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Experience in the preparation and subsequent execution of development plans shows that some of the objectives put forward in them have not been attained, despite the fact that growth rates in the past decade have been higher than the ones of the previous decade. For example, achievements in relation to the objectives of reaching greater distributive justice and of relieving the state of critical poverty of large groups of the Latin American population have fallen far short of the proposed targets. The lack of equity in the distribution of growth and the existence of extreme poverty in broad sectors of the urban and rural population are problems for which a solution consonant with their pressing nature has not been found, despite the concern for them at the world, regional and national levels.

The problem is linked by a largely circular causal process to the social, economic and cultural imbalances created by the rapid, inorganic growth of the large metropolis and the sizeable share of available resources which have consequently had to be used in them, with the ensuing neglect of the problems of the regional periphery. Hence the importance of placing stress on regional and urban planning within the framework of global planning.

Furthermore, the social, productive and technological backwardness of the agricultural sector in the region creates a nucleus of extreme poverty and fosters migration from the countryside to the city.

It may be argued that to approach the problem of critical poverty in relation to events in the rural and urban space harbouring it, is to take a partial view of a larger phenomenon, the distribution of income and of growth. This is precisely the argument which provides a justification for ILPES to deal with these topics not in isolation but within the broader context of planning.

/However, in
However, in view of the internal heterogeneity of the Latin American societies and the fact that growth has not been a sufficient condition to relieve critical poverty, it becomes necessary to identify nuclei of poverty in order to define their common characteristics, determine causes and adjust policy instruments to the real situation which has not been improved by the traditional redistribution policies.

Nevertheless, it would not be enough merely to study poverty situations in order to improve the quality of life of persons in critical situations; it is also necessary to draw up policies to attack the causes of those situations. Thus the results obtained in identifying nuclei of poverty and the variables with the greatest impact on the quality of life of the persons belonging to them will pave the way for progress in causal explanations and in the definition of specific policies suited to each group.

The research already carried out suggests that in the urban areas a large proportion of the poor are linked to what has been called the informal sector, within which the small businessmen, artisans and wage-earners working in small productive units constitute a significant group. The Institute therefore feels that it is justified to begin specific action on behalf of these groups.

In addition, extreme urban poverty increases not only by natural growth but also by the inflow of persons from the countryside. The flows of migration from rural areas first come to a halt outside the small or medium-sized town; but finding no welcome there, it continues its search until it reaches the big city. Thus besides the policies to retain labour in the agricultural sector itself, the development and job opportunities of the medium-sized towns must be improved. Agribusiness and incentives to small business are factors which may reduce the flow of persons which increases critical poverty in the metropolis, as well as improve the depressed situation of the medium-sized towns.

/Our awareness
Our awareness of the serious and pressing need to tackle these problems and our full agreement with the concern voiced at the highest levels of national and international organizations have encouraged us to put forward some ideas on the subject.

Part One of this study contains a relatively thorough discussion of a number of conceptual considerations which we considered necessary in order to avoid undue simplification in dealing with the problem of poverty. It is suggested that an effort should be made to compile, classify and analyse existing information on critical poverty, by beginning immediately to use the information collected by the ECLA/IBRD Joint Project, in order to identify the nuclei of extreme poverty, describe their causes and socio-economic features, put forward causal hypotheses and suggest specific policies to eradicate it.

Part Two deals with the situation of medium and small-sized towns and industries, indicating some lines of action to improve the living conditions of the poorest groups related to the activities of small businesses, and to stimulate the development of the medium-sized cities, as a means of mitigating extreme poverty and of containing rural-urban and urban-urban migration.

The ideas outlined below are aimed at indicating a number of aspects which could be studied by the Institute associated with other national or international entities.
I. STUDY ON CRITICAL POVERTY

In this section we shall examine a number of conceptual problems, the availability of information and the need to collect it systematically, and, finally, we propose a study mainly limited to the analysis of the information compiled by the ECLA/IBRD Project on the measurement and analysis of income distribution in Latin America.

1. Conceptual problems

Throughout the discussion of this question there has been endless argument about the nature and concept of poverty. This has revealed both the difficulties inherent in trying to give "objective" definitions on which all can agree, and the clear ideological and political connotations they usually have.

This subjectivism, which should be called to mind before entering upon definitions, has three causes. In the first place, as Simmel pointed out as long ago as 1908, poverty is essentially relative and closely dependent on the social class to which the person making the judgement belongs 1/.

Furthermore, every social class tends to perceive the poor as being not in a qualitatively different situation from its own, but only quantitatively deprived according to its own scale.

However, the most important source of subjectivism must reside in the fact that, explicitly or implicitly, to assert something about poverty is to say something about the rest of society; the situation of the "have nots" is incomprehensible if it is not related to the situation of the "haves".

Countless definitions of poverty have been suggested, but they can be grouped in two large categories derived from currents of thought which far antedate the scientific study of the problem. One focuses on poverty viewed as a relationship among social groups; the other sees it essentially as a situation. There are different versions of each of these approaches.

According to a long-standing tradition, the poor are poor because they have been unjustly dispossessed by the rich, although the way in which this mechanism is conceived may be more or less vague, and the consequences drawn from it very different.

From one standpoint, poverty is the result, not always a necessary one, of the exploitation or overexploitation of some classes by others. Marxism is one example—by no means unique—of this position based in the idea that there is a mechanism of exploitation, and that the mechanism is essentially economic.

From a second viewpoint, which is perfectly compatible with the above, there is another class of poor: those neglected by the system, either because they play the role of "reserve army" for it, or because there is no way of making them create surpluses worth expropriating.

A third viewpoint considers poverty as the more or less extreme manifestation of the existence of an unequal power structure based on asymmetrical relations among the different groups, which results in the extreme subordination of many of them. According to this current, the two previous views are not wrong, but represent specific cases of the asymmetrical relations of certain groups in the power structure. Power is the basic, original dimension which covers all the others.

It is hard to be sure that the currents of thought which attach prime importance to participation truly represent a fourth current in the conceptualization of poverty. It has been stressed that the essential feature of poverty is non-participation. The poor do not
share or not enough, in the various goods and services available in the global society or in the decision-making which affects them. Although the interest of studying poverty as a lack of participation is undeniable, it seems difficult to consider this as an independent dimension. It is power, or rather the differential distribution of power, which causes some to participate and others not: the structure of participation could not change if the power structure did not change.

Poverty can be viewed as being basically a situation, in which case it becomes important to define the features which characterize it as such.

In general, the countless recent definitions based on "absolute" criteria can be summarized by saying that those persons are judged to be poor who lack sufficient resources to satisfy certain needs which are considered basic according to some criterion.

Many problems stem from this view. Firstly, it is obviously neither straightforward nor easy to describe these "basic" needs. They call for a value-judgment, as is openly recognized in some cases, although it is often cloaked in supposedly scientific trappings.

Again, even if there were agreement on the broader headings of the "basic needs" to be satisfied, such as food, clothing, housing, equipment, etc., the question of the quantity and quality of the satisfaction would have to be raised.

The relative criterion stresses the economic inequality among the different income strata of society. Thus a certain percentage is chosen—20, 25 or 33 per cent of the total income scale—which shall be considered poor. The corollary of this approach is that the poor will always exist, because there will always be 20, 25 or 33 per cent of the population occupying the bottom fifth, fourth or third of the ladder. While the studies based on this criterion may facilitate the collection of information on changes in income distribution, particularly transfers which favour the bottom stratum
(although perhaps harming those situated in intermediate positions), it will not indicate the progress made to raise the standard of living of the underprivileged. Its advantage lies in that the level of poverty is readjusted according to the changes in the general state of the society.

It may be seen that the relative definitions are more dynamic, and this enables them to show the variations in the minimum standard of living. It is well known that goods which at one time are considered "luxuries" become "necessary" and even "indispensable" with the passage of time.

Another problem of relative definitions lies in the choice of the society in relation to which the situation of the poor groups will be defined. Obviously, it is not the same to be poor in one context as in another. Those who pass for poor in the United States will probably be far from poor in India. The global society to be taken into account must therefore be explicitly indicated. One possibility would be to speak of world society, as a result of which the underprivileged situation of large sectors of the underdeveloped countries could be shown, since according to the "thresholds of poverty" used in the United States or the developed European countries large sectors of the middle classes of Latin America and other regions of the Third World would probably be sunk in the world of poverty.

The interdependence which currently exists among regions of the world, and the consequences of the demonstration effect, which arouses increasing consumption expectations in the population of countries which are not in a position to satisfy them, suggest that the choice of world society is by no means absurd. The ILO has made calculations using what is called the "western European" level, equivalent to the basic unemployment benefit for a single person with no dependents in France and the United Kingdom. By this standard, some 1.500 million people (84 per cent of the population of developing countries) were poor in 1972.


/Another possibility
Another possibility would be to refer to "Latin American society", using uniform criteria to determine the poor in all the countries. Again, a criterion of this kind should not be rejected out of hand, although the poor groups identified in this way would be very heterogeneous, since there would be a single "threshold", by which to measure the situation in Haiti, with a per capita income of US$ 97.5, and Argentina (US$ 916.8, according to CEPAL figures for the end of the 1960s).

Finally, "thresholds" could be chosen for each country. This would not remove all difficulties, however, since regional differences may be considerable, not only in respect of the possible minimum levels necessary in each region, but also in relation to price levels, wealth and income.

Last, but not least, the phenomenon of poverty could be studied in the framework of the local society. Thus the "poor" would be identified according to the criteria of the community to which they belong, which will certainly be very different from those which the research worker, coming from a different social environment, would have used.

With this type of study it would be possible to go deeper into various subjective, or social-psychological aspects of poverty, and discover the relativity of the criteria which delimit it and how it is conditioned by classes, as well as the way in which "perceived poverty" presents itself. In a study of these factors in English society, Runciman concluded that the poor are not aware of the profound inequalities in the distribution of the social benefits which exist in their society, because they take as reference groups sectors which are very close to themselves in the social ladder (Runciman, 1966).

The above analysis show that it is not illegitimate in itself to conceive of poverty as a social relationship or as a situation. In the last resort, the adoption of one or the other position depends
not only on ideological preferences but also on the objectives of the researcher or whoever takes the public policy decisions in this field.

This does not mean, however, that it is a matter of no importance which point of view is adopted, since very different consequences flow from them. When poverty is defined as a situation, either in absolute or relative terms, the main and sometimes the only thrust of the study is concerned with the problems of diagnosis. The questions in the foreground are: who are the poor; how many are they; where are they; what features differentiate them from those who are not poor; through what characteristics can be different groups be singled out within the overall world of poverty? When poverty is viewed as a relationship, however, the explanatory dimension takes pride of place.

This difference is not haphazard. Poverty viewed as a situation can only be explained as a function of some social relation or set of social relations which account for it. A situation cannot be explained by itself: it must be linked to the relations underlying it. Plainly, poverty can only be explained as a situation if some of the following assumptions are accepted, explicitly or implicitly:

(a) That the poor are poor because of a genetic inadequacy which leads them inexorably to be poor.

(b) The situation of poverty is biologically inherited, leading to the situation described in the previous assumption with the result that poverty is self-perpetuating. Although analogous, this assumption is not exactly the same as the preceding one, since the former would be compatible with a random distribution of genetic features, while the second assumes they are fixed within certain groups;

(c) There is a culture of poverty whose features reproduce themselves from generation to generation and make it impossible to escape from the situation of poverty. It should be recalled that

/Oscar Lewis—
Oscar Lewis—among others—has upheld the hypothesis of the existence of a culture of poverty, in fact a sub-culture, transmitted to the members of the group through the processes of socialization and education. Many objections have been raised to this explanation. For the above process to occur the sub-culture would have to be constituted by a particularly strong normative system, and this has not been shown. On the contrary, all observation points to its weakness, the very difficulty of believing in the existence of a sub-culture of poverty, the scantiness of the psycho-social relations among the so-called poor, etc. The psycho-social characteristics of the latter seem to be much more easily explained by the network of social relations with the global society than by their own sub-culture or culture, taking these terms in their strict sense.

None of these three assumptions may be upheld on the basis of current knowledge, nor are they ever upheld explicitly, in the radical form in which it would be necessary to do so. Nevertheless there is no shortage of people who speak of poverty as a situation, as if it were possible to understand it outside of some kind of social relationship, and who sometimes implicitly accept some of the above assumptions but would reject them, however, if they were made explicit. Even in the exaggerated forms of the theory of the culture of poverty or of inherited intelligence, for example, it is impossible to deny an important role to the social relations which form the pith of the explanatory tissue of the phenomenon of poverty.

In any attempt at explanation, therefore, priority must be given to poverty as a social relationship. Furthermore, only when it is viewed in this way can there be a suitable view of the dynamic character of the phenomena usually covered by the term.

A dynamic view is essential for the design of public policies whose priority objective is to alleviate poverty. Even if they are successful they may create new forms of poverty, and anyway throughout the different stages of implementation they will face problems arising from their own impact at earlier stages.

/Without any
Without any pretense of adding yet another definition to the many which have been presented, for the purposes of this document poverty shall be considered both as a situation and as a relationship. From the first point of view, it should be viewed as the structured situation, possessing a certain level of congruence, of a shortage of resources to satisfy needs which are considered to be basic. "Structured" means that the different dimensions used to characterize the situation are interrelated and form a whole. Thus poverty has sometimes been described as a total situation. "Resources" is understood in the generic sense of instruments which give access to goods society considers valuable. For the poorest groups, income is a fundamental resource; education, power, organization, etc., are others. Mention is made of a certain level of "congruence", since it may happen that a specific individual is not poor in respect of some of the resources considered, or in other words that those particular resources are inconsistent in terms of the availability of other resources for the same subject. But those resources will be built into a situation which continues to be poverty, because of shortcomings in the other dimensions, although they may have a positive effect for escaping from it. The needs considered to be basic should be defined for each country in the light of its particular characteristics. For a concept of critical poverty such as that described above, considerable information is required to be able to identify the causes of situations and relations on the basis of which specific policies can be formulated.

The proposal set forth later in this study to establish a data bank on the subject of poverty is designed to fill the existing information gap.

In spite of the inadequate information available, some initial research may be envisaged restricting the concept of poverty to that of income, on the basis of the assumption that for the poorest groups the employment, education, health, organization, participation and other variables
other variables are directly related with the aim of increasing their incomes, and that the power, status or other motivations emerge after the state of critical poverty has been overcome.

It is not possible, however, to deduce directly from the acceptance of a concept of critical poverty, what public policies to adopt in this respect; one concept may be the basis for different policies.

The explanation obviously lies in the fact that a policy presupposes the adoption of some system of values and some ideology that will permit the establishment of its objectives. Although the ideology may exert influence from the very concept that is adopted, this is not so inevitable as in the adoption of the policy.

The combination of these factors or of others such as the explicit or implicit diagnosis of the situation confronted gives rise to many different possibilities regarding the orientation of public policy.

It has been deemed necessary to dwell at some length on these conceptual considerations in order to draw attention to the complex nature of the situation of critical poverty and the variety of information that is required to formulate effective policies for eradicating it. As regards information, it is considered essential to make an effort to compile and systematize statistical data, experiences, institutions, etc., connected with critical poverty in Latin America.

Some suggestions are put forward below.

/2. Compilation, classification
2. **Compilation, classification and analysis of existing information**

(a) **Installed capacity in this field**

Obviously, in each of the Latin American countries and in the various United Nations agencies operating in the region a fund of experience may be found on the subject of poverty. It is probable that it derives from attempts of a partial nature or confined to a specific sector, and that a more global perspective is lacking for an understanding of the problem. It would be unreasonable, however, not to take advantage of it; on the contrary, it is important to make use of those inputs in any attempt to eradicate critical poverty.

Conscious of this, ILPES proposes to undertake a survey of the availabilities existing in the region as a whole and at the country level for the purpose of combating poverty. This would comprise:

(i) The preparation of a directory of institutions supplying information and reference material on situations of poverty, and of professional personnel experienced in questions connected with eradication policies.

(ii) An exhaustive survey of the existing research on poverty, and other related subjects, which could be used in the preparation of a description of the phenomenon and its particular features in Latin America.

(iii) A survey of the experience existing in connexion with policies of eradication or alleviation and, where possible, of the evaluation of the results obtained.

(iv) An analysis of the existing legislation affecting the situation of the poor and its compatibility with policies aimed at alleviating poverty and overall economic and social development policies.

(v) A study
(v) A study of the institutional framework within which each State implements the policies adopted in connexion with the poor; preparation of the respective organizational charts for purposes of subsequent advisory assistance with regard to the best way of enhancing the influence of public spending in improving the quality of life of the poor.

(b) Consultations

The need for an overall appraisal of the problems of poverty in the region in the near future makes it advisable to effect collective consultations with national and international experts for the purpose of rapidly identifying the main problems and focal points of poverty situations, as viewed and considered by institutions and technical personnel in each country.

These collective consultations could take the form of National Meetings on the Eradication of Poverty, and could be organized separately by each country as consistent with its own particular conditions. Some of these meetings could be restricted to selected institutions and technical personnel and others could be open to the public. Obviously, the strategy, level and specific nature of each meeting should be established by common agreement with the national authorities.

Upon conclusion of each national meeting, a report should be prepared presenting as complete a picture as possible of the situation concerned.

(c) Limitations of statistical information

One of the problems most frequently mentioned in the literature on poverty is the lack of data for an analysis of the problem in Latin America. It may be affirmed, however, that this difficulty lies not so much in the non-existence of statistical data, but in its availability, dispersion and access. Various studies which have been carried out with the general aim
of analysing other subjects constitute important sources of empirical data on groups in a situation of critical poverty. A systematic effort could be made to "reconvert" this information and use it in research on the subject and in the formulation of eradication policies.

ILPES proposes to undertake the systematic compilation of this material, to study the reliability of the information it contains, and to process it so that it will be easily usable. In short, the aim is to set up a Data Bank on Critical Poverty in Latin America within the medium term.

The basis for initiating this task would be the information deriving from the research on income distribution, the use of which is analysed below.

3. Analysis of the information included in the Joint ECLA/IBRD Project

The information which will serve as a basis for this analysis has been collected by the Joint ECLA/IBRD Project on measurement and analysis of income distribution in Latin America. This information consists basically of household surveys and manpower and employment surveys. The permanent inventory of household surveys kept by the Statistical Division of CEPAL includes about 120 surveys; 31 of these covering 13 countries were selected by the Joint ECLA/IBRD Project as a basis for the measurement and analysis of income distribution. These surveys were carried out in the following countries: Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Honduras, Mexico, Panama, Peru, Uruguay and Venezuela.

Generally speaking, this file contains 30 characteristics of household and persons, many of which are of great importance in analysing the common characteristics and causality of poverty.

/1. Household income
1. Household income
2. Socio-economic group
3. Sex and age
4. Size of household
5. Number of income recipients
6. Recipients' income
7. Source and type of income
8. Type of household
9. Type of activity
10. Occupational status
11. Kind of economic activity
12. Occupation
13. Employment situation
14. Duration of unemployment
15. Weeks worked in the year
16. Type of working day
17. Hours worked per week
18. Earnings per complete working day
19. Number of occupations
20. Occupational status in the secondary occupation
21. Kind of activity in the secondary occupation
22. Literacy
23. Educational level attained
24. Type of dwelling
25. Type of structure
26. Number of rooms
27. Tenure
28. Sanitary facilities and electricity supply
29. Final household consumption
30. Object of expenditure
It should be noted that information is not always available at the level of the analytical unit of the relevant survey; in some cases it is available only in more aggregate form. Other surveys include information on size of enterprise, age of enterprise, experience, length of residence in the city, etc.

(a) **Descriptive analysis**

The main purpose of this stage is to describe the focal group known as "the poor", which is identified in the previous stage whatever the criterion used in defining it. This descriptive exercise is intended to discover the common or most frequent characteristics of this group. Obviously, the search for these common characteristics should be confined to the group of variables listed above on which information is actually available.

For this purpose, use can be made of techniques for classifying or dividing the sample universe in each survey. These classification techniques should be based on the group of variables on which the respective survey provides information, and will make it possible to distinguish between those variables which are relatively neutral with respect to poverty from those which are not. The so-called "common characteristics of the poor" would be obtained from an analysis of this second group of variables. In other words, it would be determined whether the poor are concentrated in a specific region or geographical area or whether are spread out at random; whether they are concentrated in a certain kind of economic activity or are found scattered in all activities; whether they are most frequently of a certain sex and age; whether they are most often to be found in large households; whether they are concentrated more frequently in small-scale enterprises than in large-scale enterprises, and among

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1/ See Annex 1 for a summarized account of a simple version of this methodology.
own-account workers than among wage-earners; whether they usually constitute the group of unemployed or illiterates; whether they most frequently present high rates of dependence, have a specific marital status or belong to a particular socio-economic group, etc. It is possible that this analysis, which classifies the variables and considers them individually, will not permit much progress to be made in the search for these common characteristics and it may be necessary to classify the population according to two or more variables at once. A multi-variable classification of this kind would be of particular importance if the poor possessed a parcel of attributes in common which acted upon another to generate poverty. For example, the poor may simultaneously have a particular occupation and be of a particular sex and age; they may tend to be concentrated in a specific region, kind of activity, size of enterprise, etc. That is to say, the distribution of these characteristics among the poor may not be independent of one another, but may be closely correlated.

On the basis of this analysis it is possible to distinguish between those variables or groups of variables which are relatively neutral with respect to poverty from those which are not. By classifying the population according to those which are not neutral, either separately or together, it should be possible to identify what are usually the common characteristics of the poor, a knowledge of which is indispensable for the efficient formulation of poverty eradication policies.

(b) Analysis of causality and policy design

From the foregoing descriptive analysis, some causality hypotheses may be inferred with respect to the focal groups identified. Broadly speaking, it may be affirmed that the causes are interrelated and that it is difficult to separate those referring to the inadequate supply of human capital of the poorest sectors
of the population (nutrition, health, education, etc.) from those reflected in the prevailing institutional system (labour legislation, access to the administration, social security legislation, etc.) or in the existence of segmented markets with very different characteristics (labour, goods and capital markets).

In any case, the productivity of individuals, assuming that it is directly related with their income, can be affected either by improving their individual situation (human capital) or by removing the institutional obstacles which prevent them from appropriating an income consistent with their productivity.

Only after the relatively homogeneous focal groups and the causes most influencing their state of poverty have been identified can more effective policies be designed than those hitherto implemented. For this reason, no conclusions can be advanced regarding the last part of this study, which would consist precisely in the proposal of policies for the eradication of critical poverty.

Nevertheless, in the light of the technical knowledge and empirical evidence available, it has been considered possible to suggest some working hypotheses aimed at dealing with the problem of the backward state of medium-sized cities and the bases for action to stimulate development and increased productivity in small-scale enterprises, which so far have generally been unable to take advantage of the facilities in terms of access to credit, technical assistance, markets, etc., that form part of the normal system of operation of larger enterprises.
II. SMALL AND MEDIUM-SIZED CITIES AND INDUSTRIES. BASES FOR A STRATEGY AGAINST EXTREME POVERTY

1. General considerations

From a study of the present situation and demographic, economic and social trends in Latin America there emerge two outstanding problems which the countries of the region should endeavour to solve in the next two decades. One is, or would appear to be an urban problem: the need for urban system to absorb a large number of inhabitants. The other is a social and economic problem: the need to eliminate the conditions of extreme poverty, also for a large number of inhabitants. These two problems are not independent of each other and the hypothesis may be advanced that the unilateral treatment of them has actually worsened the situation.

It will be difficult if not impossible to limit rural-urban migration in Latin America (one of the factors giving rise to the first of these problems) to reasonable terms and periods. If the aim is concurrently to avoid the hyperbolical growth of the major Latin American cities (Mexico City is expected to have a population of 31.5 million inhabitants by the year 2000, Sao Paulo 26 million, Rio de Janeiro 19.3 million and Buenos Aires 13.7 million), there is no alternative but to try to reorient the expected population increase geographically. This does not entirely solve the problem of the growth of the major cities, since the most important component of their expansion is not migration but natural population growth.

At all events, a serious attempt to strengthen the medium or small cities could be a better alternative than to leave the present trends to take their course, even though it may be difficult at the moment to justify the economic rationality of this course (there no longer appears to be such faith in the mass emergence of diseconomies
of diseconomies of agglomeration, a kind of guardian angel of urban expansion).

From a different standpoint, the problem of poverty or any attempt to solve it partially or completely is inevitably bound up with the question of an increase in the worker's real income (or productivity). As suggested in a World Bank study, an increase in the real income of the workers in general and the poor in particular (many of whom are unemployed) can be achieved by two independent or complementary means: (i) an increase in wages deriving from a greater demand for labour, and (ii) an improvement in the quantity and quality of the services—particularly public services—available for use.

The crucial question, therefore, is: in what cities can the manpower absorption capacity be maximized and the cost of providing services, particularly public services, be minimized? Unfortunately, there is little empirical evidence regarding these aspects and it would be difficult to find a universal answer to the question.

Although some studies—both theoretical and applied (Alonso, 1968; Hera, 1970, 1973)—have endeavoured to find a positive correlation between the degree of priority and economic efficiency, they are still a long way from proving it, on the contrary, other studies advance opposite arguments, at least in relation to some Latin American countries (Boyce, Boisier, 1974). A study prepared some years ago by CENDES (Universidad Central de Venezuela) provides


2/ By way of example, some research undertaken in Latin American cities would seem to show that the inadequate marketing systems for food products existing in marginal neighbourhoods reflect overprices of about 50 per cent in the value of essential products, thus representing an onerous item in the budget (and real income) of wage-earners.
some information on another aspect of the problem—urbanization costs—which would also point to a potentially better situation of the medium-sized city compared with the great metropolis (CENDES, 1971).

Assuming for the moment (a hypothesis which should be proved empirically in each case) that medium and small towns (which would also have to be defined empirically, but for present purposes could be fixed within a range of 50,000 to 500,000 inhabitants) have a greater relative capacity for absorbing manpower and/or increasing labour productivity through the strengthening of medium- or small-scale industrial enterprises (of up to 50 workers), and at the same time show lower costs for the provision of services, a number of aspects would then emerge which should be considered in the design and implementation of a strategy for combating poverty in the two aspects referred to, i.e., the medium- and small-scale industry and the medium- and small town.

In a strategy such as that proposed it would be possible to distinguish four interrelated aspects which almost completely determine it:

(i) size of enterprises;
(ii) size of cities;
(iii) technology, i.e., use of labour-intensive industrial processes;
(iv) administration and institutional aspects, that is, on the one hand the existence at the national level of financial institutions capable of operating as the counterpart of international credit agencies and, on the other hand, the existence of a body capable simultaneously of co-ordinating the four components of the strategy.
In the first place, this strategy is necessarily selective from the geographical point of view, and large-scale from the standpoint of the resources involved. This tends to prevent the dispersion of resources over too many localities so that none can attain a critical mass or impulse, which is a fairly frequent error in Latin America.

Secondly, such a strategy should operate on the basis of systems of medium and small towns rather than on the basis of individual cities. This criterion is based on the need to make full use of the technical and economic complementary between enterprises located in different cities, to maximize the impact or effect of dissemination of such industries on the inter-urban rural medium, and to locate certain common services in a city while at the same time permitting access to them from various localities. Lastly, if the implicit idea is to offer one or several centres as an alternative to the great metropolis (in order to reorient migration), this aim would obviously be better served by the organization of urban systems than by isolated cities.

Thirdly, the small- and medium-scale industries to be established or strengthened should maintain economic and technological relations with some large-scale industries in the region so as to benefit from an induced demand in sectors of considerable income-elasticity.

Finally, and without prejudice to the above criterion, these medium- and small-scale enterprises should be linked with the industrialization of the region's natural resources and should primarily produce mass consumption goods to meet the needs of the lowest-income population groups.
In the last analysis, the aims of a strategy based on the strengthening of medium and small industries and towns would be: (a) to increase employment opportunities (or the demand for manpower); (b) to help deviate the rural-urban and inter-urban migratory flow; (c) to increase the capacity for the provision of services in towns on the periphery; and (d) to develop entrepreneurial capacity.
2. Specific aspects relating to small-scale enterprises and artisans

a) Diagnosis

One of the socio-economic strata where major degrees of poverty are to be found is that constituted by the small industrial and service enterprises, the artisans and the "self-employed" group.

A small-scale enterprise may provisionally be taken to mean a production unit with between 1 and 50 employees, and this category may be subdivided into three sections:

1 - 5 employees
6 - 20 employees
21 - 50 employees

working on the hypothesis that the smaller the size of the enterprise, the greater are its problems of productivity and hence the greater the poverty of the owner and his operators. In order to verify the foregoing, the industrial surveys or censuses of the countries in which the situation of the small-scale enterprises is to be studied would have to be processed.

This definition and statistical analysis should be complemented with functional or qualitative criteria on the situation of the small-scale enterprises, adopting the hypothesis that most of these enterprises have fairly similar characteristics.

The functional criteria which should be taken into account and which would determine the marginality of the small enterprises from the economic structure could be the following:

i) capital and technological level of the production process;
ii) the methods of management and administration of the enterprise;
iii) the supply and marketing possibilities of the enterprise;
iv) the position of the enterprise as regards obtaining financing;
v) the possibilities for development and innovation;
vi) the situation regarding political and economic power, deriving from the degree of fragmentation of the stratum.

/This analysis
This analysis would have to be broken down into branches or sectors of production and into regions, since the problems encountered by enterprises carrying out different activities, located in different geographical areas, or engaged in providing services and producing final products and spare parts on a sub-contracting basis are likely to vary in degree and intensity.

It would also be important to analyse the effects on the stratum of the country's global economic policies and possible changes in them.

b) Policies for the stratum of small-scale enterprises

At the second stage it could be necessary to specify the global and specific policies which should be established for the stratum of small-scale production would be determined. Because of the nature of the problems of small enterprises, it is necessary to define a set of measures relating both to the general framework of the country's planning and policies and to direct action affecting the stratum.

Global policies should be taken to mean the definition of a set of measures which would fix the rules for this production stratum in such a way as to incorporate them into a normative system accessible to small enterprises and oriented towards their promotion and increased productivity.

The definition of specific policies for small enterprises would involve differentiating between sectors or branches in the use of the various technical and financial instruments capable of promoting and assisting this type of enterprise. Special emphasis should be placed on the fact that the specific policies used should have the priority objective of encouraging the owners of small enterprises to organize themselves in order to promote both self-help and the multiplier effects of the actions of the central institutions responsible for encouraging and assisting them.

/Another fundamental
Another fundamental aspect to be settled is the unity or coherence of the different policies. Little would be gained by providing financing for small enterprises if the taxation policy, for example, discouraged capitalization by these enterprises. In other cases, it might not be worth establishing a line of credit for the small-scale stratum if the owners were not at the same time afforded facilities for improving their legal status and level of management, obtaining inputs, marketing their products, etc. This coherence and interaction of policies should likewise be sought in the institutional framework for their realization and implementation.

c) The institutional framework needed for encouraging and assisting small enterprises

Each country naturally has its own situation and problems which have to be considered and studied in defining the institutional framework for the implementation of an integral policy for this stratum.

It is nevertheless possible to put forward some initial considerations which can later be developed in more detail in general and country studies.

Both from the point of view of the advantages to small enterprises, and from that of the better use and multiplication of the resources available for the functions of assisting and promoting this type of enterprise, it is worth studying whether these functions should be concentrated in a few institutions or ideally in a single institution which would be given the necessary status and resources to carry out the policies defined.

An enterprise is a production unit with distinct but closely related functions and problems. The task of management, financing, supply, maintenance of equipment, staffing, marketing, accountancy, and also the legal and tax aspects, etc., are closely related functionally especially in small enterprises where in practice they all fall to the owner or manager.
It is therefore necessary to analyse whether a more unified and integral form of assistance could most effectively meet the needs of this type of enterprise, since it would save the employer from having to turn to specific assistance to various different institutions which might not have any unity of criteria and might lack any inter-relation of the assistance at different stages of the productive process, thus producing discrepancies in the execution of the various measures in time.

This would also have to be studied in relation to the better use and greater multiplication of the State resources, so as not duplicate functions by dividing the tasks of assistance and promotion between various institutions. In the light of the preceding considerations on the coherence of policies designed for small enterprises and the need to differentiate between sectors or branches of activity in determining the use of particular technical or financial instruments, it is necessary to analyse the possibility in specific cases of concentrating institutions (whether public, mixed or private), since international experience would seem poit to the advantages of this course.

d) The organization of small enterprise owners

Another of the aspects to be studied in order to carry out a programme of massive aid to small enterprises is the need for the organization of the owners and the forms it should take.

Because of the fragmentation of the small enterprise stratum in terms of numbers and geographical location it is necessary to study ways of encouraging organization so that technical and financial assistance services can reach the greatest possible number of owners. It would definitely make it easier for the institutions responsible for the programme to reduce the costs of this assistance if the recipients were organizations made up of homogenous groups of owners linked by geographical location or branch of activity. This would in turn help the owners themselves to engage in mutual co-operation
or to create common services of a legal, accounting or administrative nature, etc., thus reducing the costs to each individual enterprise.

e) Methods and procedures of technical and credit assistance

Another aspect which should be analysed in future studies on the subject, and especially in case studies in some Latin American countries, is that of the methods of operation to be followed providing technical and financial assistance to this stratum.

One of the main aspects to be studied is the potential and scope of the method of "collective action" as the principal approach to be adopted in the work of co-operation with small enterprises; at the same time, the requirements for the use of the method of "extension services" as an additional instrument should be established.
One of the most simple techniques that could be used to identify those attributes that are common to or characterize the target poverty group is the following:

Let \( V = \{V^1, V^2, ..., V^p\} \) be the vector of the variables contained in the survey which are presumed to be relevant from a poverty point of view.

Let \( N \) be the total number of individuals in the sample.

Let \( F \) be the number of "poors" in the sample.

Therefore, \( f = \frac{F}{N} \) represents the number of "poors" as a percentage of the total population.

Each of the \( p \) variables considered can take \( V^i \) different values.

For example the variable SEX can take two values which correspond to male and female.

Therefore the classification of the sample universe according to the variable \( V^i \) will generate \( V^i \) different groups. \( G^i_j \), each of which will have \( N^i_j \) individuals, where \( j \) goes from 1 to \( V^i \).

Let us define \( F^i_j \) and \( f^i_j \) as the absolute and percentage number of "poors" in the \( j \)th group determined by the \( i \)th variable.

\[
f^i_j = \frac{F^i_j}{N^i_j}
\]

If the \( i \)th variable were completely neutral with respect to poverty then the expected percentage of poors in each of the \( V^i \) groups defined by this variable should be equal to the percentage of poors in the population as a whole.

\[
f^i_j = f \text{ for } j = 1, ..., V^i
\]

However, if the \( i \)th variable is not neutral with respect to poverty then for some groups this percentage will exceed the population parameter, the opposite being true for the other groups.

\[
/ f^i_j \geq f
\]
This follows directly from the fact that

\[ \sum f_j^i = F \]
\[ \sum \frac{f_j^i N_j^i}{N^i} = \frac{F}{N} \]
\[ \sum n_j^i f_j^i = F \quad \text{where} \quad n_j^i = \frac{N_j^i}{N} \]

Therefore, \( f \) is a weighted average of the \( f_j^i \) where the weights are the percentage of the total population in each of the groups. These weights add up to one. Therefore if some \( f_j^i \) exceed \( f \), then the opposite must happen for others.

Therefore, those values of the \( i^{th} \) variable for which \( \frac{f_j^i}{f} > 1 \) can be considered to be more common to the poverty group than to the population as a whole. The greater the value of \( \frac{f_j^i}{f} \) the more common the \( j^{th} \) value of the \( i^{th} \) variable to the target group.

For example if \( V^i \) is the area which can take two values, urban and rural, then if poverty tend to be concentrated in the rural areas we will have:

\[ f_R > f > f_U \quad \frac{f_R}{f} > 1 \]
\[ \frac{f_U}{f} < 1 \]

This technique can be repeated for each of the \( p \) variables. This procedure will permit us to discriminate those variables which are neutral with respect to poverty from those which are not and to identify the values of the latter group of variables which are common to the target poverty group.
In the extreme case where \( F^i_j \leq F \)

\[
\frac{f^i_j}{f} = \frac{N_{i,j}}{N_j} > 1
\]

which is the maximum value that this ratio can take and illustrates a situation where all the poor have the \( j^{th} \) value of the \( i^{th} \) variable and none of them have other values. In this case the \( j^{th} \) value is absolutely common to all poor and the \( i^{th} \) variable is absolutely non neutral with respect to poverty. This variable alone permits us to perfectly identify the target group.

However it is possible that none of the variables is such powerful or non neutral with respect to poverty to allow for a significant homogenization of the target group. In this case it would be necessary to analyze the joint contribution of groups of two, three or more variables.

If we simultaneously classify the population according to the variables \( i \) and \( k \) we will have \( V_i \times V_k \) different groups \( S_{i,k} \) with \( N_{i,k} \) individuals where the group \( S_{i,k} \) is composed by all those individuals which have the value \( j \) for the \( i^{th} \) variable and the value \( 1 \) for the \( k^{th} \) variable.

Defining \( F_{i,k} \) as the number of poor in the \( j,1 \) group determined by the variables \( i \) and \( k \) and \( f^i_j \) as the ratio of this number to the total number of individuals in the \( j,1 \) group \( \frac{f^i_j}{f} = \frac{F_{i,k}}{N_{i,k}} \) we can proceed to analyze the following ratios:

\[
\frac{f_{i,j}}{f_{i,j}, f_{i,k}, f_{j,k}}
\]

The first ratio will allow us to analyze the impact of the variable \( k \) controlling for the variable \( i \) (within a given value for the \( i^{th} \) variable). The second ratio will allow us to analyze the
impact of the variable \( i \) controlling for the variable \( k \) (within a given value for the \( k \)th variable). The last ratio permits us to determine whether there exists a combination of values for the \( i \)th and \( k \)th variables where the poors tend to concentrate.

In the extreme case where \( \frac{f_{ik}}{f_{jk,l}} = F \), \( \frac{f_{ij}}{f} = \frac{N_{ik}}{N_{jl}} \) which illustrates the case in which all poors have simultaneously the \( j \)th and \( l \)th values for the \( i \)th and \( k \)th variables. In this case these two variables allow us to perfectly identify the target group.

**Example:**

If \( V_i = \text{Area} \)

\[
\begin{cases}
V_i^u = \text{Urban area} \\
V_i^r = \text{Rural area}
\end{cases}
\]

and \( V_k = \text{Size of the firm} \)

\[
\begin{cases}
V_k^B = \text{big} \\
V_k^S = \text{small}
\end{cases}
\]

Then if the poors tend to be characterized by living in rural areas and working in small firms:

i) \( f_i^r > f > f_i^u \)

\[
\frac{f_i^r}{f} > 1 > \frac{f_i^u}{f}
\]

ii) \( f_k^s > f > f_k^B \)

\[
\frac{f_k^s}{f} > 1 > \frac{f_k^B}{f}
\]

iii) \( f_{ik}^R > f_{ik}^s \)

\[
\frac{f_{ik}^R}{f_{ik}^s} > 1 > \frac{f_{ik}^S}{f_{ik}^R}
\]

The last two ratios allow us to analyze the marginal contribution of one variable given the other.

We can continue with this kind of procedure using three, four or more variables simultaneously to classify the population.
The larger the number of variables used the larger will be the value of:

\[ \frac{x_{i,j,k,m,n,...,p}}{x_{i,j,l,m,s,...,t}} \]

for some \( j, l, m, s \) and \( t \)

and therefore the more precise will be the identification of the set of characteristics that tend to be common to the poors.
Annex 2

MEDIUM-SIZED AND SMALL CITIES AND INDUSTRIES

Sources of information

In defining strategies relating to medium-sized and small cities, the general information available in the United Nations bodies in Santiago, Chile, should be taken into account.

Firstly, the demographic pattern of this type of urban center and the trends in relation to the big cities should be analysed. For this, the information available in CELADE should be taken into account, particularly that derived from censuses. This information covers all the countries where censuses have been carried out. The information used in the research carried out by CELADE on urban growth in Latin America, with particular reference to Brazil, Mexico, Colombia, Venezuela, Peru, Chile and Argentina, could also be used.

Secondly, the location and development of these centres in relation to the internal migration processes should be taken into account, and for this purpose a number of research reports by CELADE and PISPAL are available. In particular, the measurements of net domestic migration at the level of the first politico-administrative division in Argentina, Brazil, Colombia, Chile, Mexico and Venezuela, classified in the relevant research project by CELADE, could be taken into account.

Thirdly, advantage could be taken of the research carried out on specific problems in some countries of the region:

(a) Research on the supply of and demand for services in medium-sized towns in line with the research on the national financial system for urban investment carried out jointly by the Brazilian Institute for Economic and Social Planning (IPEA) and CEPAL for some cities in Brazil in 1975.

/(b) Situation of
(b) Situation of systems of small- and medium-sized towns in Brazil and Venezuela, according to the diagnoses made by ILPES for the plans of the State of Minas Gerais, on the one hand, and for sub-regions of the Venezuelan Andes, on the other.

(c) Research on differences in industrial productivity and wages for urban centres of different sizes in Brazil, carried out by IPEA and CEPAL for the three-year period 1967-1969.
SOURCES


CENDES Desarrollo urbano y desarrollo nacional (First National Congress of Architects, Caracas, March, 1971).


/Annex 3
Annex 3

ILPES, through the Latin American Centre for Economic and Social Documentation (CLADES), has access to the most recent information on industrial statistics covering the following:

1. **Countries**
   - Argentina
   - Bolivia
   - Brazil
   - Colombia
   - Costa Rica
   - Chile
   - Ecuador
   - Honduras
   - El Salvador
   - Mexico
   - Panama
   - Paraguay
   - Peru
   - Venezuela

2. **Sources**
   - Censuses
   - Surveys
   - Other industrial studies

3. **Main indicators**
   - number of establishments
   - value added
   - gross value of production
   - personnel employed
   - wages

4. **Subdivisions**
4. **Subdivisions**
   1 to 4 employees
   5 to 19 employees
   20 to 49 employees
   50 to 99 employees
   100 or more employees

5. This information covers all industrial branches and in some cases there is information on regions or principal cities of the countries.

6. ILPES has a full bibliography on the subject of small-scale enterprises which was assembled for the study on small and medium-sized industry in the countries of the Andean Pact.