>a</sup> Weighted average of the countries.

Where the taxation structure is concerned, the region has the highest proportion of indirect taxes. One characteristic of such taxes is precisely that they are unprogressive in terms of distribution; indeed, they can have a regressive component (see figure 7). Thus, the combination of the tax burden and the structure of taxation is an inauspicious one considering the important role that public revenues have to play in solidarity transfers to reduce poverty and further social inclusion.

When income distribution before and after transfers is compared between the countries of the region and the OECD, it is clear that the great advantage of the OECD in terms of distributive equity is due to transfers. In other words, income inequality in the OECD has a great deal to do with the public finances, partly through the tax burden and structure, partly through the greater solidarity of social spending.

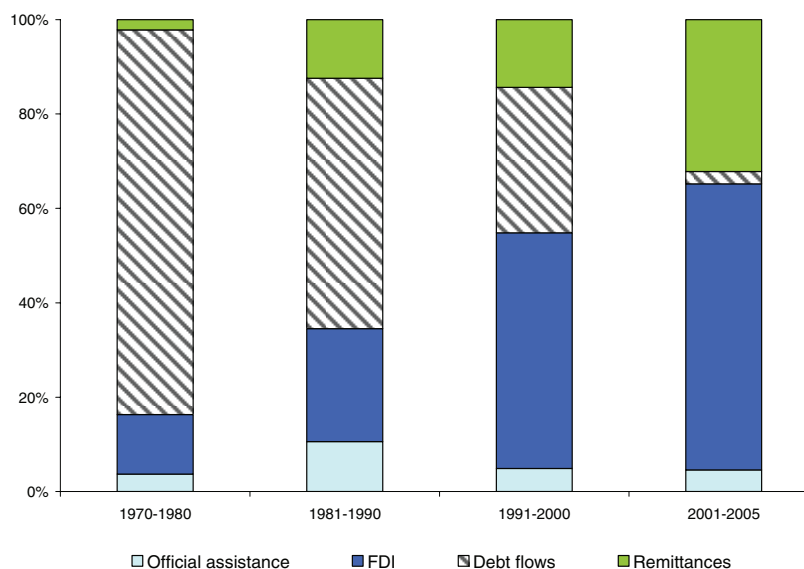
Lastly, and very importantly in the context of biregional cooperation between Europe and Latin America and the Caribbean, the composition of external flows into the region has changed substantially in the last 35 years. On the one hand, the share of foreign direct investment and remittances has greatly increased, especially in the last few years; on the other, debt flows have been declining steadily so that they now account for only a small fraction of external flows. Official development assistance has also fallen substantially since the beginning of the last decade (see figure 8).

**FIGURE 7**  
**LATIN AMERICA AND OTHER REGIONS: COMPONENTS OF THE TAX BURDEN,**  
**AROUND 2003**



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

**FIGURE 8**  
**LATIN AMERICA AND THE CARIBBEAN: COMPOSITION OF FINANCIAL FLOWS,**  
**1970-2005**  
*(Percentages of the total)*



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

There are two aspects to the increase in remittances. First, it has provided a direct injection of resources, improving the incomes and consumption capacity of a large part of the population. Second, it reflects a migration process that entails a considerable loss of intellectual human capital for the home countries. This may be one of the newest faces of globalization, one of the least studied, and one of the most important for the social development of our societies.



## Second part

### The main aspects of poverty and social exclusion

Defeating poverty and achieving social exclusion means increasing the economic participation rate and the productivity of people of active ages from poor families through a combination of training, information and services relating to reproductive rights, together with support for women in the care economy to make it possible for them to enter the workforce. Greater social equity in learning outcomes and years of schooling, better housing conditions and, most importantly, a radical reduction in the different forms of infant malnutrition must be the priorities in the programme to improve quality of life and human capital among the poor.

If we look at the evolution of Latin America from the second half of the twentieth century onward, it is undeniable that very striking progress has been made with development. Taking the following indicators, which are among those most commonly employed, we might say that the glass is half full. For example.

- (a) In less than 50 years, average life expectancy at birth increased from 56 in 1960 to 73 in 2004.
- (b) Infant mortality fell sharply over the same period, from 101 per 1,000 live births in 1960 to 25 in 2004.
- (c) Under-five mortality also declined greatly, as did malnutrition. At the same time, access to health care has improved and there have been major investments in basic infrastructure, providing a large and growing proportion of the population with drinking water and sanitation services.
- (d) Meanwhile, in the last 30 years adult illiteracy has fallen, mass primary education has become the norm and young people's access to secondary education has increased, all in a very short period compared with the time it took to achieve these levels of educational coverage in countries with higher per capita incomes. In the last decade, many countries have also expanded the coverage of technical and higher education.



Indicators showing improvements in people's welfare and standard of living should be added to the list, examples being the rapid expansion of access to durable goods (refrigerators, telephones, televisions, motor vehicles, computers, etc.) that has been recorded by population and housing censuses but is not directly captured by poverty measurements based on household income and on access to the resources that make it possible.

However, the other half of the glass is still empty.

It is sometimes said that there is growth in Latin America, but its benefits are poorly shared. The truth is worse: as we have seen, growth is low and its benefits are poorly shared.

Paradoxically, as progress has been made with social development, the situation of those who remain excluded has become more visible. In other words, progress itself has led to a debate about the enforceability of economic, social and cultural rights, and may perhaps have given an impetus to measures designed to apply them.

The number of people who do not have enough to eat on our continent exceeds the combined populations of Spain and Portugal. Things have got better, but they are by no means good.

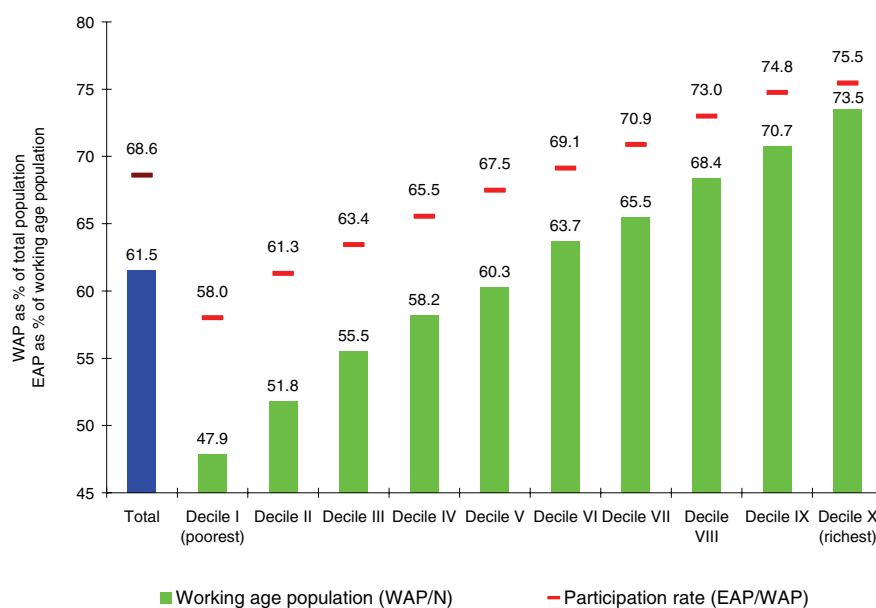
What are required are effective policies with systemic impact. There need to be coordinated approaches, particularly in situations where there are "poverty traps" and mutually reinforcing factors operating within the exclusion-poverty dialectic.

## **1. Low activity rates, low productivity, high unemployment and high dependency ratios**

The poor work in low-productivity jobs and are at greater risk of joblessness. At the same time, they live in households and form families with more young, economically dependent children, while poor women tend to have lower economic participation rates than their higher-income counterparts. This means, in essence, not only that their earnings are lower because of low productivity, but also that they have to cover the survival needs of a larger number of dependents per working person. Low productivity, low participation rates, frequent spells of unemployment and high levels of demographic dependency all combine to multiply the factors contributing to a situation of want in households below the poverty line.

As can be seen from figure 9, the poorest decile has an age structure which means that the share of the working age population is lower than in the other deciles. The higher the socio-economic level, the more favourable the age structure in terms of the proportion who are of working age while, conversely, the lower the socio-economic level, the lower the participation rate. The unemployment rate also rises steadily down the socio-economic scale: according to average data for the region, the unemployment rate was 17.9% of the economically active population (EAP) in the first decile in 2005, dropping progressively to 3.7% in the tenth decile. Conversely, formal working becomes more prevalent up the socio-economic scale, so that 69.2% of workers in the tenth decile were employed in the formal sector that same year, but only 22.2% in the first decile.

**FIGURE 9**  
**LATIN AMERICA (18 COUNTRIES, WEIGHTED AVERAGE): WORKING AGE**  
**POPULATION AND PARTICIPATION RATE, BY INCOME DECILE,**  
**AROUND 2005**



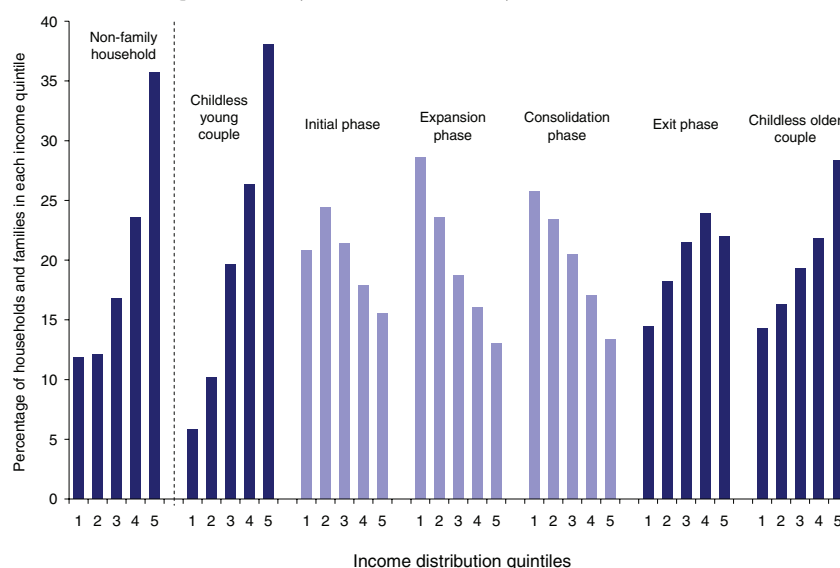
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of household survey data from the countries concerned.

Nota: EAP= economically active population, WAP= working age population, N= total population

Where women are concerned, in the same group of 18 Latin American countries the proportion of all working age women who are in work follows the same trend: 36.5% in the first decile and 61.1% in the tenth decile. The relationship between female employment and income levels is strictly linear once again (rising up the deciles). Lastly, if the stage households are at in the family life cycle is correlated with their socio-economic level, it transpires that most of the poorest households are at the initial, expansion and consolidation stages, while in the higher-income population it is non-family households, childless young couples and childless older couples that predominate (see figure 10).

To sum up, low levels of formal employment (also a reflection of low productivity and income), a low proportion of people in work due to high unemployment and to the smaller number at working ages, low female participation and families with more dependents are mutually reinforcing factors that combine to exacerbate poverty in Latin America. For this reason, it is essential to give public policy status to measures that can help women, especially those in poor households, to reconcile care for their families with paid work, in order to increase their participation rate. This should be supplemented by relevant, large-scale policies of occupational training and reskilling aimed at the low-productivity active population, as this will improve its options in the labour market.

**FIGURE 10**  
**LATIN AMERICA (18 COUNTRIES, SIMPLE AVERAGE): PERCENTAGE DISTRIBUTION OF HOUSEHOLDS AND FAMILIES BY STAGE IN THE FAMILY LIFE CYCLE AND INCOME QUINTILE, URBAN AREAS, AROUND 2005**



Source: Simone Cecchini and Andras Uthoff, “Reducción de la pobreza, tendencias demográficas, familias y mercado de trabajo en América Latina”, *Políticas sociales* series, No. 136 (LC/L.2775-P/E), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), July 2007. United Nations publication, Sales No.: S.0X.II.G.110.

Note: Quintile I=poorest, quintile V=wealthiest. The bars for quintiles I to V in each household and family type add up to 100%..

## 2. Lack of education and the intergenerational reproduction of poverty

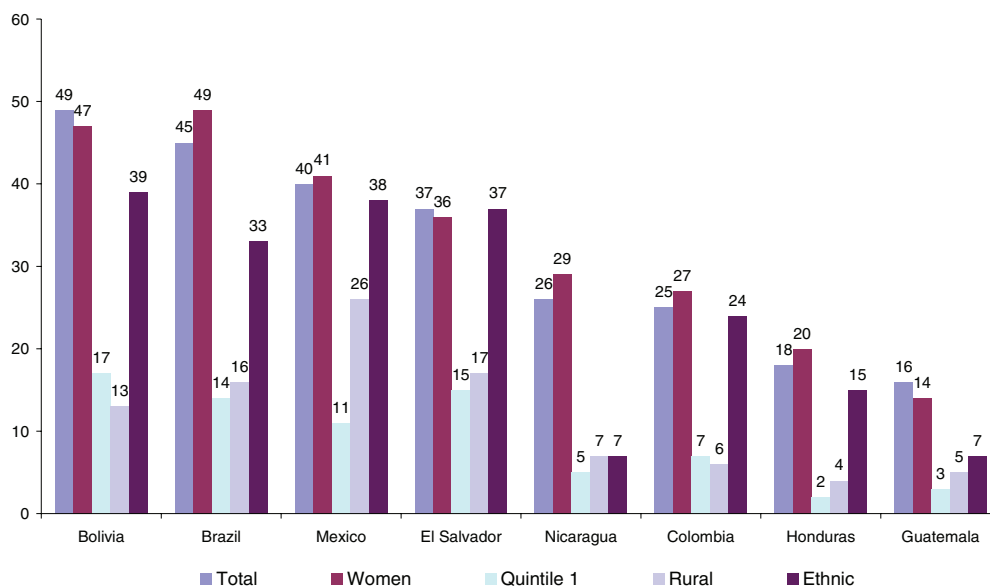
Education is a particularly effective way of reducing poverty from one generation to the next, and of counteracting the intergenerational reproduction of inequalities. Completing secondary education is vital if people are to have a better chance of escaping from poverty, as returns in the form of earnings rise with additional years of education. Completing this level now increases people’s prospects of staying out of absolute poverty throughout their active lives, given the higher earnings that ensue when they finish this level and obtain the relevant qualifications (ECLAC, 2004b, chapter 5).

According to estimates from the early part of this decade (ECLAC, 2000), on average a minimum of 10 to 13 years of formal education (and in many cases complete secondary education, depending on the country) are required in the region for people to have a 90% or better chance of not falling into or remaining in poverty. For this reason, there is an urgent need to increase secondary education access and completion rates, as this not only provides access to better jobs but also plays a protective role by increasing the ability of adolescents to take informed decisions and avoid risks of various kinds.

Although years of education have increased on average and illiteracy has diminished, both attainments are highly segmented by income, ethnic origin and urban/rural residence, and actual learning outcomes are poor, which means that education is not helping to reverse the intergenerational reproduction of poverty and social exclusion. When the amount of time spent by

young people in the region's education system is examined, a marked contrast is seen: the proportion of students completing secondary education is far lower among poor and rural families than among the rest (see figure 11). Furthermore, if this indicator is correlated with income levels, children from the fifth quintile were on average five times as likely in 2002 to complete their secondary education as children in the first quintile (58.2% versus 12.3%, respectively).

**FIGURE 11**  
**PERCENTAGE COMPLETING SECONDARY SCHOOL, IN TOTAL AND FOR FEMALES,**  
**POOREST INCOME QUINTILE, RURAL RESIDENTS**  
**AND ETHNIC MINORITIES, 2001-2004**



Source: Prepared by the authors on the basis of special tabulations of household survey data from 18 countries in the region by the Economic Commission for Latin America and the Caribbean (ECLAC).

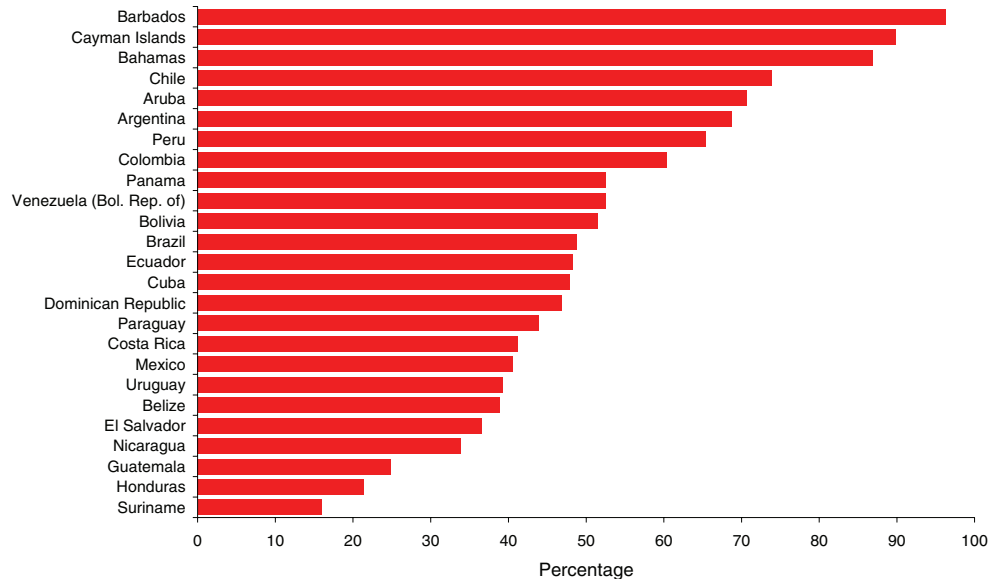
Note 1: 2004 data for Colombia, El Salvador, Guatemala and Mexico, 2003 data for Brazil and Honduras, 2002 data for Bolivia and 2001 data for Nicaragua.

Note 2: The population total includes ethnic minorities, the poor and rural residents, meaning that the divide between these groups and higher-income ones could be even greater.

Apart from the number of years of formal education, however, it is important to raise the quality of learning, which is also segmented by income group. Generally speaking, education quality measurement tests indicate that students in Latin America and the Caribbean lag well behind their peers in the OECD and South-east Asia. There are also differences within the region: in countries where regular, standardized testing is carried out, a substantial learning divide has been found to affect students from the poorest families, ethnic minorities and rural areas.

At the same time, as figure 12 shows, the average student in the countries of Latin America and the Caribbean is far from attaining a complete secondary education, and this substantially narrows the scope for closing equity gaps, defeating poverty and significantly raising labour productivity in the short term.

**FIGURE 12**  
**20- TO 24-YEAR-OLDS WHO HAVE COMPLETED SECONDARY SCHOOL**



Source: Caribbean countries and Aruba: UNESCO Institute of Statistics (UIS); Cuba: information from the 2002 population and housing census; Latin America: Economic Commission for Latin America and the Caribbean (ECLAC), special tabulations of household survey data from the countries concerned.

Note 1: The 20 to 24 age group was taken because it is close to the age at which secondary schooling ends yet its members are no longer attending school.

Note 2: All information was organized in accordance with the International Standard Classification of Education 1997 (ISCED 97); taken from UNESCO (2007).

It is vitally important to extend pre-primary education to children from poor families, since this increases the level of early preparation and stimulation which, according to the evidence now available, substantially improve children's prospects of remaining in and progressing through the education system throughout the primary and secondary stages.<sup>3</sup> It is also vital to offset the opportunity costs to poor families of young people foregoing work so that they can carry on studying until the end of the secondary stage.<sup>4</sup> In addition, greater resources need to be invested in schools situated in low-income areas to improve the quality of supply and compensate for inequalities in demand.

<sup>3</sup> According to the Institute of Statistics of the United Nations Educational, Cultural and Scientific Organization (UNESCO), only the Netherlands Antilles and Cuba have achieved universal pre-primary coverage. At the other extreme, the Dominican Republic, Guatemala, Honduras, Belize and Bahamas have less than 30% coverage at this level. The greatest achievements have been in primary education, since in most of the countries over 90% of the population aged 15 to 19 have completed primary school, although rates are lower in Guatemala, Honduras, Nicaragua, El Salvador, Belize, Guyana, the Dominican Republic, Bolivia and Paraguay.

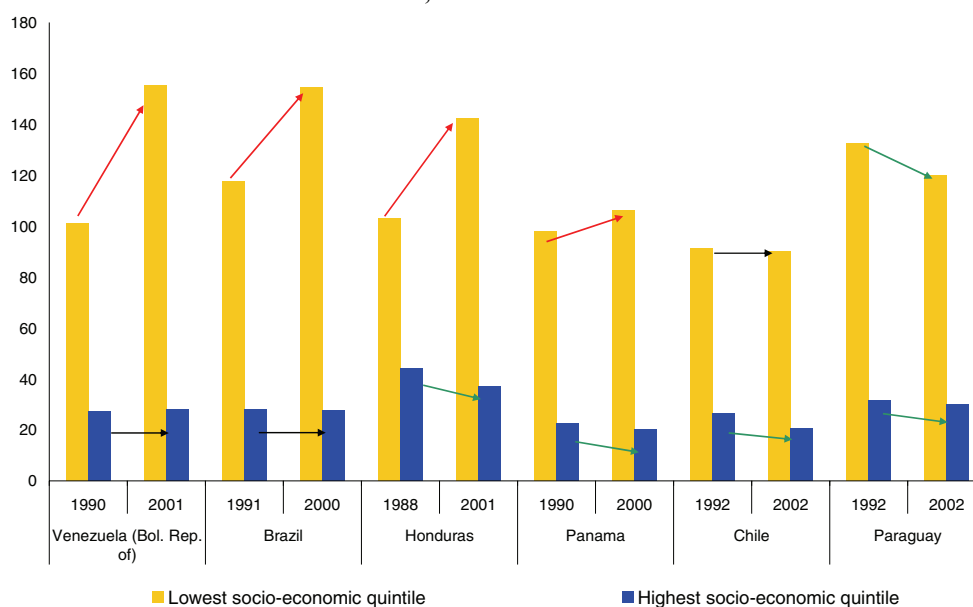
<sup>4</sup> A vital contribution is made by conditional transfer programmes that provide the poorest families with an income provided, among other things, that they keep their children at school with a high level of attendance over the year.

### 3. Teenage motherhood: a poverty reproduction syndrome

While fertility in Latin America and the Caribbean has fallen sharply since the 1970s, a different trend has appeared in a number of countries since the late 1980s: rising fertility among under-20s. Overall fertility has declined in the region, but adolescent fertility has been rising.

Furthermore, as can be seen from figure 13, which contains information on six countries in the region, poor women are far more likely to become mothers during adolescence, and this was the case during the whole of the last decade. Teenage motherhood also tends to reproduce poverty from one generation to the next, since it often leads to mothers dropping out of school, to the creation of single-parent households with poorly educated female heads, to exclusion from social capital networks and to a higher incidence of infant malnutrition.

**FIGURE 13**  
**LATIN AMERICA (SIX COUNTRIES): TEENAGE FERTILITY RATES (PER 1,000)**  
**AT THE EXTREMES OF THE SOCIO-ECONOMIC DISTRIBUTION,**  
**URBAN AREAS, 1990 AND 2000 CENSUSES**



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

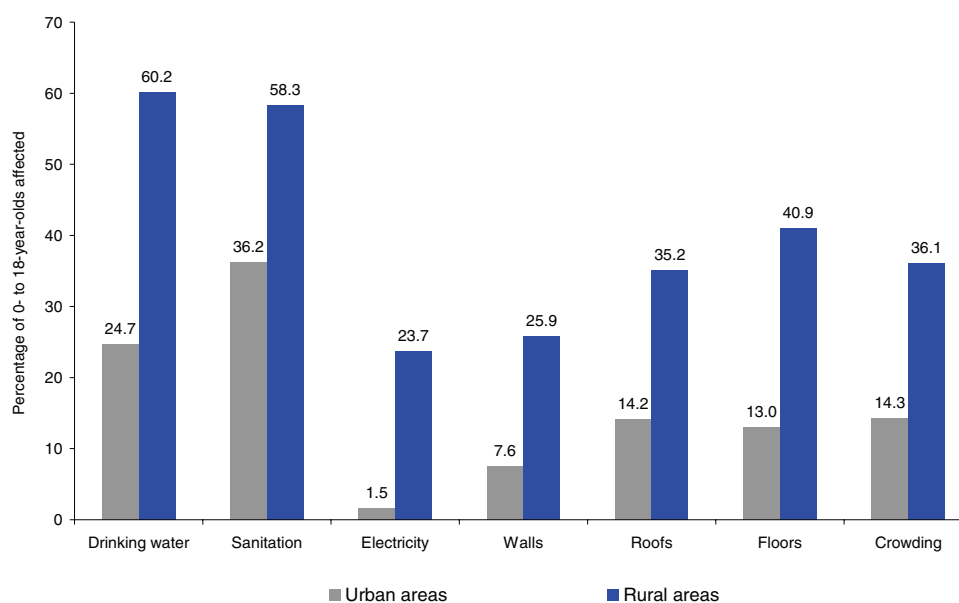
Thus, teenage motherhood condemns women to exclusion and poverty, especially if they do not fully exercise their reproductive rights. This means it is essential to guarantee these reproductive rights by means of appropriate prevention and information systems, and by strengthening protection networks such as progression through school and the cultural capital of families.

## 4. Housing risks affecting health and socialization

In many of the region's countries, most of the poor still live in environments where lack of access to basic services combines with poor housing quality to increase the likelihood of severe damage to health, infant malnutrition and increased socialization difficulties. This in turn affects educational attainment, productivity prospects and the living conditions of children.

Generally speaking, the risks associated with sewer systems and lack of drinking water are sanitary in the first instance, but they also affect nutrition and human capital. The risks associated with crowding concern health, since they increase the likelihood of contagion and worsen hygiene conditions, but also domestic violence and lack of space for children and young people to study. Lack of access to electricity limits the number of hours available for study and family life, increases the risk of accidents from the use of candles or gas lighting and prevents people from connecting to the communication technologies that are now indispensable for interacting with the world. As figure 14 shows, these risks are much greater in rural settlements than in urban ones.

**FIGURE 14**  
**LATIN AMERICA (15 COUNTRIES): HOUSING QUALITY DEFICIENCIES AFFECTING CHILDREN AGED 0 TO 18, BY AREA OF RESIDENCE, 2001-2005**  
*(Percentages)*

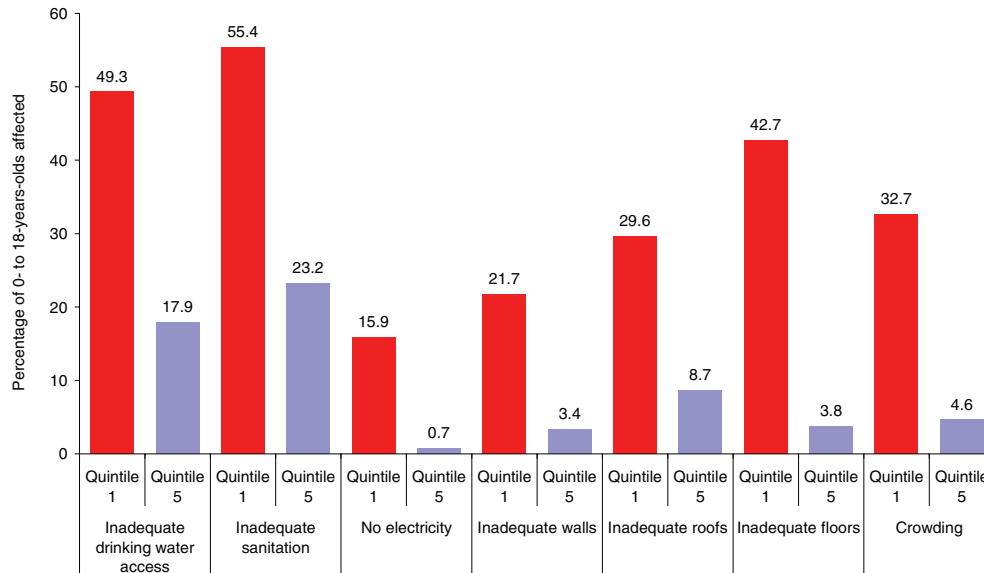


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of household survey data from the countries concerned.

The contrast between rural and urban areas is reinforced by differences between lower- and higher-income groups. Using weighted averages for a total of 15 countries in the region, it has been shown (ECLAC/UNICEF, 2007) that children aged 0 to 18 in the first quintile, of whom 55.5% are affected by inadequate access to sanitation and 49.3% by inadequate access to drinking water, are far more vulnerable than those in the fifth quintile (23.2% and 17.9%, respectively). There is also a marked contrast when it comes to crowding (32.7% in the first quintile versus 4.6% in the fifth). Proportionately, the greatest disparities are to be found, as in the case of urban-

rural differences, in the flooring of homes: 42.7% of those aged 0 to 18 in the first quintile do not have adequate floors, as against 3.8% in the fifth quintile (see figure 15).

**FIGURE 15**  
**LATIN AMERICA (15 COUNTRIES): HOUSING QUALITY DEFICIENCIES<sup>a</sup> AFFECTING CHILDREN AGED 0 TO 18, SELECTED PER CAPITA INCOME QUINTILES, 2001-2005**  
*(Percentages)*



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of household survey data from the countries concerned.

<sup>a</sup> The figures on housing materials are for 13 countries.

## 5. Infant malnutrition and the life cycle: another vicious circle

Infant malnutrition is the clearest and most dramatic manifestation of unstable access to adequate food, and it takes two forms: children may be underweight or under height for their age. The latter is particularly serious in the region's countries, both because of its greater incidence and because its negative effects on individuals and society are irreversible. It affects health and intellectual and learning capacities throughout life, increases social costs deriving from poor health and limits the productivity of those affected.<sup>5</sup>

When the problems of malnutrition are compared between the different subregions, important differences are seen: while in Latin America there is a greater prevalence of chronic malnutrition (height-age ratio), the problem of low weight is more serious in the Caribbean.

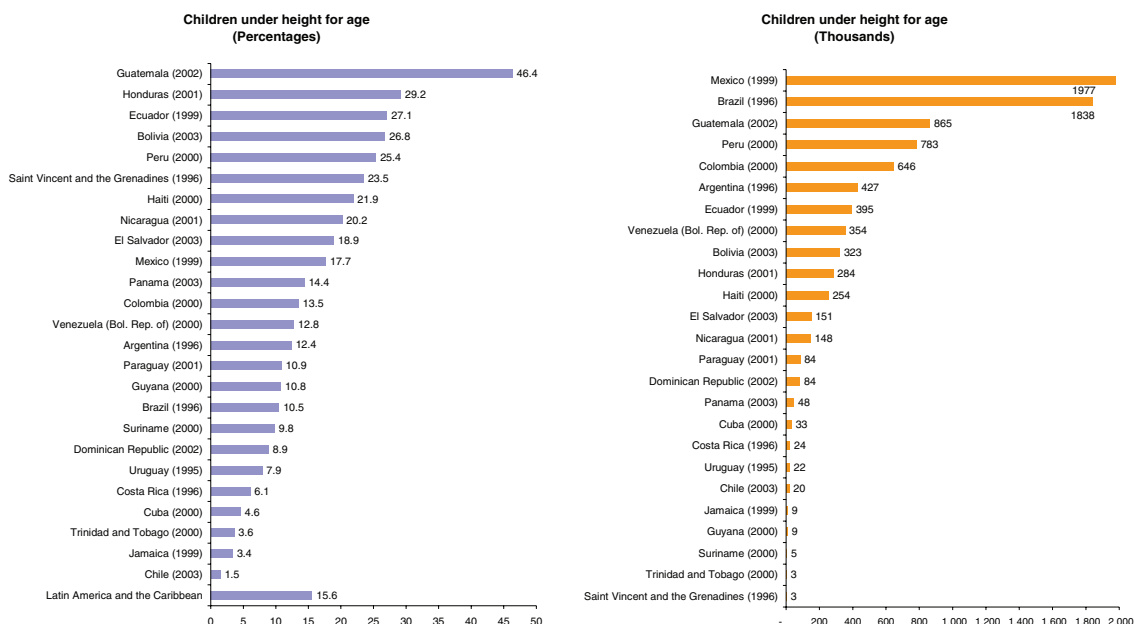
As indicated in the 2005 interinstitutional report on the Millennium Development Goals and other specialized documents (United Nations, 2005; ECLAC/WFP, 2005a and 2005b), children living in extreme poverty are twice to six times as likely to be underweight or under height for their age as non-poor children, and twice as likely as non-indigent poor children, while children living in rural areas are 1.5 to 3.7 times as likely to be underweight as urban children. As

<sup>5</sup> Accordingly, prevention and mitigation of the consequences yields public and private cost savings that we have estimated at between 1.7% and 11.4% of GDP for the Central American countries in 2004 (ECLAC/WFP, 2007).



regards ethnic and racial factors, while the information available is less precise, it shows that the indigenous population (which tends to be concentrated in rural areas) and that of African descent is more exposed than the rest, owing to their greater overall vulnerability.

**FIGURE 16**  
**LATIN AMERICA AND THE CARIBBEAN (25 COUNTRIES): CHRONIC MALNUTRITION IN CHILDREN UNDER 5, 1996-2003**



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the World Bank; United Nations Department of Economic and Social Affairs (DESA); Demographic and Health Surveys (DHS); United Nations Children's Fund (UNICEF), "Multiple Indicators Cluster Surveys"; Standing Committee on Nutrition; national reports.

## Third part

### Strategic intervention areas

There is a need to design and implement policies for strong, sustained economic growth, since this generates high-quality jobs and resources for social investment, and a production policy that has positive effects on job creation.

At the same time, it is necessary to increase people's ability to take up more productive employment, and this means education and occupational training. There is an urgent need to implement a new system of social protection whose financing incorporates a solidarity component, together with a new social covenant to increase the tax burden.

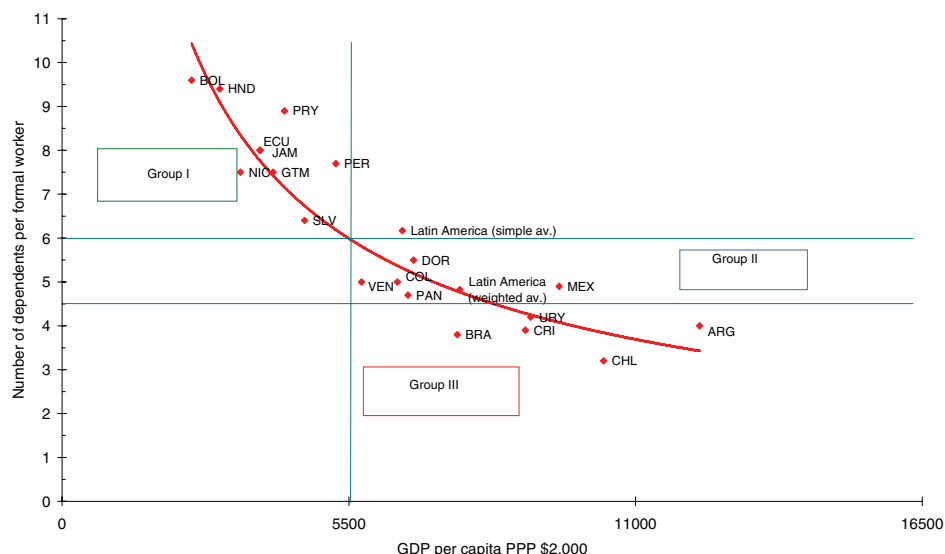
Lastly, there needs to be investment in measures to strengthen democracy, institutions, transparency, social participation and the effectiveness of public administration and expenditure.

To understand the challenges of social policy financing, ECLAC has graded the countries by a new indicator of dependency between active workers in the formal sector and the remainder of the population.<sup>6</sup> The purpose of this indicator is to evaluate the potential capacity of social protection systems financed by contribution mechanisms, whose coverage base consists precisely of formal workers, to cover the needs of the population that does not have access to the social services associated with this system. The results of the indicator can be used to differentiate countries both by development level and by the stage they have reached in the demographic transition and the maturity of their labour markets (see figure 17).

---

<sup>6</sup> Ratio of minors, older adults, inactive people and the unemployed or informally employed per formal sector worker. See ECLAC/SEGIB, 2006.

**FIGURE 17**  
**PROFILE OF THE NUMBER OF DEPENDENTS PER FORMAL WORKER, BY PER CAPITA GDP IN PURCHASING POWER PARITY**



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of household survey data from the countries concerned, and World Bank, World Development Indicators [online database] <http://devdata.worldbank.org/dataonline/>.

We can distinguish a first group of countries whose per capita GDP is less than US\$ 5,500, as measured in 2000 purchasing power parity (PPP) dollars, and which are also less far advanced in the demographic transition and the maturity of their labour markets, the result being that levels of dependency per formal worker are high. In these cases, needs tend to be concentrated mainly among young people and the underemployed. The second group of countries, with an income threshold of US\$ 5,500, still has a great deal of ground to make up in terms of the demographic transition and labour market maturity, and has between 4.5 and 6 dependents for every formal worker. The needs of the young still predominate, although to a lesser degree, and there is an increasing presence of inactive people as well as the underemployed. The third group of countries is well clear of the US\$ 5,500 threshold, but presents between 3 and 4 dependents for every formal worker. The needs of the young still weigh heavily in these countries, but others have come to the fore as a consequence of underemployment, inactivity and the emergence of older adults.

The need for an integrated strategy derives from the fact that the ability of social policy to reduce poverty, inequality and exclusion depends on the effectiveness of protection systems, which in turn require the economic sustainability achieved through growth and the political sustainability conferred by social covenants. Social cohesion is strengthened as a result of the synergy between economic growth, more universal access to its benefits and appreciation for the work of all regional actors, combined with respect for their differences..

## 1. High-quality growth

Ensuring that economic growth translates into matching social development means strengthening the links between the two through the application of appropriate policies and wider participation in their benefits, while enhancing both productivity and the coverage of social security systems.

## 1.1. The need to create an appropriate growth environment

The scope for promoting growth in an increasingly interactive world depends on a number of factors associated with international goods and financial markets. Their outcomes constrain the development opportunities of the region's countries and are therefore not neutral in relation to the level and model of growth there. For this reason, the fundamental social cohesion goals of the programme need to include national, regional and global strategies to put in place market conditions favourable to high-quality growth.

Where national strategies are concerned, it is vital to bring forward macroeconomic policies designed to reduce vulnerability in this area and facilitate productive investment, and others designed to create systemic competitiveness.

The purpose of the former is essentially: to avoid unsustainable deficits, whether in the public or private sector; to monitor financial imbalances both in flows and in the balance sheet structure; to avoid term and currency mismatches; to control inflation and instability in real variables; to implement countercyclical policies in order to keep social protection stable over time; and to exercise prudent management of flexible currency and labour markets.

The purpose of the latter is to recognize that active policies are needed and that sound macroeconomic performance is not enough. Among policies of this type are: (i) support for innovation systems that stimulate and accelerate the accumulation of technological capabilities, (ii) enhanced productive transformation measures, including efforts to diversify the export base, stronger linkages between export activities and the rest of the economy, and the formation of production clusters, and (iii) continuous infrastructure improvements.

However, there is also an important role for regional action in achieving the following goals: (i) the provision of public goods such as macroeconomic and financial stability through a network of regional institutions that include development and compensation funds, (ii) the consolidation of trade integration in the region, (iii) macroeconomic and financial cooperation, (iv) the harmonization of rules and standards and (v) enhanced physical, social and political integration. At the global level, it is essential to create the right conditions to provide global public goods of a macroeconomic character, correct financial and macroeconomic asymmetries, deal with productive and technological inequalities, include migration fully on the international agenda and, above all, construct global citizenship on the basis of an international social agenda.

## 1.2. Coordinating economic and social policies

Sustained economic growth is a necessary condition for poverty reduction. However, growth alone cannot correct the whole range of structural factors that drive the intergenerational reproduction of poverty (United Nations, 2005 and ECLAC, 2006b).

In this context, it is necessary to consolidate the systems used for coordination between the economic and social authorities, incorporating social priorities into economic policymaking. In the face of excessive poverty, human capital deficiencies and huge social and productive inequalities, a universally oriented social policy and protection networks of a compensatory character need to be combined with an economic policy that explicitly incorporates social goals.

To achieve better income distribution, it is necessary to improve the share-out of productive assets. Good asset distribution that leads to the emergence of a multitude of thriving small-scale enterprises is associated with better income distribution. Consequently, policies to democratize access to productive assets—capital, technology, training and land—are indispensable for both growth and social inclusion. Where human capital is concerned, this redistribution can only take place gradually, over time, through employment, education, training and nutrition.

In view of the above, social development has to be understood as the outcome of three basic factors: (i) a long-term social policy designed to increase equity and ensure inclusiveness, (ii) stable economic growth that generates an adequate volume of high-quality jobs and an environment favourable to the progress of small businesses, and (iii) a reduction in the internal dualism of production sectors to narrow the productive divides between different economic activities and productive agents (ECLAC, 2007b).

It is vital for the State to involve itself actively in poverty reduction by implementing social programmes and policies and appropriate labour market policies.

### **1.3. Productivity and work: growth and employment policies**<sup>7</sup>

Given the context of structural heterogeneity and a multi-speed economy, it is necessary to move as many micro and small enterprises as possible from the informal to the formal sector of the economy, which would also result in progress with the formalization of employment. Given the number of actors involved, the most effective approach, besides specific policies such as microcredits and training and management, would seem to be the adoption of horizontal measures, including but not limited to the simplification of rules and procedures, reduction of the tax burden and, especially in the rural sector, regularization of the land holdings of small producers. Incorporation into the formal sector would enable workers to carry out new activities and obtain some degree of social protection.

In the absence of significant unemployment insurance programmes, there is a need to implement labour market policies that can help the unemployed find work more quickly, prevent those with jobs from losing them and stimulate employment growth. These policies can also help connect workers with jobs, cut the cost of finding work and improve the capabilities of the unemployed and of those working in microenterprises and small firms.

To improve the transparency of labour markets, it is essential to create better systems of information on job opportunities and the labour supply, and better employment intermediation. These stimulate mobility, both within and between sectors and geographically, and provide very useful information for training programmes. Although intermediation is an effective, low-cost instrument, more efforts are needed to extend its coverage.

Demand for labour can be stimulated by means of macroeconomic, sectoral or territorial policies and, most particularly, policies designed to increase employment through specific programmes and encourage the recruitment of labour in the private sector. Apart from macroeconomic policies whose goal is to protect employment levels and reduce long-term instability, productive development policies can indirectly increase the demand for labour by improving the workings of the production system. Particularly effective tools include policies to improve the situation of small and medium-sized firms and the regional development of certain production conglomerates, and to provide incentives for labour-intensive activities such as tourism and house-building. Policies to stimulate the demand for labour in the private sector also normally include State subsidies for the recruitment of additional workers, covering all or part of their wages and other employment costs.

Professional and occupational training and support for young entrepreneurs who lack resources are vital, and there needs to be greater investment in their quality and coverage, a qualitative leap in the adaptation of training to technical change and the new demands of the labour market, and the involvement of numerous actors, including universities, employers' and business organizations and financing agents. A national training system that provides placements

---

<sup>7</sup> Based on Machinea and Hopenhayn (2005) and ECLAC (2007b).

in firms and contacts with employers and that is technically up-to-date and relevant to the changing labour supply can substantially improve the options of young people who do not go to university. Help for young entrepreneurs to form sustainable micro or small enterprises in the form of access to financing, information and networks is also vital, given that much of the employment being generated now in the region comes from small businesses.

Skills certification systems are an important instrument for facilitating employment in low-productivity sectors, as long as they include recognition for skills acquired through practice, technical refresher courses and certification of compliance with standards recognized by the private sector in each activity, supervised by the State and issued by duly accredited technical bodies. In these circumstances, they are among the labour market policies that can be used to reduce the impact of economic cycles on workers by improving the quality and relevance of occupational training and reducing the number of workers in the most vulnerable situations. Such systems are a comprehensive mechanism for improving human capital, enhancing the ability of unemployed workers to find work and shortening spells of unemployment by providing ongoing refresher activities to maintain the occupational skills or technical know-how of unemployed workers, provide recognition for the skills they have already developed, or both.

#### **1.4. Growth and the public finances: efficiency and equity**

The financing of social spending depends on two key factors. The first is the structure of the labour market, where the main problem is that only a small fraction of workers have access to protected jobs and social services as social security system contributors. The second is tax revenue, which is what enables the State not only to compensate for the lack of protection in the most vulnerable sectors but, more generally, to make financing available for social policies that contribute to greater cohesion, particularly when such policies have a positive effect on equality of opportunities and on the universalization of access to provision.

Since the overall tax burden in Latin America and the Caribbean is very low, it ought to be increased on average by between 3 and 4 points of GDP, depending on the current ratio between the tax burden and GDP in each country. These additional resources would provide the funds necessary to finance social programmes and non-contributory social security systems.

Exercises to simulate changes in taxation structures and concentration curves have revealed how difficult it would be to create a progressive system in current circumstances. What they show is that either the share of income tax in the taxation structure needs to increase very substantially (leaving the current degree of concentration unchanged) or there need to be reforms to this tax so that its effects become far more progressive than they are now.

Social protection also improves as the efficiency of benefit provision rises. Consequently, public financial authorities need to make an effort to improve access to social provision for the most excluded on a basis of efficiency (i.e., at the lowest cost consistent with quality standards), solidarity and suitability, subject to three essential administration criteria: (i) the collection method and the appropriateness of expenditure, (ii) allocation by target groups to give a sense of equity to the results and (iii) the sustainability of the effects.

With respect to the first of these, the State collects more when the tax base, i.e. output, expands. If a fixed ratio is maintained between receipts and total spending, and between total spending and social spending, there will be a procyclical tendency for social spending to follow GDP growth. This means that more will be spent in upturns and less in downturns. This runs counter to the logic of social protection, since this ought to be more active in downturns, when economic problems usually lead to a reduction in formal employment and an increase in underemployment and joblessness, resulting in greater social protection needs. For this reason, it is important to recognize the need for a mechanism that can reverse this procyclical logic

whereby financial resources diminish just when social needs and vulnerabilities are increasing. Thus, the relationship between revenue and social spending needs to be synchronized to facilitate countercyclical policies, with money being put aside during upturns and spending increased during downturns. This mitigates the adverse affects that can ensue for social cohesion by reducing the corrosive impact of economic volatility and maintaining a greater perception of stability and protection in society.

There is a need for more effective selection or targeting of spending if the principle of universality in social policy is to be achieved, with specific resources being set aside to deal with particular forms of exclusion or access barriers (ECLAC, 2000, pp. 32 and 33). To increase equity in resource allocation, it is crucial to improve targeted programmes, as this will make it possible to universalize minimum levels of welfare and entitlement. From the social protection perspective, it would be appropriate to heighten the countercyclical character of certain expenditure items targeted on those who are at greatest risk in downturns and concentrate transfers on the population most affected by poverty. Among the most progressive spending (i.e., that which most benefits those who have least) is that on health and nutrition, pre-primary and primary education (and increasingly secondary education as well) and social assistance.

The sustainability of the public finances is an area in which more attention needs to be paid to the evaluation and administration of the fiscal risks associated with the responsibilities progressively accepted by the public sector and their effects on income and expenditure flows, and thence on the scope for ensuring the quality of benefits over time. From the social protection perspective the issue is not a minor one, since if future fiscal commitments are not properly provided for, there is a risk that the quality of social services will have be sacrificed to cover liabilities that fall due and grow over time.

## **2. Effective social policy**

Because of systemic progress, active and effective social policies are required for access to education, nutrition and housing and for the provision of reproductive information and the prevention of pregnancies, in order to reduce the rate of teenage motherhood and ensure the exercise of reproductive rights.

These requirements mean there is a need to act on the financing of social protection systems and bring in a solidarity component sufficient to allow minimum social welfare entitlements to be guaranteed, the main priority being programmes targeted on the most vulnerable population. This needs to be accompanied by specific policies to improve information transparency and management.

### **2.1. Working for greater equity in the education system**

Very determined systemic efforts are needed to narrow the gaps in high-quality education access opportunities, guarantee a steady progression through the education system and create environments that stimulate knowledge and intelligence, all of which will improve equity in educational attainment and learning.

It is indispensable for the poor to remain at school for longer, and this means working both on the conditions of educational supply and on those of demand. Equity entails a twofold challenge here. First, there is a need to intervene in the formal education system to eliminate or at least substantially reduce segmentation in terms of the quality of the education on offer to the different strata of society. Second, the conditions of demand in the most disadvantaged sectors

must be supported, meaning that these sectors need to be given greater access to the education system and greater opportunities to develop their capabilities there.

This requires a diversified set of policies, particularly: applying compensatory measures in geographical areas where school performance is poorer, creating intersectoral and community programmes that have a more systemic impact on conditions of access to formal education for the poor, reinforcing and increasing targeted programmes whose support for the educational performance of the most vulnerable groups can translate into sustained results, adapting the curriculum of the pre-basic and basic stages to the sociocultural conditions of students, and making proper use of subsidies to improve the supply of public education and access for low-income families.

Complementary policies are also needed to bolster the educational continuity of poor children and youths, who have the highest drop-out and repetition rates. “Ensuring that children from poor families attend school and stay there means giving them not just a high-quality education but also longer classroom hours to compensate for the limitations imposed on their learning capacity by the family environment, nutritional programmes and even a subsidy for the opportunity cost of foregoing paid work” (Franco, Morales and Marfán, 1998).

Policies to raise and standardize education quality are very diverse and are not mutually exclusive. One such is the allocation of special resources to geographical areas where performance is poor in order to improve school infrastructure, teacher training and learning materials. Also very important are the provision of computers to familiarize pupils with the use of networks and the involvement of the community of parents in their children’s education. Programmes such as classroom libraries, longer school hours, the distribution of teaching materials and extra food are other examples of measures to improve education quality for the poor and ensure that students remain in and move up through the education system.

To increase attainments and improve learning outcomes, it is vital to guarantee universal access to pre-primary education. A number of studies on educational attainment show that students who have had access to this achieve better results later on, both in their rate of progression and in actual learning outcomes.

To sum up, this twofold challenge of equity for the educational aspects of supply-quality and demand-access translates into a diversified array of policies that each country needs to calibrate to own inequities: compensatory measures for areas where school performance is more unsatisfactory, programmes that impact the conditions of access to formal education for the poor, programmes targeted on the educational performance of the most vulnerable groups with effects that are sustained over time, and mobilization of the community itself to improve the conditions of educational demand among the poor.

It is essential to apply compensatory policies that provide monetary rewards to teachers working in areas where learning attainments and outcomes are lowest. This seems to be the only way to redistribute the teaching workforce so that the teachers best equipped to stimulate learning, support students who have fallen behind and convey useful knowledge are concentrated in classrooms containing students from poor or rural families, or in areas with a high density of indigenous or African-descended people.



## 2.2. Attacking the first cause of inequality: malnutrition <sup>8</sup>

Long-term State policies with sustained efforts and commitments are needed to solve the problem of malnutrition. The main focus of action should be children under 3 and pregnant and nursing women, all of whom are going through critical stages of nutritional vulnerability.

Against this background, a set of policy guidelines are given below. Some need to be implemented relatively quickly while others are for the longer term. The priority given to these initiatives by each country will depend on its nutritional and epidemiological profile and the national programmes under way:

- (a) Encourage women to breastfeed exclusively up to six months, providing working mothers with the appropriate conditions for this.
- (b) Continue and improve programmes to fortify foods with micronutrients, which have proved very cost-effective when it comes to narrowing health, learning and productivity divides.
- (c) Provide food supplements and promote their use among pregnant and nursing women and among infants and preschool-age children.
- (d) Promote and improve eating habits based on traditional local foods with a high nutritional value, taking due account of cultural and ethnic diversity.
- (e) Establish money and food transfer programmes for people living in conditions of extreme poverty, in exchange for their participation in education and primary health-care services, community work, training, literacy programmes, etc.
- (f) Strengthen preventive actions targeted on the most vulnerable groups, particularly public information programmes, dietary and nutritional education and the provision of information about best practices in childcare, hygiene, parasite removal, healthy eating habits and food handling and preservation.
- (g) Improve water and sanitation infrastructure in deprived areas to reduce the transmission of diseases associated with malnutrition, irrigation systems to increase agricultural productivity in dry areas and roads to facilitate the trading of local products and the distribution of foodstuffs in emergencies.

## 2.3. Mitigating housing risk

The systemic character of housing risk, with access deficiencies in different aspects of people's living environment, calls for a comprehensive policy approach. Home drinking water and waste removal systems are most important, as they clearly reduce health risks.

There needs to be progress with low-cost housing construction and allocation programmes for low-income sectors, in both the countryside and cities. Use should also be made of strategies for improving informal settlements that include provision of better infrastructure and connection to basic services, and that improve residents' quality of life more generally.

## 2.4. Preventing teenage motherhood <sup>9</sup>

Any policy to reduce the prevalence and mitigate the effects of teenage motherhood in the region needs to be based on four essential pillars.

---

<sup>8</sup> Based on ECLAC, 2007b.

<sup>9</sup> Based on ECLAC/UNICEF, 2006.

The first is to improve the control and negotiating capacity of adolescents so that they can avoid high-risk behaviour, through either sexual abstinence or the use of contraceptives. This capacity can be developed by means of a variety of awareness-raising programmes, and the necessary attitudes and knowledge can also be transmitted through education services (school) and health facilities (hospitals and surgeries). It is essential for adolescents to be aware of their right to reproductive health and capable of enforcing it.

The second is to recognize adolescents as sexually active individuals and remove cultural and family obstacles to the exercise of safe sexuality right from the first relationship.

The third is for adolescents to have other options available so that they feel there is more to aspire to in life. Two interventions are the most important and systemic: improving the conditions of both supply and demand in the education system so that adolescents from poorer sectors can remain at school and move up through it in accordance with age (being at school and not falling behind is a powerful protection against the risk of or desire for pregnancy), and expanding the range of opportunities in the area of occupational training and the transition from school to work so that adolescents can develop life plans centred on the productive sphere.

The fourth is to put in place prevention programmes that include specialized assistance, comprehensive interventions (including counselling) and principles of confidentiality.

## **2.5. Access to a system of far-reaching social protection: financing and solidarity**<sup>10</sup>

Recent experiences analysed by ECLAC in the areas of health and pensions show that social protection schemes need to expand the coverage of their provision by improving access mechanisms. What is needed is a design that strikes a better balance between incentive mechanisms and solidarity, while provision needs to be made to deal with demographic and epidemiological changes and shifting family structures.

Social protection systems need to move towards universal affiliation and finance their benefits by means of solidarity mechanisms involving transfers between members. When this type of financing is opted for, the goals are redistributive and cross-subsidies are established between income, age and risk strata with clear effects on the welfare of lower-income groups. Transfers from those who have most to those who have least, or from lower-risk populations to higher-risk ones, are part of the solidarity dynamic that makes a society more inclusive.

The principle of solidarity in financing and compulsory contributions to social protection systems expand resources, make risk diversification more stable and equitable and allow for cross-subsidization. Thus, the public finances can play a fundamental role by helping to transform the way in which the relevant actors access benefits, from a system centring on specific contributions made by people in their capacity as employees and through copayments to one that stresses their status as citizens with enforceable, guaranteed rights, funded by a mix of contributory and non-contributory financing and endowed with clear solidarity mechanisms.

A model of inclusive rights-based social protection requires choices to be made about four essential ingredients of social policy: the levels and sources of contributory and non-contributory financing, the extent of solidarity in financing, the development of social institutions for efficient management of benefit provision policy, and the identification of explicit, guaranteed and enforceable rights relating to access to social provision.

---

<sup>10</sup> On the basis of ECLAC (2006).

Given how important care is for family life and for women's prospects of participating in the labour market, social protection systems have to make provision for the care economy and the relevant services infrastructure for the different age groups. What is needed here is a public care policy that can finance, coordinate and regulate a network of public, private and mixed institutions providing a services infrastructure to meet society's demand for care.

## **2.6. Conditional transfer programmes**

Programmes that make monetary transfers to poor and extremely poor families conditional on investments in human capital need to be understood within the framework of a new social protection approach that combines assistance goals with objectives for enhancing human capital and combating poverty in the long term. The pro-equity logic of conditional transfers rests on two premises. The first is that direct transfers are the clearest way for State social policy to redistribute income to the most vulnerable and lowest-income sectors. The second is that the mechanism used promotes human capital formation in sectors where this is weakest and least continuous, thereby helping to spread these assets more evenly in society, or at least to ensure that nobody remains below the minimum threshold required to enter the dynamic of future opportunities. Conditional transfers should not be seen as an end in themselves, however, but as a means to enhance the effectiveness of social policy, whereby the State transfers money to provide incentives for the exercise of the right to health and education, and access to the social protection network.

Programmes are oriented towards providing monetary transfers to poor families on condition that these invest in three of the basic components of human capital: education (combined with measures to mitigate child working), health care and nutrition. In the case of programmes that make transfers conditional on investment in the education component, most of those applied so far in Latin America and the Caribbean require a minimum level of attendance at educational establishments, ranging from 80% to 90%.

Programmes that also make monetary transfers conditional on the health and nutrition components do so by requiring mothers to follow the protocol laid down for children's health care and nutrition, compliance with which is monitored by the appropriate services. In this way, transfers combine additional monetary support for families living below the poverty line and in extreme poverty with requirements that improve human capital prospects in these same sectors, including measures to prevent children from working and dropping out of school and to deal with infant malnutrition and morbimortality.

From the design point of view, conditional transfer programmes represent a significant shift in social services provision in Latin America and the Caribbean. In particular, making transfers conditional on commitments being met by families is a mechanism designed to generate incentives for people to take up the supply of social services and reduce the opportunity costs of doing so. This represents an innovation in relation to traditional unconditional transfer approaches, which are confined to topping up families' monetary income in the short term but without introducing behaviour requirements designed to promote the accumulation of human capital in the long term (Rawlings, 2004).

## **3. The sense of belonging**

The struggle against poverty and social exclusion requires greater social cohesion, i.e., a stronger sense of solidarity between the different groups composing the nation's society and a general feeling of belonging to this. This sense of belonging is a civic attitude and condition that opens up

opportunities for strategic development with a stronger emphasis on social inclusion. This in turn strengthens political legitimacy and the sense of belonging.

In more cohesive societies with a greater sense of belonging, there are better prospects of forging covenants between different agents who feel they are part of a political community, to sustain long-term policies whose goal is to even out opportunities and give a more strategic character to development. For these purposes, actors need to feel they are part of a whole and be willing to forego their personal interests for the wider benefit.

### **3.1. Strengthening democracy**

We must never forget that Latin America has a very patchy record when it comes to democracy: the region had just five democratic governments in 1930, seven in 1948 and a mere three in 1976 (UNDP, 2004). The far-reaching progress in this area over recent decades, when virtually all the countries have adopted a more or less solid version of the democratic system, is a heritage that is at once precious and fragile.

The diversity of Latin America is very great, and so are its asymmetries. We need only consider that the region is home to over 700 ethnic groups. At the same time, it has historical, cultural and political characteristics that facilitate integration to an extent perhaps seen nowhere else. Latin America is currently ruled by governments that have been legitimately voted into office, a situation that is very unusual in its fragile democratic history.

Many election results reflect aspirations for social justice and centuries-old demands by peoples and sectors of society that until very recently had no access to political power. For these processes to result in progress and not frustration, the important thing is that they should further the twin goals of democracy: freedom and equality.

The Latin America and Caribbean region has faced enormous difficulties recently in its efforts to adjust to the demands of globalization. Indeed, progress since the debt crisis of the early 1980s, which substantially increased poverty levels, has barely restored them to what they were before the crisis. Population growth means that, while the figures have remained steady, there are now 100 million more people living in poverty. These characteristics of Latin American development have made it harder to achieve simultaneous entitlement to political rights and to economic, social and cultural rights for citizens.

### **3.2. Institution-building**

In addition to this, however, we need to be able to increase the credibility of democratic institutions, improve the institutional framework for public policy (with transparency and evaluation) and introduce powers or standards that prevent the benefits from being misappropriated.

It is very difficult to make progress with social cohesion in a country or region where large differences in incomes and access to a variety of assets persist. Furthermore, how is it possible to achieve a sense of solidarity and belonging if citizens do not trust the basic institutions of democracy; if they perceive, for example, that justice is corrupt and serves the interests of the powerful? How can it be claimed that social spending is improving equity if there is no transparency and no evaluation of social programmes, and these are vulnerable to political clientelism? How can we speak of social cohesion in societies where denial of the other has been the rule for decades or centuries?

### **3.3. Solidarity in the middle and higher classes**

There is something else that is indispensable to social cohesion: in many Latin American countries, there is a growing tendency for the middle and higher classes to meet their needs for social security, health care, education and, recently, physical security too by purchasing these services in the market. In other words, their welfare is becoming detached from public services and State action. What they do not pay in taxes they spend on private-sector services in the market, whether locally or internationally. Consequently, they have no incentive to press for higher-quality public services, let alone pay more taxes to improve their quality and coverage. When all is said and done, the middle and higher classes are losing their solidarity with the rest of society and generating first- and second-class social citizenships, with severe effects on social cohesion.

### **3.4. Citizenship and the exercise of rights**

Belonging is at once a means and an end where citizenship is concerned. As a means, it motivates the different actors to participate actively in promoting full entitlement to civil, political, economic, social and cultural rights. As an end, the more people feel that they enjoy full entitlement to these rights, the stronger the sense of belonging.

Policies of equality and non-discrimination by gender, sex, ethnic origin or race, and protection for children and older adults. There is a great deal to be done in this area in the region, although clear constitutional progress has been made and there is greater public awareness of the problems of discrimination and vulnerability affecting these groups. Ill-treatment of women and children in the home, gender discrimination in the workplace, child labour, discrimination against and exclusion of ethnic minorities, non-recognition of the identities and methods of organization of indigenous peoples, discrimination against and non-recognition of sexual minorities, neglect and abandonment of older adults, under-representation of women and ethnic minorities in political power and the lack of participation opportunities for the over-65 population all reflect the situation described. This not only raises ethical challenges, but also creates high social and economic costs for the region. It is likewise instrumental in undermining the feeling of belonging to society among groups that have long been discriminated against, denied cultural recognition and excluded from social participation.

### **3.5. Dialogue and the social covenant**

From the point of view of the public finances, society has an anchor that it can use to achieve a broad agreement around four essential issues of social cohesion: (i) the identification of explicit, guaranteed and enforceable rights, (ii) decisions about financing levels and sources and their contributory or non-contributory nature, (iii) the best way of integrating solidarity mechanisms and (iv) the way to develop a framework of social institutions for social policy management, most particularly when it comes to coordinating provision.

- (a) Policies for the enforceability of rights and obligations. A social pact entails decisions about rules that are accepted by all, a minimum level of well-being to which all have access, clearly established rights and obligations, common goals for the results and products (goods and services) that can be aspired to depending on the level of economic growth in the country, and fair tax systems that provide scope for equitable wealth redistribution and long-term economic sustainability.

- (b) Policies for addressing inequalities that take account of governmental budgetary constraints. Society needs to recognize and analyse in the most transparent way possible the limitations imposed by budgetary constraints when it comes to the State creating entitlements in highly unequal societies.

It is essential to realize that the way the public finances are managed is not neutral in its effects on social policies and programmes intended to support social cohesion. It needs to be understood that these play a dual role, contributing not only to macroeconomic stability and the stable financing of social protection, but also to the public and semi-public institutional framework within which social policies and programmes operate.

- (a) Where social protection and stability are concerned, essential agreements need to be put in place to promote access to the benefits offered by the systems concerned by developing the necessary solidarity component in financing. This must involve setting budgetary frameworks for basic guarantees, laying down basic guidelines for provider networks and strengthening the institutional framework of the sector in its regulation, provision and financing functions.
- (b) Where institutional development is concerned, basic agreements need to be established around financial administration standards on the basis of the founding principles of the State, earlier structural reforms and current fiscal policies. There is a need to construct stable agreements on resource delivery methods and the responsibilities and commitments linking the financial authorities to administrative agencies.
- (c) However, the sustainability of a social cohesion strategy depends on the ongoing evaluation and administration of the fiscal risks associated with the effects that public-sector assets and liabilities might have on future revenue and spending flows. For this reason, agreements need to be struck on transparent ways of valuing, quantifying and fiscally administering long-term effects and commitments. Society must become aware that medium-term sustainability means controlling not just expenditure but also the explicit or implicit financial commitments that are bound to emerge eventually. An indispensable issue when it comes to guaranteeing rights is the matter of contingent liabilities which go unnoticed until they fall due. Appropriate provision needs to be made for these, as they cannot be dealt with at short notice.



## Bibliography

- Castedo, Leopoldo (1999), *Fundamentos culturales de la integración latinoamericana*, Caracas, Dolmen Ediciones.
- Cecchini, Simone and Andras Uthoff (2007), “Reducción de la pobreza, tendencias demográficas, familias y mercado de trabajo en América Latina”, *Políticas sociales series*, No. 136 (LC/L.2775-P/E), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), July. United Nations publication, Sales No. S.0X.II.G.110.
- ECLAC (Economic Commission for Latin America and the Caribbean) (2007a), *Economic Survey of Latin America and the Caribbean, 2006-2007* (LC/G.2338-P/E), Santiago, Chile, July. United Nations publication, Sales No. E.07.II.G.2.
- \_\_\_\_\_ (2007b), “The Millenium Development Goals and the challenges facing Latin America and the Caribbean in making progress towards higher levels of well-being, better human capital and more equal opportunities”, *Project documents*, No. 143 (LC/W.143), Santiago, Chile.
- \_\_\_\_\_ (2006a), *Social Panorama of Latin America 2006* (LC/G.2326-P), Santiago, Chile. United Nations publication, Sales No. E.06.II.G.133.
- \_\_\_\_\_ (2006b), *Shaping the Future of Social Protection: Access, Financing and Solidarity* (LC/G.2294(SES.31/3)/E), Santiago, Chile.
- \_\_\_\_\_ (2004a), *Productive development in open economies* (LC/G.2234(SES.30/3)), Santiago, Chile.
- \_\_\_\_\_ (2004b), *A decade of social development in Latin America, 1990-1999* (LC/G.2212-P), Santiago, Chile, April. United Nations publication, Sales No. E.03.II.G.143.
- \_\_\_\_\_ (2000), *The equity gap: A second assessment* (LC/G.2096/I), Santiago, Chile, May 8.
- ECLAC/SEGIB (Economic Commission for Latin America and the Caribbean/Ibero-American Secretariat) (2006), *Espacios Iberoamericanos* (LC/G.2328/E), Santiago, Chile, October.
- ECLAC/UNICEF (Economic Commission for Latin America and the Caribbean/United Nations Children’s Fund) (2007), “The right of children and adolescents to a healthy environment. A diagnosis from Latin America and the Caribbean”, *Challenges*, No. 5, Santiago, Chile, July.
- \_\_\_\_\_ (2006), “Teenage motherhood in Latin America and the Caribbean. Trends, problems and challenges” *Challenges*, No. 4, Santiago, Chile, August.
- ECLAC/WFP (Economic Commission for Latin America and the Caribbean/World Food Programme) (2007), “El costo del hambre. Impacto económico y social de la desnutrición



- infantil. Centroamérica y República Dominicana”, *Project documents*, No. 144 (LC/W.144), Santiago, Chile.
- \_\_\_\_\_(2005a), “Hunger and malnutrition in the countries of the Association of Caribbean States (ACS)”, *Políticas sociales series*, No. 111 (LC/L.2374-P-I), Santiago, Chile. United Nations publication, Sales No. E.05.II.G.119.
- \_\_\_\_\_(2005b), “Hambre y desigualdad en los países andinos: la desnutrición y la vulnerabilidad alimentaria en Bolivia, Colombia, Ecuador y Perú”, *Políticas sociales series*, No. 112 (LC/L.2400-P), Santiago, Chile. United Nations publication, Sales No. E.05.II.G.147.
- Franco, Rolando, Juan Antonio Morales and Manuel Marfán (1998), “Las reformas sociales en acción: la perspectiva macro”, *Políticas sociales series*, No. 26 (LC/L.1118), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC).
- Fuentes, Carlos (2000), “Europa y América Latina”, *El País*, 25 August.
- Gómez-Sabaini, Juan C. (2006), “Cohesión social, equidad y tributación. Análisis y perspectivas para América Latina”, *Políticas sociales series*, No. 127 (LC/L.2641-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC). United Nations publication, Sales No. S.06.II.G.167.
- Machinea, José Luis and Martin Hopenhayn (2005), “La esquivada equidad en el desarrollo latinoamericano: una visión estructural, una aproximación multifacética”, *Informes y estudios especiales series*, No. 14 (LC/L.2414-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC). United Nations publication, Sales No. S.05.II.G.158.
- Rawlings, L. (2005), “A new approach to social assistance: Latin America's experience with conditional cash transfer programmes”, *International Social Security Review*, vol. 58, No. 2-3, July.
- UNDP (United Nations Development Programme) (2004), *Democracy in Latin America. Towards a Citizen's Democracy*, Buenos Aires, Aguilar.
- UNESCO (United Nations Educational, Scientific and Cultural Organization) (2007), *Situación educativa de América Latina y el Caribe: garantizando la educación de calidad para todos. Informe regional de revisión y evaluación del progreso de América Latina y el Caribe hacia la Educación para Todos en el marco del Proyecto Regional de Educación (EPT/PRELAC)*, Santiago, Chile.
- United Nations (2005), *The Millennium Development Goals: A Latin American and Caribbean Perspective* (LC/G.2331-P), José Luis Machinea, Alicia Bárcena and Arturo León (coords.), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC). United Nations publication, Sales No. E.05.II.G.107.
- World Bank (2006), *World Development Indicators 2006*, Washington, D.C.