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**ORGANIZATION OF
AMERICAN STATES**



**INTER-AMERICAN
DEVELOPMENT BANK**



**UNITED NATIONS ECONOMIC
COMMISSION FOR LATIN
AMERICA AND THE CARIBBEAN**

**THE FIGHT AGAINST POVERTY
IN THE HEMISPHERIC AGENDA**

November 30, 1994

Original: English



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EXECUTIVE SUMMARY

This document has been prepared in light of the upcoming Presidential Summit with the view of contributing to the formulation of an hemispheric agenda. Thus, its analysis and recommendations stress those aspects of poverty alleviation that can be addressed within an hemispheric context.

Poverty is the greatest challenge for the economies of Latin America and the Caribbean. Between 1980 and 1990 it worsened as a result of the crisis and the adjustment policies, wiping out most of the progress in poverty reduction achieved during the 1960s and 1970s. Recent estimates place the number of poor at the beginning of this decade, depending on the definition of poverty, somewhere between 130 and 196 million. While the incidence and severity of poverty remains greater in the rural areas, poverty is increasingly becoming an urban problem. By 1990 more than half of the poor lived in urban areas.

Closely linked to poverty is inequality. Recession and adjustment in the eighties also increased income inequality in most of the region. In the countries with the most highly concentrated income distribution, the richest 10% of households receive 40% of total income.

While there are no set formulas that can be applied to any country to eliminate poverty, there are three key elements that need to be part of any policy framework to successfully address the problem. These are growth, investment in people, and reforms.

Economic growth is a necessary condition to sustain poverty reduction. It should be central to any effort to reduce poverty. Without growth it will be very difficult to achieve greater equity. Past experience of growth with inequality has taught the region that growth and greater equity should be addressed simultaneously, by selecting policies that strengthen their complementarity and reduce trade-offs between both of these major objectives.

Faster growth will require higher levels of savings and investment, better allocation of resources and increased levels of productivity. A stable macroeconomic environment and increasing access to international markets will also be required for more dynamic growth. According to the World Bank, the region must grow at an annual rate of about 6.5% for the rest of the decade in order to achieve significant poverty reduction.

Investments in people are a second key element in fighting poverty. They are crucial for poverty alleviation and the achievement of greater equity, and eventually contribute to sustain growth. Investments in education and training are essential to expand social opportunities, speed technological change, and train for jobs necessary to compete in the international economy. Parallel efforts also need to be made to ensure that there is equitable access to more and better health care and improved nutrition for the poor.

Since women spend more of their income on their families, investment to increase their productivity and income will contribute significantly to sustained poverty alleviation. Such investments will also be an effective way of blocking the intergenerational transmission of poverty.

Reforms required to ensure that the needs of the poor are given priority constitute the third key element for poverty reduction. The fiscal systems need to be made more equitable, without losing sight of the goals of efficiency, simplicity and revenue sufficiency. Reforms should also be introduced to remove obstacles that impede the poor from acquiring and accumulating capital. Among such efforts should be reforms in financial and capital markets that introduce innovative ways to overcome the problem of inadequate loan guarantees and promote savings, as well as reforms in land markets that will regularize titles, tax land on the basis of its production value, and introduce systems that facilitate land purchases by the poor.

The Summit participants could agree to formulate national agendas that, while being country-specific, could include the following three specific benchmark targets:

- 1) To reduce poverty by one third during the next ten years. For this purpose economic growth has to accelerate so that employment growth is proportionately greater than that of the labor force.
- 2) To increase the share of public outlays devoted to investment in people, through enhanced basic education, health and nutrition for the poor, particularly children, women, and indigenous people.
- 3) To carry out reforms in the rest of the decade that improve and modernize fiscal policies, tax systems, and labor, land and capital markets.

Finally, the Summit should summon hemispheric and international organizations to support the Latin American and Caribbean countries in their efforts to reduce poverty and meet the stated targets.

I. INTRODUCTION

1. The economies of Latin America and the Caribbean have regained moderate growth in the past few years. As a result of the adjustment policies and reforms implemented, the countries of the region have been gradually changing the bases on which their economies function. Most of the economies are expanding moderately, with relative price stability, in the context of progress toward pluralist and participative societies.

2. Today, the countries of the region are in a much better position than they were at the beginning of the decade to launch a frontal attack on the main blemish that darkens this progress. Poverty is the greatest challenge found in the region's path leading to development for all.

3. There are no general formulas to fight poverty that can be applied to any country. Each will have to choose a specific combination of policies and areas of priority. But in a broad sense --as this paper highlights-- there are common elements and actions in any useful approach to fight poverty and inequality. To succeed, such an approach will demand a strong commitment by individuals and social groups, by governments, and by the international community.

II. POVERTY IN THE WESTERN HEMISPHERE

4. In the early eighties, after three and a half decades of sustained economic and social change, the living conditions of vast sectors of Latin American and Caribbean societies had improved. Still, a large share of the population --perhaps as many as 40%-- were living in poverty, although their education, health, and income were better than 30 years before. Subsequently, economic and social setbacks contributed to an increase in poverty and to a marked deterioration of income distribution.

5. The most recent estimates indicate that at the end of the 1980's somewhere between 130 million and 196 million people in Latin America, or between 31% and 46% of the population, were poor, depending on the definition of poverty. But regardless of how it is defined, poverty increased greatly between 1980 and 1990, wiping out most of the progress in poverty reduction achieved during the 1960s and 1970s.

6. Even though the incidence and severity of poverty remains greater in rural areas, the major part of the increase in poverty over the 1980s was urban. By 1990 more than half of the poor were urban --in sharp contrast to the situation in 1980-- making poverty in Latin America an increasingly urban problem.

7. Latin America has one of the most inequitable distributions of income in the world. Recession and adjustment in the 1980s made the situation even worse. The gap between the incomes of the poorest 40% of households and the richest 10% widened during the 1980s. The top decile receives over 40% of the total income in the countries with the most highly concentrated income distribution patterns, and slightly less than 30% in only two cases. Also, a sharp decline in both real wages and employment opportunities in most countries had a particularly strong impact on the unskilled and those at the bottom of the income pyramid. The overall result was a significant increase in income inequality in most countries in the region.

8. Poverty and inequality are major concerns not only in Latin America and the Caribbean but also in Canada and the United States.

III. KEY ELEMENTS FOR POVERTY REDUCTION

9. Growth, investment in people, and reforms are three key elements of a successful approach to poverty reduction. These elements are compatible, they are interdependent, and they can be mutually supportive. Growth and poverty alleviation can be pursued simultaneously through policies that strengthen their complementarity and mitigate trade-offs. This demands investing in people to increase their human capital and implementing reforms to ensure that the benefits of growth are widely shared.

Growth

10. Economic growth is a necessary condition to sustain poverty reduction. In effect, it is at the core of any effective strategy to this end. Without growth it is extremely difficult to achieve greater equity. Without growth it will not be possible to generate the jobs essential for poverty reduction or the fiscal revenues to pay for basic social services that benefit the poor. The World Bank estimates that, in order to make a dent in poverty levels, the region must double its economic growth rate to

about 6.5% a year for the rest of the decade. In fact, the region must grow by at least 3.4% a year just to keep poverty from increasing.¹

11. As is suggested by the experience of Latin America and the Caribbean during the postwar period, which was characterized by a combination of dynamic growth and inequality, the type of growth is crucially important. Growth and equity can be promoted simultaneously through policies that emphasize complementarity and reduce trade-offs.

12. The poverty impact of economic growth can vary greatly depending on its sectoral composition and changes in inputs within sectors -- especially the share of lower skilled labor. There is no greater engine for reducing poverty over the medium term in most of the countries than the expansion of jobs and eventually the productivity and wages for lower skilled labor who are typically the poor.

13. Raising savings and investment, improving resource allocation and increasing productivity are major levers for speeding growth. These are in turn related to other important objectives, such as increasing exports with high value-added content, which requires increased access to international markets.

14. Faster growth with greater social equity in Latin America and the Caribbean will require a stable macroeconomic environment and a sustained expansion of exports. Both are crucial to prevent the regressive distributive effects of inflation and promote the creation of employment opportunities, especially for the poor.

15. Higher investment and saving ratios are also necessary. In 1993, for instance, investment in Latin America was on average 18.5% of gross domestic product (GDP), relatively low when compared to the investment rates of the seventies and early eighties.

16. Increasing the rate of investment to support faster progress in the long term involves a substantial expansion of savings. For example, the Economic Commission for Latin America and the Caribbean (ECLAC) has estimated that increasing the investment rate from 16% to 22% of GDP requires resources of over \$70 billion per

¹ World Bank, "Latin America's Development: Achievements, Challenges and Opportunities," September 27, 1994.

year for the region as a whole.² In this regard, the net external capital flowing into the region in recent years --which amounted to \$55 billion in 1993-- has been an essential factor in the recovery of the region and will have to continue.

17. Regardless of the extent of availability of external financing, the bulk of additional growth will require higher domestic savings to raise overall investment.

Investment in People

18. Investment in education and training is of prime importance to promote social equity as well as growth based on technical progress, since this requires a population capable of absorbing and adapting to technological change³. The changes at the global level require that the Latin American and Caribbean educational systems train students for jobs required by an internationally competitive economy, foster technological change, expand social opportunities, and prepare people for a democratic citizenship.

19. Nowhere in Latin America and the Caribbean are all these educational demands being fully met. While more children than ever before attend school, the quality and value of the education they receive is inadequate in most countries. Only half the students who begin primary school complete it. The educational system is incapable of meeting the needs of development and leads to inequity and differentiation. The quality of education (and training) varies enormously, ranging from world class schools and universities, attended mainly by students from higher income families, to ill-equipped, inadequately staffed, and otherwise miserable public schools for the children of the poor. The administration of public education tends to be overly centralized and bureaucratic, hampering efficiency and responsiveness to local needs. Administrative and institutional reforms, possibly radical in many instances, are warranted, emphasizing greater participation, autonomy, and responsibility at the provincial and municipal levels.

20. New strategies are needed to improve the quality, efficiency, and relevance of education and training. The goal should be to transform educational and training systems to ensure that everyone has access to modern education, giving priority to

² ECLAC, Changing Production Patterns with Social Equity, LC/G.1601 (SES.23/4), Santiago, Chile, 1990, p.49.

³ ECLAC and UNESCO, Education and Knowledge: Basic Pillars of Changing Production Patterns with Social Equity, LC/G.1702/Rev.1-P, Santiago, Chile, 1992.

poor children and aligning education with the skills required to compete in the world economy. Individuals deprived of good basic education in their youth are condemned to a life of low productivity work outside the sphere of modern production and thus low income or outright poverty. This is a major gear driving intergenerational poverty. As the performance of education systems, or parts of them, approaches acceptable norms, many countries would enhance their development prospects by increasing the share of national income devoted to education.

21. As a consequence of demographic and epidemiological transitions in a context of significant income inequality, health conditions and demands for services are characterized by the emergence of a health profile similar to that of developed societies in the urban middle and upper socioeconomic categories and the maintenance of a traditional underdeveloped health profile among the poor. As a result, increased spending and investment in health do not necessarily represent an improvement in equity of access to health care. On the other hand, these actions are often regressive because they result from economic pressure brought to bear by the population covered by health insurance (private or public) for modern health services (medical specialties, clinical services, etc.).

22. Health care reforms are needed to achieve more equitable access to publicly funded health services and greater efficiency in resource use, including more effective health interventions. Governments need to do more to deliver services to the poor through a package of basic and progressively extended health care. Together with far more emphasis on preventive health interventions, such strategies would improve the well-being of the poor, raise their productivity and thereby their income, and thus reduce poverty.⁴

23. Investments that support individual decisions on reproductive patterns are crucial to poverty alleviation and overcoming inequity, since one element of the intergenerational transmission of poverty is the predominance of high fertility rates. In addition to expanding educational and work opportunities for young women and increasing health services, the promotion of greater and more equitable access to family planning, and the enhancement of nutritional program coverage for children will contribute to improving the chances of poor families to escape the vicious circle of

⁴ ECLAC and PAHO, Health, Social Equity and Changing Production Patterns in Latin America and the Caribbean, LC/G.1813(SES.25/18), Santiago, Chile, 1994.

poverty and, in particular, the chances that poor children will not have to replicate their parents' social and living patterns.⁵

24. In reducing poverty, women play a fundamental role. Investments in women are vital to growth and poverty alleviation as they pay off in terms of greater economic benefits and better prospects for the children. Investing in women leads to improvements in children's health and education, thus also contributing to the avoidance of the intergenerational transmission of poverty.

25. Providing access to continuing education and training to women in the labor market (including both the "informal" and the "formal" sectors, wage earners and the self-employed) deserves special attention in most countries. Compared to men, women spend more of their income on outlays that enhance their family's human capital. It is therefore crucial for sustained poverty reduction to increase women's education and income. In addition to providing more education and training opportunities, and incentives for exercising them, the goal of raising women's income would be furthered by improving the overall economic, social, and legal environment bearing on women's access to resources. Such improvements are essential for addressing women's needs and, since Latin American and Caribbean women are disproportionately poor, reducing overall poverty.

26. The indigenous peoples of Latin America account for almost 10% of the region's population and in some countries their share exceeds 50%. Poverty among them is pervasive and severe.⁶ Most indigenous people live in conditions of extreme poverty, they have less education than non-indigenous people, and they suffer from severe health problems. Thus, policies focused on strengthening their human capital and reducing the educational gaps between indigenous and non-indigenous people tend to reduce earnings differentials and poverty.

27. To alleviate the social costs of the crisis of the eighties and the adjustment policies, and as a means of decentralizing and expediting governmental action, a series of innovative mechanisms were created in many of the countries of Latin America and the Caribbean. The Social Investment, Compensation and Emergency Funds and other mechanisms were designed to offset or lessen conditions of extreme poverty and

⁵ ECLAC, Population, Social Equity and Changing Production Patterns, LC/DEM/G.131, Santiago, Chile, 1993.

⁶ George Psacharopoulos and Harry Anthony Patrinos, editors, Indigenous People and Poverty in Latin America, World Bank, 1994.

meet demands originating from groups of potential beneficiaries. Their experience in channeling resources for the execution of projects addressed to the very poor, building basic social infrastructure, supporting grassroots organizations, community participation, employment creation, and increasing household incomes has been systematized in a Social Network of Funds and other Programs that merit consideration and support.

Reforms

28. For poverty reduction to be sustainable, it has to be supported by reforms ensuring that the needs of the poor are not displaced by the interests of those with greater decision-making power. First, fiscal systems require a more equitable orientation, without losing sight of the goals of efficiency, simplicity and revenue sufficiency. Public sector finances need to be consolidated on the basis of a reasonable level of revenue, rather than through mere reductions of expenditure regardless of the circumstances. There is room for improving the vertical and horizontal equity of the tax systems of many countries without adversely affecting incentives by raising the effective tax burden and by securing greater effective progressivity of the corresponding tax structure.

29. This requires a broadening of the tax base coupled with a serious and permanent decision, taken at the highest national and subnational political levels, to reduce tax evasion and institutionalize a culture of compliance with the tax code. Tax administrations should be given all necessary means to enforce the statutory tax burden and the legislated progressivity. To that end, it would be advisable to make them independent of political cycles and influences.

30. Reforms on the revenue side should be complemented by a restructuring of public expenditures. This calls for reallocating outlays towards basic social services, especially those that directly contribute to developing the human capital of the poor, cutting unproductive expenditures, and improving the efficacy of the rest. To be sustainable, such changes in public spending patterns, both across and within sectors, require shifting social and political priorities towards activities that promote equity as well as growth. Increasing the efficacy of public expenditures on social projects and programs will require, among other things, that benefits be better targeted to the neediest groups.

31. The allocation of public expenditures can be improved in yet other ways. For instance, in many countries military spending remains excessive relative to social outlays benefiting the poor. There is also great potential for supporting the neediest

groups through intersectoral reallocations. For example, the poor can benefit from a greater emphasis on improved primary health care financed by shifting resources from expensive curative health care to preventive medicine, which increases efficacy in health delivery. In the education sector, financial resources can be shifted from subsidizing university education regardless of need or academic merit to primary and secondary education, where the rates of return are greater and benefits will more directly accrue to children from lower-income families.

32. Another important way to strengthen public finances while increasing the efficiency and equity of the system is by improving **social security and transfer programs**. Not only are many of them grossly inefficient and inequitable, particularly those that entail the delivery of health services, but most social security institutions are also insolvent. A promising approach to social security reform entails a mixed system that fosters equity and financial solvency. A version of this approach features a universal component of basic benefits financed from general resources and predicated on social solidarity. Another component apportions benefits according to the amounts contributed by each individual. Reforms should address these crippling problems while seeking to expand coverage to the neediest sectors who receive very few benefits.

33. A sustained reduction in poverty and greater equity also require actions that improve and complement markets with the objective of enabling the poor to accumulate capital. In particular, improving the operation of **labor markets** involves the modernization of labor relations, including the exploring of innovative ways of paying for work.

34. Reforms in financial and capital markets demand that mechanisms be devised to remove obstacles that prevent access to resources, especially access to credit by small enterprises. This is essential to promote savings as well as establishing new rules for institutional saving, including the improvement of pension systems.

35. Another area to be looked at for promoting growth with poverty reduction and greater equity is the functioning of the **land market**. Land tenure in Latin America is much more concentrated than in most other regions in the world.⁷ Key elements to improve the land market are regularizing land titles where this is a problem and, as appropriate, taxing land on the basis of its production value, and improving capital markets to finance land acquisition.

⁷ ECLAC, Social Equity and Changing Production Patterns: An Integrated Approach, LC/G.1701 (SES.24/3), Santiago, Chile, 1992, p. 179.

36. Finally, most of the reforms discussed in this document that would improve the lot of the poor in Latin America and the Caribbean are unlikely to be implemented or sustained where the poor continue to be systematically excluded from economic, social, and political decisions affecting them. Designing and implementing on a sustained basis policies and reforms to address the problems of the poor is impossible without their effective participation in the political process. Broad participation also enhances the ability of governments to respond to social concerns. In democratic processes, reforms to ensure more equitable sharing of the fruits of growth will call for consensus-building and the collaboration of powerful groups of society.

IV. TOWARDS POVERTY REDUCTION

37. The Summit of the Americas provides an opportunity for the Heads of State to jointly reaffirm the pre-eminence of the goal of significantly accelerating poverty reduction in the Western Hemisphere. The intent is to point out the elements of a policy framework to deal with the challenge through the agreement on certain benchmark targets.

38. Elements of a Policy Framework

- 1) Sustained poverty reduction is impossible without faster and more equitably shared economic growth, greatly enhanced investment in people, and institutional reform.
- 2) While significant amounts of foreign capital are needed to achieve the more ambitious growth targets, domestic savings must increase substantially. To foster higher savings and investment, and to increase equity, the fiscal systems in most countries need substantial reform and more importantly, major improvements in enforcing the law.
- 3) To propel faster growth, enhanced investment in people should focus on improving the health and nutrition and the education and training of the young. In practice, this implies greatly improving the performance of the public agencies responsible for ensuring social services to the lower-income groups.
- 4) To block the intergenerational transmission of poverty among the most deprived families, in addition to alleviating their poverty in the short run, attention should largely focus on mother-child health and nutrition among

the poorest households and on the access to and subsequent quality of education of these children.

- 5) Because they are disproportionately poor, single parent households headed by women as well as indigenous people deserve special attention in the poverty reduction strategy.
- 6) At a time when the public sector is being downsized, the collective commitment to fight poverty demands efficient and effective public actions. Besides fostering human capital accumulation among the poor, it is also important to remove labor market imperfections and obstacles to the fair access to credit and accumulation of assets. This can be accomplished through reform of the institutions bearing on the capital and land markets.
- 7) Unless there is a national consensus among key social, political, and economic groups in support of a coherent strategy for poverty reduction, it is unlikely that the effort will be sustained for very long. Also, unless the poor participate in its design and implementation, the strategy is unlikely to be effective. Empowerment of the poor to solve their own problems forms part of any poverty-reducing strategy.

Progress Targets

39. Summit participants could agree to actively promote the national consensus and participatory work towards the formulation of an operational national agenda to accelerate poverty reduction. These national agendas, while being country-specific, could include time-bound and quantifiable commitments in the form of the following specific benchmark targets.

- 1) To reduce poverty by one third during the next ten years. For this purpose, economic growth has to accelerate so that employment growth is proportionately greater than that of the labor force.
- 2) To increase the share of public outlays devoted to investment in people, through enhanced basic education, health and nutrition for the poor, particularly children, women, and indigenous people.

- 3) To carry out reforms in the rest of the decade that improve and modernize fiscal policies, tax systems, and labor, land and capital markets.

Institutional Support

40. The Summit should summon hemispheric and international organizations to support national efforts to strive towards the poverty-reduction goal and meet the stated targets. Summit leaders could:

- 1) Reaffirm the Inter-American Development Bank's (IDB) mandate to increase the share of lending to improve social conditions and reduce inequities in Latin America and the Caribbean and to provide special support to social programs in such areas as health, education and micro-enterprise development.
- 2) Request a continuation of ECLAC's efforts in the understanding and measurement of poverty in the region as well as in incorporating the social dimension into the formulation of development policies.
- 3) Ask the Organization of American States (OAS) to further its support in the operation of the Latin American and Caribbean Social Network as a mechanism of horizontal cooperation between countries and in the areas of poverty, youth skills training, and promotion of small and micro enterprises.
- 4) Request the continued assistance of the Pan American Health Organization (PAHO) in the area of health, including disease control, food and nutrition surveillance, water supply and sanitation.

41. Finally, Summit leaders could pledge that regular meetings be held in order to monitor the progress achieved and examine the needs for external support. A forum for such meetings could be the OAS, with technical support provided by the IDB, ECLAC and PAHO.

