

# InFocus

International Poverty Centre

United Nations Development Programme

January 2004



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## IN REVIEW

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# FROM THE EDITOR

*In Focus* is an online bulletin of the UNDP International Poverty Centre (IPC). Its purpose is to present succinctly the results of recent research on poverty and inequality in the developing world.

Based in Brazil, IPC joins the Oslo Governance Centre (Norway) and the Drylands Development Centre (Kenya) as the newest global thematic facility of UNDP. IPC is designed to facilitate, promote, and disseminate knowledge and experiences that may lead to tangible improvements in the lives of poor people in developing countries. A basic goal of IPC is to improve global understanding about the causes of poverty and inequality – a first step for devising policies and programs to tackle them. IPC's activities are aligned with UNDP's key objective of supporting the Millennium Development Goals, as unanimously adopted during the United Nations Millennium Summit in 2000.

#### Editor

Alejandro Grinspan

#### Assistant Editors

Craig Fagan, Suzana G. Haddad

#### Design

Design Genuíno

Bernardo Lac, Maria de Oliveira

#### Front-page photo

Cidade de Deus, Rio de Janeiro, 2002

Tony Barros / Viva Favela

#### United Nations Development Programme

International Poverty Centre (IPC)

SBS - Ed. BNDES, 10º Andar

70076 900 Brasilia DF Brazil

[www.undp.org/povertycentre](http://www.undp.org/povertycentre)

[povertycentre@undp.org](mailto:povertycentre@undp.org)

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**A**t a recent conference in Rio de Janeiro, the keynote speaker reflected back on economist A.B. Atkinson's 1997 Presidential Address to Britain's Royal Economic Society, titled "Bringing Income Distribution in from the Cold." According to the speaker, income distribution — and in particular inequality — was not merely back in from the cold but had actually become a very "hot" issue in development discourse after years of relative neglect.

This is certainly evident in Latin America — and perhaps nowhere more so than in Brazil, where the new UNDP International Poverty Centre (IPC) is located. Only last October three major Brazilian publications made inequality their key concern. The first was a compendium of socio-economic indicators spanning the twentieth century, published by IBGE, the national statistical office. It portrayed a country that, from 1900 to 2000, had grown immensely richer yet distinctly more unequal. At about the same time, UNDP launched the *Atlas of Human Development in Brazil*. The *Atlas* confirmed that income distribution worsened during the 1990s in two-thirds of Brazil's 5,500 municipalities, despite major improvements in other quality-of-life indicators. Right on the heels of these two studies, a prestigious local think tank, FGV, presented the *Hunger Map*. It showed that 50 million Brazilians — about a third of the population — live in miserable conditions today, with a daily food intake of less than 2,280 calories and an income below US\$1 a day.

Unfortunately, dramatic social disparities are neither limited to income nor unique to Brazil. A new study by the World Bank has found that income inequality rose in a good number of Latin American countries over the last decade, at times quite significantly. This may help explain the high level of disaffection among the region's citizens with the quality of democracy on the continent. Beyond Latin America, the UNDP *Human Development Report 2003* reveals the existence of sizable human development gaps in all regions. Huge, even widening, disparities between rich and poor may continue to exist behind a façade of overall social progress. The persistence of such inequities could thwart progress towards the Millennium Development Goals. And even if a country does accomplish one or more goals, such achievement would be diminished if it does not lead to tangible improvements in the lives of its most disadvantaged citizens.

The revival of interest in inequality stems partly from the increased availability since the 1990s of household-level data sets for a growing number of countries. As survey data became available, analysts were given the means to test their hypothesis, and validate (or refute) long-held assumptions such as about tradeoffs between equity and efficiency or between redistribution and growth. Greater access to country surveys also has made it possible to track changes in inequality within and across countries, as well as explore its structural and micro-level determinants. Empirical research thus has confirmed the existence of worsening distributional trends over the past two decades within a cross-section of developing countries and transition economies. It also has revealed a trend towards growing inequality between nations, with some countries seemingly caught in a "poverty trap" of low growth rates and chronic poverty.

These findings, combined with a renewed concern for poverty and the determinants of growth since the 1990s, have led to a surge of interest in the relationship between growth, poverty and distribution. Does inequality hamper efforts to reduce poverty? How do high initial levels of poverty and inequality affect subsequent growth rates? Under what conditions is growth pro-poor? And what policy and program interventions might lead to sustainable declines in poverty and more equitable social outcomes?

This first issue of *In Focus* takes up some of these questions. In future issues, we will continue to present the results of current research on poverty by internationally renowned authors. Thus, we hope to place ourselves at the heart of policy debates on poverty, equity, and human development, reaching as wide an audience of policymakers and practitioners as possible.

Alejandro Grinspan

by Ricardo Paes de Barros,  
Institute of Applied  
Economic Research  
(IPEA), Brazil

# Human Development in Brazil

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**In October 2003, UNDP, IPEA, and the João Pinheiro Foundation (FJP) launched the *Human Development Atlas of Brazil*, an automated database intended to democratize access to relevant socio-economic data for the country's 5,507 municipalities and 27 states.**

**Based on micro-data from the national censuses of 1991 and 2000, the *Atlas* provides information on the Human Development Index (HDI) and 124 other geo-referenced indicators at the municipal level, including population, education, housing, life expectancy, income, and social inequality.**

**The depth of information contained in the *Atlas* makes it possible to examine broad development trends in the country, as well as possible strategies to ensure further progress towards human development.**

**Brazil experienced** major progress in human development during the 1990s. Between 1991 and 2000, the country's HDI increased seven percentage points (from 0.70 to 0.77), which placed the country in 65th position in the global HDI ranking. Such gains were broad-based and inclusive. It spread to almost every corner of the country and was more pronounced in those areas that had been lagging in human development.

Remarkably, only five of Brazil's 5,507 municipalities did not see their HDI values improve during the decade. Progress was not merely broad-based, but also of considerable magnitude. HDI values rose by more than one percentage point per year in nearly half of Brazilian municipalities while one out of every 25 municipalities witnessed annual increases of less than 0.5 percentage points.

Municipalities with the lowest HDI values at the beginning of the 1990s were the ones that progressed the most, which reflects the inclusive nature of Brazil's record during the decade. HDI values rose by 10 or more percentage points among the municipalities with an HDI lower than 0.50, as opposed to less than five percentage points among those with HDIs above 0.75. The resulting decrease in spatial inequalities across Brazil has led to a substantial decline in the mean distance among the HDI values of the country's 5,507 municipalities between 1991 and 2000.

Small and medium-sized districts have seen the sharpest improvements in human development during the decade. Their HDI values rose nine percentage points, as compared to only six percentage points for municipalities with over 25,000 inhabitants. Nevertheless, large disparities still persist across Brazil despite the balanced and all-

encompassing progress of the last decade. To cite but one example, the HDI of São Clemente do Sul, a well-off municipality in the prosperous southeastern state of São Paulo, is on par with that of Spain (ranked 19th in the global HDI table), whereas the HDI of Manari, in the impoverished northeastern state of Pernambuco, is identical to that of Haiti (150th in the HDI ranking).

Furthermore, Brazil's human progress during the 1990s has not been balanced across all three dimensions that comprise the HDI. One dimension alone — *access to knowledge* — was responsible for about half the progress achieved. While this component of the HDI rose 10 percentage points throughout the decade (from 0.75 to 0.85), the income and life expectancy components rose four and six percentage points, respectively. Major advances in education, therefore, largely account for the positive results attained over the last 10 years.

Expanding access to knowledge actually has been the main force driving the significant reduction in spatial inequalities mentioned above. Almost two-thirds of the progress registered in municipalities with low HDIs is explained by that factor alone. Likewise, improvements in access to knowledge have been twice as pronounced in small and medium-sized municipalities as in larger ones. By itself, this component is responsible for almost 90% of the decline in spatial disparities in HDI values that took place during the 1990s. In contrast, gaps in the other two components of the HDI (life expectancy and income) changed very little throughout the decade.

In contrast to the remarkable educational progress experienced by Brazil during

the 1990s, trends in income inequality have been much less positive and decidedly more complex. Aggregate inequality remained relatively stable, with only a slight increase of the Gini coefficient from 0.63 to 0.65. Nevertheless, such apparent stability merely obscures significant changes in its components. Using the Theil index of inequality, it is possible to observe a widening gap in intra-municipal disparities alongside a decrease in inequality *between* municipalities from the same state, as well as *among* states in each of Brazil's regions and *between* the regions themselves. Growing intra-municipal inequality actually offset the reduction in disparities between municipalities, states, and regions across Brazil. Notably, three-fourths of Brazil's inequality today is explained by the existence of huge income gaps within municipalities (i.e.

between households residing in the same district) suggesting that income inequality in Brazil is essentially locally rooted.

Improvements in human development do not depend only on the availability of resources, but also on the effectiveness with which such resources are channeled towards tangible quality-of-life advances. Communities with greater access to knowledge or lower poverty levels normally exhibit better results in terms of life expectancy or infant mortality. However, there are also communities with below-average access to knowledge that nonetheless manage to achieve infant mortality or poverty rates as low as those of more privileged areas. It is the presence of such efficiency gains that accounts for the great divergence in the capacity of different states and municipalities to transform

*Brazil's recent experience contrasts markedly with the country's past tradition, in which "progress" had always been synonymous with economic growth.*

available resources into positive outcomes. The sharing of experiences could, therefore, help tremendously to improve the effectiveness of resource use for human development purposes.

Brazil's experience during the 1990s presents important lessons for other countries. The remarkable achievements of the last decade owe a great deal to the fact that access to knowledge has expanded so vigorously. Such a development contrasts sharply with the country's past tradition, in which "progress" had always been equated with economic growth. Over the last 10 years, Brazil has demonstrated that it is possible to make major strides along the path of human development even in the absence of substantial economic expansion.

Moreover, this new "style" of development based on greatly improved access to knowledge has brought a significant reduction in the country's entrenched disparities between states and municipalities. Again, such an outcome is in sharp contrast with the experience of past decades, during which development in Brazil typically was accompanied by rising inequality. A corollary from this experience is that substantial economic growth is neither a necessary nor a sufficient condition for a country to attain inclusive, broad-based human development with increased equity. The question remains whether this new "style" of development is sustainable and desirable — or merely all that realistically may be accomplished when external constraints undermine the prospects for achieving solid economic growth.

### Global targets, local strategies

Municipalities that are geographically close to one another and have similar HDI values may still face sharply different challenges along the path to human development. For instance, three districts from the impoverished state of Maranhão present identical HDI (0.50), which places them in the group of 20 municipalities with the lowest HDI in Brazil. Despite this similarity, the bottlenecks each one of these three districts must confront differ completely from one case to another.

Income generation is the main constraint for the district of Belágua. With a per capita income of only 10% of the national mean, Belágua ranks better than only two of Brazil's 5,507 municipalities for this indicator. Nonetheless, Belágua's ranking *vis-à-vis* other districts is much better with respect to life expectancy and literacy rates. Thus, while Belágua's HDI is among the lowest in the country, its main problem obviously derives from lack of income rather than from any other dimension contained in the index.

The case of Araíoses is different. Life expectancy there is 13 years lower than the national average, and only higher than in two of Brazil's municipalities. Yet, its per capita income and literacy rates surpass those of numerous municipalities. It appears that for Araíoses, the main impediment for human development relates to a greater extent to poor health conditions than to gaps in income generation or access to knowledge.

The third district, Fernando Falcão, has an exceedingly high illiteracy rate (over 55%), the 10th worst among Brazil's municipalities. By contrast, more than 100 districts have a lower per capita income than Fernando Falcão, and almost 250 others have worse rates of life expectancy. Evidently, the key bottleneck for this community is its limited access to knowledge.

The contrasts between these three cases reveal that while human development is an overriding goal, strategies for achieving it must differ to account for local realities.

by Nanak Kakwani,  
University of South Wales,  
Australia

# Pro-Poor Growth in Asia

**At similar rates of economic growth, countries may exhibit widely dissimilar track records in reducing poverty.**

**An index that combines the effects of growth and distributional changes helps gauge the differing poverty-reducing impacts of alternative development strategies.**

**Pro-poor growth requires a strategy that is deliberately biased in favor of the poor so that they benefit proportionately more than the non-poor.**

**According to** the "trickle down" theory, the benefits of economic growth are spread automatically across all segments of society. They go to the rich first and then the poor begin to benefit once the wealthy start spending their income. As a result, the most effective way of reducing poverty is by promoting rapid economic growth since the poor stand to gain from it through a vertical flow of resources from the rich.

This was the dominant view among development economists back in the 1950s and 1960s. Given their emphasis on promoting rapid growth, most policy debates during that period revolved around increasing savings and investments. By the early 1970s, the trickle-down theory had lost some of its shine, although it never fully faded away from the development discourse.

During the 1990s, the theory gained a new lease on life amid an intense debate on the relationship between growth, inequality, and poverty. The World Bank's improved database on income distribution triggered a large crop of cross-country analyses that suggested growth and poverty reduction were strongly and positively correlated. Such views received a further boost from the publication of a highly influential World Bank study by David Dollar and Aart Kraay in 2000. Using cross-country regressions for a sample of 80 countries over four decades, they concluded that economic growth benefited the poor to the same extent that it did the whole economy. An important implication from this study was that "growth is good for the poor," irrespective of its nature. Governments needed not to follow explicit pro-poor policies and instead could focus on maximizing growth while maintaining macroeconomic stability to shrink the ranks of their poor.

However, some of these conclusions have been highly controversial and empirically questioned. The Dollar and Kraay study is based on cross-country regressions that can only depict average trends but fail to capture individual country experiences. Obviously, one cannot have the same policy prescriptions for all countries. Growth-maximizing policies may be adequate for some but not for others, which may require explicit pro-poor policies aimed at reducing inequality.

Undoubtedly, economic growth has an important bearing on poverty rates. Growth generates additional goods and services in the economy, which then can be distributed among the population. If all individuals receive the benefits from growth in the same proportion, then poverty rates should fall quickly. But this does not always happen. In times of growth, some people inevitably receive more than their proportional share, changing levels of inequality in a society and impacting the pace of poverty reduction.

Changes in a country's poverty rate actually are conditioned by two factors. First is the rate of economic growth; the larger it is, the greater the extent of poverty reduction. The second is the degree to which the benefits of growth accrue to the poor. These two factors can move in opposite directions, meaning that the magnitude of poverty reduction is not always a monotonically increasing function of the growth rate. If growth is accompanied by rising inequality, then a positive growth rate can even lead to increased poverty. To quicken the pace of poverty reduction, there may have to be a mixture of policies that enhances growth and at the same time improves income or consumption distribution.

We have developed an indicator called the Poverty Equivalent Growth Rate

(PEGR), which combines both these factors — growth rate and distribution — into one index. A country's PEGR can easily be computed if there are household income and expenditure surveys for at least two periods. When the PEGR is larger, the greater will be the proportional reduction in poverty for a given growth in mean income. Thus, one can always tell which of two or more growth strategies delivers more to the poor by simply looking at the value of the index.

In calculating the PEGR, one can obtain four alternative scenarios. The first, "trickle-down growth," occurs when the PEGR lies between zero and the growth rate of mean income or consumption. Under this scenario, increases in national output reduce poverty but are accompanied by worsening inequality. The pace of poverty reduction is not sufficiently fast, as the poor benefit from growth proportionally less than the non-poor.

The second scenario is when a positive growth rate actually increases poverty. This occurs when inequality rises to the extent that it offsets the beneficial impact of growth. This situation may be characterized as "immiserizing" growth.

By contrast, a scenario of "pro-poor growth" presupposes a strategy that is deliberately biased in favor of the poor, leading to a rapid decrease in the incidence of poverty. This may occur in relative or absolute terms. Relative inequality improves when economic growth benefits the poor proportionally more than the non-poor. Meanwhile, absolute inequality falls when the poor receive at least the same amount of benefits than the non-poor. This is, in fact, the strongest requirement for achieving pro-poor growth and can thus be characterized as "super pro-poor growth."

A country's initial level of economic development and income inequality matter for which of these four scenarios occurs during periods of economic growth. Our analytical findings show that low initial inequality results in faster poverty reduction given a certain rate of economic growth.

Applying the PEGR methodology to Korea and Thailand suggests that Korea's growth during the 1990s was significantly more pro-poor than in Thailand. However, in both cases the poor suffered disproportionately from the fallout following Asia's economic crisis during 1997-98. Unlike Thailand, Korea had some welfare programs in place prior to the crisis. After the currency collapsed, the Korean government moved quickly to expand existing programs, providing timely help to the people most affected and fostering the country's rapid recovery.

*A country's performance should be judged on the basis of poverty equivalent growth and not by growth rates alone.*

By contrast, Thailand had no safety net programs in place when turbulence hit. Despite receiving fresh money from donor agencies for emergency programming, the Thai government could not swiftly implement any effective policies to assist vulnerable groups and instead relied on ad hoc policies that helped little during the crisis. A clear implication from these two experiences has been the realization that there is a need for comprehensive social security schemes that provide adequate safety nets on a permanent basis for society's neediest people.

The application of our methodology to other Asian countries reveals a similar divergence in the poverty-reducing impact from alternative growth strategies. In Vietnam, poverty declined sharply between 1992-93 and 1997-98, particularly in rural areas, reflecting the government's adoption of a mix of growth-enhancing and pro-poor policies.

India's performance sharply diverges from that of Vietnam. Between the 1950s and 1970s, India progressed little in cutting poverty rates. During the 1980s, however, the country saw a sharp decline in poverty — a probable by-product from the numerous policies introduced

beginning in the mid-1970s to assist the poor, particularly in rural areas. The PEGR methodology shows that India's growth turned pro-poor in the 1980s, when disadvantaged rural households began receiving larger proportional benefits from the country's growth. However, similar gains were not attained for the urban poor. Almost 32% of the growth achieved during that period was lost in the cities because the poor were receiving proportionally fewer benefits from economic expansion than the rich. There was increased inequality even among those living below the poverty line such that the "ultra poor" enjoyed smaller proportional gains from growth than other poor groups.

Finally, the case of China demonstrates that achieving rapid economic growth does not necessarily lead to equally rapid declines in poverty. Widely regarded as a star in achieving spectacular output gains along with impressive poverty reduction, China's record looks less stunning upon further scrutiny. The country's annual growth rate of 9.5% during the 1990s outpaced proportional declines in poverty. Moreover, poverty incidence actually rose during China's slowdown from 1996 to 1999 despite a still positive but less robust rate of economic growth. In light of these findings, the PEGR would suggest that growth in China generally has not been pro-poor.

An important message from these five cases is that faster growth actually may lead to a slower reduction or even a rise in poverty depending on how it affects inequality. Even tame economic growth will reduce poverty faster if inequality falls during its course. This result suggests that modest yet pro-poor growth can have a greater and more positive impact on poverty rates than higher but pro-rich growth.

Which outcome is preferable — rapid growth with rising inequality or slower growth with falling inequality? This obviously is an empirical question that the PEGR can help policymakers answer.



Nanak Kakwani, Shahidur Khandker and Hyun H. Son, *Poverty Equivalent Growth Rate, with Applications to Korea and Thailand, 2003*.

by Samuel Morley,  
International Food Policy  
Research Institute (IFPRI), USA

# Cash for Education

**An effective development strategy requires investments in people's capacities.**

**Because one of the most important assets of the poor is their own labor, linking monetary transfers to investments in health and education holds the promise of breaking the transmission of poverty to future generations.**

**CTE programs do just that. They combine social assistance with social development by conditioning transfers to the poor on investments in the health and education of their offspring.**

**For many of** the world's poor, public safety net programs may be the only hope for a life free from chronic poverty. Unfortunately, many transfer programs in practice confront serious shortcomings. They rarely reach the most vulnerable groups and are not highly cost effective due to unnecessarily large administrative costs. Their primary focus on alleviating *current* poverty also fails to generate sustainable declines in poverty levels. In very poor countries, large-scale safety nets may not even be viable because of the high cost of covering a large fraction of the population.

To address these failings, a number of countries have recently experimented with a new type of social safety net — the conditioned transfer for education (CTE). A CTE gives poor families a monthly payment for keeping their children in school. A basic premise of CTE programs is that households in extreme poverty are poor not only in terms of income or consumption, but also capabilities like health and education. Parents from poor families often cannot afford to send their children to school because of the economic and opportunity costs involved. The low educational achievement of poor children then impacts their lifetime productivity and earnings, ensuring the transmission and persistence of poverty both within and across generations. To break this vicious cycle, CTE programs seek to combine social assistance with social development by linking transfers to poor families to investments in the education and health status of their members.

Given these concerns, two design features of CTE programs are particularly important to mention. First, the programs use a range of targeting methods to ensure that benefits (typically cash

transfers but also sometimes transfers in kind) reach the poorest households. Second, a household's continued eligibility to receive benefits is tied to its children attending school and, in many cases, health centers. Failure to meet these conditions leads to temporary, and eventually permanent, loss of benefits. In this sense, cash-for-education programs seek to alleviate current poverty while at the same time increasing a household's ability to escape chronic poverty by encouraging investment in the education and health of its children.

One of the key advantages of CTE programs lies in this dual nature. They combine the traditional, preventative role of a transfer program with the *promotional* or *developmental* role of public investments in human capabilities. The cash transfer component helps to raise temporarily the income of poor families like any other safety net program. But unlike pure transfer programs, CTE schemes produce long-term gains by permanently increasing the educational attainment of the household's children. Once educated, poor children are less likely to slip back into poverty. Their future earnings potential, augmented by the additional years of education they have received, helps prevent the transmission of poverty to the next generation. One may think of CTE programs as an anti-poverty transfer with a side education benefit or as education schemes with a positive poverty-reduction externality. Either way, they offer a new and promising tool for policymakers.

In a recent book with David Coady, we examined the basic features and impact of CTE programs in six countries: Bangladesh, Brazil, Chile, Honduras, Mexico, and Nicaragua. By any measure, these programs are large scale in both

budgets and coverage. They account for 0.1% to 0.2% of GDP, and from about 1% to over 5% of government current expenditures. As a share of public spending on education, they range from 2.5% in Brazil to nearly 10% in Nicaragua, and typically account for a large share of resources spent at the primary educational level in all six countries.

The payments made by these programs average between 4% and 20% of the beneficiary households' total income. Benefits are conditioned on participating children maintaining a school attendance record of 85% or better, which is normally monitored at the school level. Apart from the education subsidy, CTE programs in Honduras (PRAF), Nicaragua (RPS), and Mexico (PROGRESA) provide an additional cash transfer that is conditional on family members visiting preventative health centers for regular check-ups, growth monitoring, nutrition counseling, and vaccinations. Some of the programs

supplement these demand-side subsidies with direct transfers to schools and health posts to cover staff salaries and other input costs to ensure the quality and adequacy of services provided.

What we found in our review of CTE programs is encouraging. All of them seem to have made a positive contribution to increased schooling among children from poor households. Conditional transfers in Mexico are clearly associated with earlier ages of school entry, lower dropout rates, better grade progression, and higher school reentry rates among dropouts. We estimate that the accumulated effect of PROGRESA transfers will result in a 10% rise in the educational attainment of the poor by the end of the ninth grade, up from an average of 6.2 years of completed schooling. Most of the educational impact has occurred among students in their final year of junior high school, including a 20% increase in enrollment for girls.

Enrollment and grade progression also have improved in Nicaragua, where RPS subsidies are expected to raise the average education level for children from participating communities by nearly 25% by the end of the ninth grade. Likewise, there was a big jump in enrollments following the introduction of FFE in Bangladesh. The program has been associated with a 9% increase in the probability of a child being enrolled in school. Impacts on health, nutrition, and the incidence of child labor also have been considerable although too many children still continue to combine work and school.

CTE programs seem to have equally positive impacts on poverty, largely as a result of the improved targeting of benefits. The Chilean program, SUF, delivers 90% of its benefits to the bottom 40% of the population. In Nicaragua, combined education and health subsidies are large enough to reduce the moderate poverty gap by up to 70% in

Country	Program	Program type	Program size *	Coverage	Transfer level**	Program impacts
Bangladesh	FFE (1993)	Food transfers conditioned on school attendance by children from poor households	4.2% of TPS and 7.9% of GSE (1999)	2.1 million children and about 25% of poor households	\$36 per student per year	Positive impact on school enrollment, attendance and dropout rates, but not on student-teacher ratios and test scores. Limited impact on poverty due to small transfer size and narrow coverage of the poor
Brazil	Bolsa Escola (2001)	Cash transfer to poor households with children attending school	0.7% of TPS and 2.5% of GSE (2001)	5 million families and 8.6 million students (2002)	Up to \$18 per family per month, or \$216 per year	Positive education outcomes (right-age school entry, dropout and promotion rates) and possibly on poverty depth
Chile	SUF (1998)	Cash subsidy conditional on school attendance and regular health check-ups	0.9% of TPS and 3.5% of GSE (1998)	Almost 1 million students (1998)	About \$6 per child per month	Strong redistributive impact, reducing the income ratio of top to bottom quintile from 15.5 to 8.5 times
Honduras	PRAF*** (2000)	Conditional cash transfers for primary school-age children attending school, pregnant women, and mothers of children aged 0-3 for regular health visits	2% of TPS and 5% of GSE (2001)	48,000 households in 50 municipalities	Education voucher worth \$58 per child, and health voucher worth \$46 per family per year	Not available
Nicaragua	RPS*** (2000)	Cash transfers conditioned on attendance to schools and scheduled health visits and information lectures	2.2% of TPS and over 10% of GSE (2001)	10,000 households (2001)	Up to \$335 per family per year	Positive impacts on poverty, incidence of child work, school enrollment and grade progression
Mexico	PROGRESA (1997)	Cash transfers conditioned on school attendance, integrated with a health and nutrition component	1.6% of TPS, 4.1% of GSE, and 20% of federal poverty reduction budget (1999)	2.6 million families, or 40% of all rural families (1999)	Average monthly transfer of \$25 per household, up to a maximum of \$79 in 1999	Positive impacts on schooling, health, and nutrition, as well as on rural poverty and labor force participation for boys

\* As share of total public spending (TPS) and of total government spending on education (GSE). \*\* All figures are in US dollars (US\$). \*\*\* Pilot phase.

participating RPS communities. Of total program beneficiaries, 80% are poor, including 42% living in extreme poverty. No formal data exists for Brazil's *Bolsa Escola* program, but some studies estimate that CTE payments have raised the income of beneficiary households by 20% to 30%. And in Mexico, PROGRESA has been credited with reducing the poverty headcount and poverty gap by 17% and 36%, respectively, in studies comparing participating and control communities before and after the introduction of the program. Based on our own calculations, PROGRESA transfers have raised the income of the rural poor by between 10% and 15%.

Quantifying the benefits derived from the investment component of CTE programs is not easy. In our study, we estimate that the extra education received by the poor would add about 8% to their lifelong earnings in Mexico and 9% in Nicaragua. Since this increase applies over the entire working life of the cohort, its value is worth significantly more than the monetary transfers poor households receive. This improvement in future earnings is permanent and does not depend on continued safety net spending. One could conclude that CTE programs are at least twice as effective as a straight transfer given the (permanent) benefit to poor households from their children's increased future earnings.

The positive performance of CTE programs does not mean they should be established in countries that do not have them, or expanded in those where they already exist. Successful as they may be, these programs are not a cure-all for poverty or for correcting a country's educational shortfalls. While CTE programs seem preferable to straight transfers for addressing structural poverty, they are no substitute for implementing more comprehensive safety nets that shield the poor from temporary macroeconomic shocks, natural disasters, and other emergencies.

Similarly, CTE programs will not improve education outcomes in countries where low levels of schooling among the poor are not simply a demand-side problem. In fact, putting excessive funding into a CTE program would be a mistake if

enough schools, classrooms, and teachers do not exist to give a quality education to those who want or need it.

For CTE programs to remain effective, countries have to face squarely the issue of monitoring. At the school level, a country's education system requires mechanisms to verify that children enrolled in the program are actually attending school, being promoted, and receiving a quality education. A more difficult problem is to ensure that families are migrated from the program when their income exceeds the threshold for participation. Children also will have to be disqualified from the program if they drop out of school or are no longer eligible after a certain grade. It seems clear that if a program is to be sustainable and well targeted in the long run, it will need to include some kind of periodic means test as a condition for continued eligibility to ensure that younger and new students are not blocked from participating.

CTE programs are likely to have larger poverty and educational impacts in the countries of Sub-Saharan Africa and South Asia than in Latin America. Primary school enrollments are much lower in the first two regions, and the impact of a CTE program on the future earnings of poor families is likely to be greater than it has been in Latin American countries that already have implemented them.

It is in the middle-income countries that there may be trade-offs between improving education and reducing poverty. Countries like Mexico or Brazil, where significant poverty coexists with quite high enrollment rates, may confront obstacles in targeting CTE programs. The more inclusive the program, the greater its impact on poverty will be but with less positive effects on raising enrollments. Policymakers will have to confront this conundrum by defining eligibility rules that maximize the investment impact of CTE programs while providing a safety net for needy households.

**Samuel Morley and David Coady, From Social Assistance to Social Development: Targeted Education Subsidies in Developing Countries, 2003.**

*By alleviating current poverty while encouraging families to invest in their children's future, CTE programs appear to be a win-win combination in the fight against poverty.*

## IN REVIEW

**A recent report from the World Bank brings questions of redistribution back to centre-stage.**

**For countries willing to accelerate the pace of poverty reduction, the Bank recommends adopting redistributive policies that transfer income and assets to the poor.**

# Inequality in Latin America and the Caribbean

**With regard to** almost every socio-economic indicator, Latin America is unambiguously the most unequal region in the world. Even the widespread economic reforms of the 1990s have failed to bridge the chronic gaps between the region's richest and poorest citizens.

Such are the conclusions of a recent World Bank report based on data from 52 household surveys covering 3.6 million people in 20 Latin American and Caribbean countries. The report, published last October, seeks to shed light on the region's "excess inequality," which it blames for impairing efforts to reduce poverty, slowing down economic growth, and undermining the development process itself.

Why is inequality so important? For a given level of mean income, less equal countries will exhibit higher poverty levels than do more egalitarian nations. High-inequality countries may also have greater difficulty in converting economic growth into welfare improvements, or otherwise need to grow faster than more equal countries to achieve the same reduction in poverty. Apart from weakening the poverty-reducing impact of growth, high inequality in a global economy — in which people's skills and knowledge are critical to competitiveness — can actually slow down the pace of growth itself. The combination of these two effects may imply that highly unequal countries find it difficult or even impossible to escape absolute poverty.

Disparities between Latin America's rich and poor historically have been high — and remain so. In Guatemala, the income share of the top 10% of the population was 58.6 times that of the lowest 10% in 2000. In Brazil, children born to households from the bottom 20% of the population are three times as likely to die before age five as children from the richest. This figure is more than four times as high in Bolivia. The average Mexican from the lowest quintile has only 3.5 years of schooling as compared to 11.6 years for the average person from the top quintile. And in Peru, a medically trained person attends nearly all deliveries of babies in the top quintile, but only 14% of those in the bottom.

Latin America's inequality also has been remarkably high when compared to other regions. From the 1970s through the 1990s, the region's Gini coefficient for per capita income averaged 50.47 — nearly 10 points higher than in Asia and more than 20 greater than in Eastern Europe. The richest 10% of Latin Americans earn 30 times as much as the poorest — a ratio that is almost three times higher than in industrialized countries. Data on household expenditures tell a similar story. The region's Gini is far above that of Asia and Eastern Europe, and even slightly higher than in Africa.

Such large income gaps have translated into vastly dissimilar access to goods and services. In spite of improvements during the last decade, basic services remain unequally distributed in all countries. Large health disparities are also present, even though average statistics on health status compare favorably to other regions.

Equally worrisome has been the rise in income inequality in the 1990s, with only two countries (Brazil and Panama) witnessing a significant increase in the income share of the poorest deciles. Inequality has worsened even in countries that traditionally have

been among the region's more equal — as in Argentina, where the Gini climbed 7.7 points and poverty increased threefold between 1992 and 2001.

Not all was bad news, however. Gender differentials in income and education narrowed during the 1990s from the previous decade. The education gap between men and women even reversed for the younger cohorts, so that girls actually overtook boys in educational attainment. Public social spending rose, not only in per capita terms but also as a share of total spending and GDP. As a result, there have been marked improvements in access to many public services and in key non-monetary indicators of well-being such as life expectancy at birth, child mortality, and literacy rates. There also has been a substantial increase in enrollment rates and in mean years of schooling in all countries.

Yet despite a sizable rise in years of education among children from poor households, the schooling gap between the wealthy and the poor has widened in far too many countries. This gap is more pronounced among children and young adults, suggesting a trend towards growing educational inequality in Latin America. The lack of educational mobility is serious if one considers that the wage premium for skilled workers rose in most countries during the 1990s.

In trying to explain Latin America's high and persistent inequality, the report finds that the region has been notably resilient to a range of policy experiments. It has "witnessed economic booms and crude recessions, inward growth models and export-led growth strategies, widespread public sector interventions and extensive pro-market reforms," yet none of these changes has managed to make income distribution significantly more similar to other regions.

In fact, the causes of Latin America's "excess inequality" are complex and deep-seated. They are ingrained in the region's history, culture, governance institutions, and social fabric. Race and ethnicity are singled out as enduring determinants of one's opportunities. Even after controlling for educational attainment and jobs, people of indigenous and African descent earn considerably less than whites for comparable work, while non-white females are at the bottom of all asset-distribution scales across the region.

It is the recognition of the interplay between the economic, political, and socio-cultural sources of inequality that distinguishes this from other World Bank reports. Concepts seldom addressed by the Bank find their place here: questions of social justice, low-density citizenship, state capture by the elites, and inequalities of agency, voice and power.

The report may also signal a shift in the Bank's development discourse, and a return to a preoccupation with redistribution not seen since the 1970s. Countries willing to quicken the pace of poverty reduction should give serious consideration to redistributing income and assets to the poor. A permanent redistribution of income to the poor will not only make aggregate economic growth a more effective instrument for reducing poverty, but may directly contribute to output expansion itself.

This, however, will require *broad coalitions* that bring together the poor, the middle classes, and enlightened elites behind policies and programs seeking to ensure equality of opportunities for all. Targeted programs for the poor, concludes the World Bank, may need to be packaged together with universal access programs that also benefit the middle classes.

**World Bank, *Inequality in Latin America and the Caribbean: Breaking with History?*, 2003.**





**International Poverty Centre**

SBS - Ed. BNDES, 10º Andar  
70076 900 Brasilia DF  
Brazil

[povertycentre@undp.org](mailto:povertycentre@undp.org)  
[www.undp.org/povertycentre](http://www.undp.org/povertycentre)  
Telefax +55 61 315 5210