

## Reducing poverty amidst high levels of inequality: Lessons from Latin America and the Caribbean

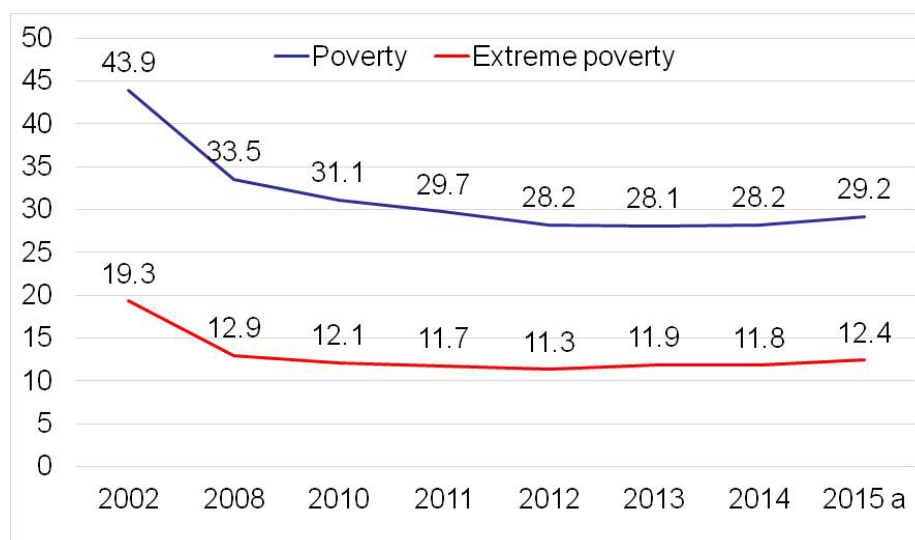
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In its “trilogy of equality”, its series of flagship reports presented to the countries of the region (ECLAC, 2010, 2012 and 2014), as well as in its recent report “Horizons 2030” (ECLAC, 2016a), the Economic Commission for Latin America and the Caribbean has defined equality as the ultimate aim of development, structural change are the path towards achieving it, and policymaking as the instrument to that end. Under this vision, equality is about much more than income distribution, as it means entitlement to civil, political, economic, social and cultural rights. Furthermore, the ECLAC recognizes that equality implies access to employment, social protection, opportunities, capacities, autonomy, reciprocal recognition and dignity; and that poverty is the denial of these opportunities. As a consequence, reducing inequality is an essential condition for eradicating poverty (ECLAC, 2016b).

Between 2002 and 2012, Latin America has experienced a substantial reduction of poverty and extreme poverty. The incidence of poverty declined from 44% to 28% of the population, and extreme poverty from 19% to 11% of the population. However, challenges in the poverty reduction process have emerged in recent years, and in 2015 both the poverty and extreme poverty rates were estimated to be higher than in 2012 (see graph 1).

GRAPH 1. LATIN AMERICA: POVERTY AND EXTREME POVERTY RATES, 2002-2015 (Percentages)

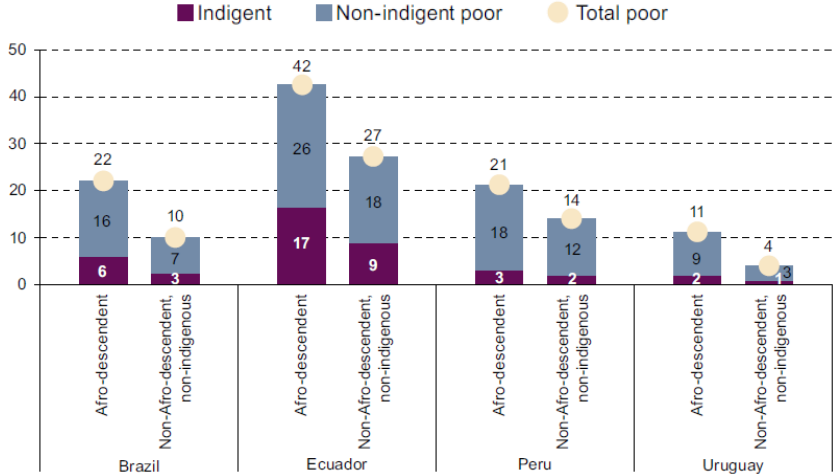


Source: ECLAC (2015), Social Panorama of Latin America 2015. <sup>a</sup> Preliminary data.

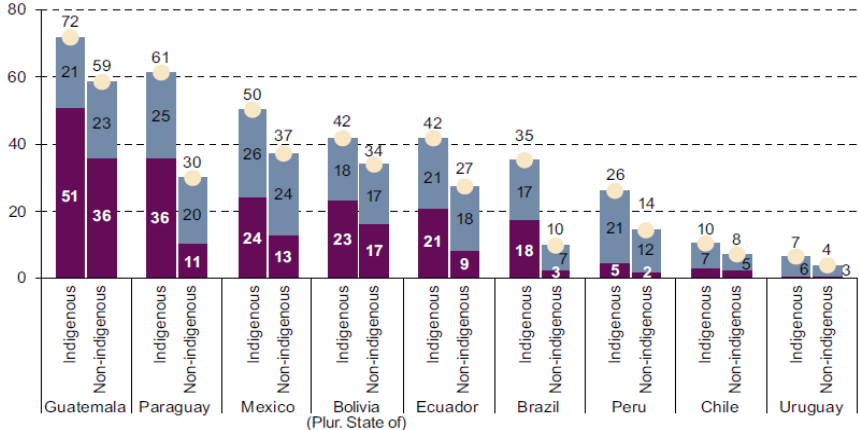
Poverty is not evenly distributed among population groups, and it is higher among children, women, rural dwellers, as well as among indigenous and Afro descendent people. Although only household surveys in four countries allow to measure poverty among Afro descendent people, we can appreciate that in 2014 poverty levels in the four countries for which information is available were significantly higher for the Afro-descendent population than for the non-Afro-descendent, non-indigenous population: more than twice as high in Brazil and Uruguay and about 1.5 times in Ecuador and Peru. In turn, household surveys in nine countries allow to measure poverty among indigenous people. In all of them, the poor and extremely poor share of the population is significantly greater among indigenous people, although the size of the gaps varies greatly, from about 30 percentage points in Brazil and Paraguay to 2 and 3 percentage points in Chile and Uruguay (see graph 2) (ECLAC, 2016b).

GRAPH 2. LATIN AMERICA (SELECTED COUNTRIES): POVERTY RATES, 2014 (Percentages)

A. AFRO-DESCENDENT AND NON AFRO-DESCENDENT, NON-INDIGENOUS POPULATION



B. INDIGENOUS AND NON-INDIGENOUS POPULATION

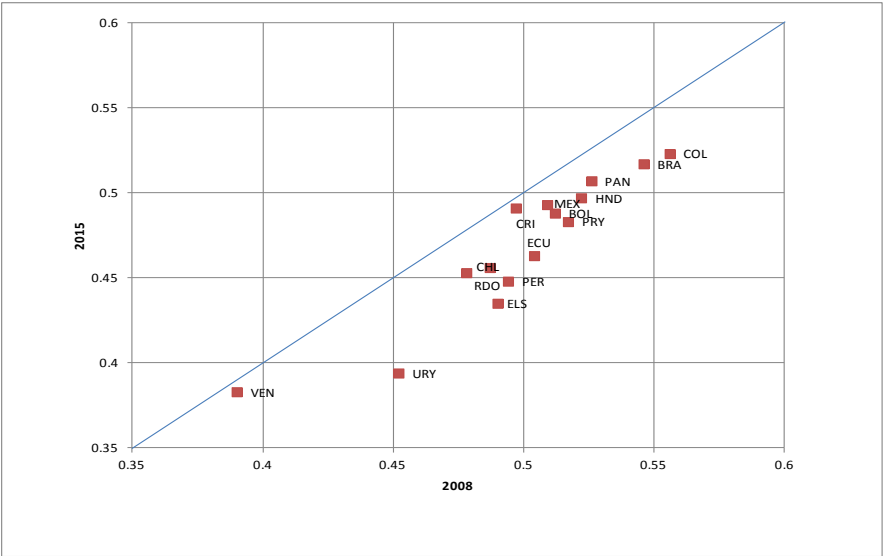


Source: ECLAC, The social inequality matrix in Latin America (2016).

Worldwide, income inequality rose sharply between the early 1980s and the year 2000, and still slightly more thereafter. However, the last decade and a half in Latin America –where inequality is an historic and structural characteristic of its societies and economies, heavily determined by the productive structure– has been the exception to this trend. Most countries of the region succeeded reducing income inequality since the early 2000s, albeit starting from levels which were initially –and still are– some of the highest in the world (Bárcena, 2017). Data for 15 countries of the region, shows that the Gini coefficient was systematically lower in 2015 with respect to 2008 (see graph 3).

Nonetheless, alternative measures of inequality, such as absolute measures of income inequality, measures considering top incomes thanks to the use of tax records or measures comparing the share of wages and capital, give us a more nuanced view on progress made in Latin America in reducing inequality (Bárcena, 2017). For instance, between 2002 and 2014 the wealthiest percentiles of the population reaped larger income gains in absolute terms than the poorest percentiles, even though these variations represent a higher percentage of the poorest group’s income than of the richest group’s (ECLAC, 2016a).

GRAPH 3. LATIN AMERICA: GINI COEFFICIENTS, 2008 AND 2015

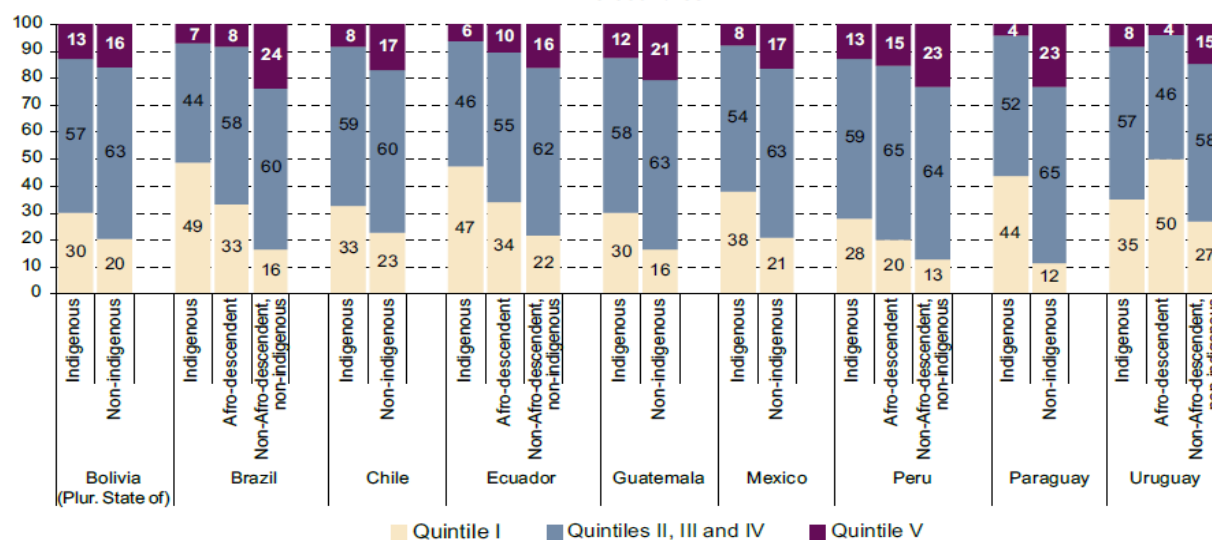


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of processing of household surveys.

It is also important to note that Income concentration is also connected with ethnicity and race. The large proportion of Afro-descendent and indigenous people in the poor and extremely poor population is also manifested in their large presence in the poorest income quintile. In turn, the non-indigenous, non-Afro-descendent population accounts for a considerably larger share of the highest-income quintile than does the indigenous population or, similarly, the Afro-descendent population. This contrast reveals that not only poverty but also the distribution of

the population by income quintile is connected to people’s ethnicity and race. When the average for the nine countries with information on indigenous peoples is taken, inequality is found to be quite marked: 37% of this population is in the first income quintile and just 9% in the fifth quintile. Where the non-indigenous population is concerned, the proportions in the first and fifth quintiles are the same, 19%. In five of the countries analysed (Brazil, Ecuador, Mexico, Paraguay and Uruguay), the share of indigenous people in the first quintile is upward of about 40% (see graph 4) (ECLAC, 2016b).

GRAPH 4. LATIN AMERICA: DISTRIBUTION OF THE POPULATION BY PER CAPITA HOUSEHOLD INCOME QUINTILES AND ETHNICITY, 2014 (Percentages)



Source: ECLAC, The social inequality matrix in Latin America (2016).

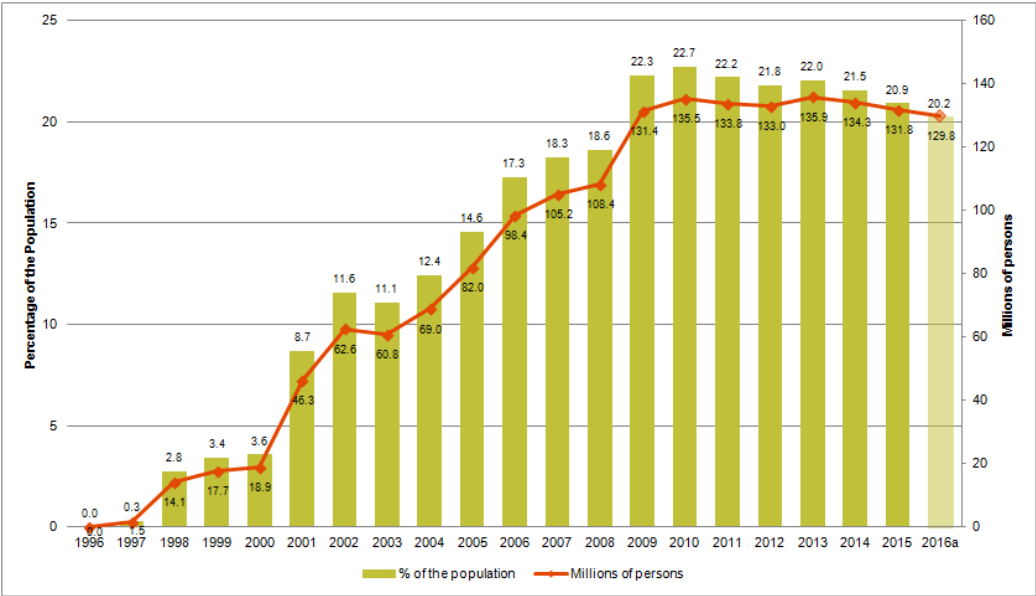
With respect to the factors that have been key in the recent progress in reducing poverty and inequality in Latin America, the ECLAC (2015) has identified the following:

- A context of economic tailwinds that facilitated formal job creation (unemployment decreased from 11.5% in 2002 to 7.4% in 2012) and wage gains;
- More women entered the labour market;
- A demographic transition with a demographic dividend in most of the countries, which entails falling dependency rates;
- A political context that afforded high priority on the public agenda to the aims of eradicating poverty and reducing inequality; which led to
- The implementation of active social and labour market policies, such as raising the minimum wage. Social investment increased from 16% of GDP in 2002 to 19% in 2012, sustained by somewhat better taxation. Notably, counter-cyclical policies were implemented after the 2008-2009 crisis.

Social programmes and non-contributory social protection transfers increased in importance and have had a positive impact. Conditional cash transfer programmes, in particular, led to improvements in education, health and nutrition indicators, especially among the poorest families and in countries where access barriers are highest. Impacts on income poverty and inequality depend on the quality of targeting, the breadth of coverage, and the amount of the transfers (ECLAC, 2015). In the case of Brazil, for example, according to Soares (2012), the *Bolsa Família* programme contributes to an 8% reduction in the poverty headcount index (FGT0), an 18% reduction in the poverty gap (FGT1) and a 22% reduction in the severity of poverty (FGT2).

Graph 5 shows the evolution of the coverage of conditional cash transfer programmes in Latin America and the Caribbean from the mid-1990s. As it can be observed, after reaching a peak of 22.7% of the regional population in 2010, conditional cash transfer programmes now cover 20.2% of the population, or about 130 million people.

GRAPH 5. LATIN AMERICA AND THE CARIBBEAN: COVERAGE OF CONDITIONAL CASH TRANSFER PROGRAMMES, 1996-2016 (percentages of total population and millions of persons)



Source: Cecchini and Atuesta (2017).

From a public policy point of view, the shift from needs-based social policies to policies based on social rights has been a key turning point in Latin America and the Caribbean. Around 2000, concepts such as guaranteed human, economic, social and cultural rights, full citizenship and social cohesion started to gain a strong foothold in approaches guiding social policy. These concepts reflect an explicit concern to distribute the benefits of economic development more evenly and reduce the existing high levels of inequality. This means considering individuals as citizens with rights (ECLAC, 2015), moving from collection of uncoordinated programmes to a systemic view of public policy, and implementing poverty reduction strategies oriented not only to face an emergency but rather to provide entitlements to citizens.

Under this approach, the State has the primary responsibility to promote economic, social and cultural rights (ESCRs), albeit in collaboration with the other potential welfare providers, such as the private sector, families and the organized and non-organized civil society. The challenge, however, has been moving from rhetoric to practice, as most countries recognize and promote ESCRs in their Constitutions and adopt a rights-based approach and discourse in their development plans and social protection policies, but few have implemented explicit social guarantees (Cecchini and Rico, 2015). Still, some encouraging examples of rights-based public policies exist, such as the Unified Health System –which provides universal access to healthcare– and the Continuous Benefit Programme –a monthly monetary transfer for poor elderly and persons with disabilities– in Brazil; the Explicit Health Guarantees in Chile –ensuring access to health services for the entire population with guarantees of timeliness, access, financial protection and quality–; and the Universal Pension in the Federal District of Mexico.

Furthermore comprehensive policies and programmes to reduce poverty have been devised, such as the *Brasil sem Miséria* in Brazil –with its three pillars of i) income guarantees through the monetary transfers of the *Bolsa Família* conditional cash transfer programme; ii) access to public services and iii) urban and rural labour and productive inclusion programmes–, and *Chile olidario*, now Security and Opportunities Subsystem, in Chile. The latter which coordinates the delivery of a range of social services –including psychosocial and socio-occupational support– and allowances provided by different government institutions to improve the general wellbeing and social cohesion among the poorest and most vulnerable families and other specific priority groups.

A key lesson learned from the Latin American and Caribbean experience has been indeed that in order to advance towards poverty eradication, poverty reduction programmes must be treated as part of an integrated social protection policy. In particular, ECLAC (2016b) highlights the importance of:

- Coordinating poverty reduction programmes with a universal supply of quality health and education services;
- Broadening coverage, based on the principle of actively seeking out those eligible and reaching the entire poor population;
- Increasing the amounts of transfers in order to overcome at least extreme poverty;
- Coordinating conditional cash transfer programmes with policies on labour and productive inclusion in order to open up access to decent work;
- Promoting gender mainstreaming in all policies and programmes;
- Developing care policies to support children, the elderly, persons with disabilities and, indirectly, foster women’s labour participation;
- Improving rural and urban infrastructure (electricity, drinking water and sanitation, housing and transport);
- Forging stronger links with the environmental and territorial dimensions of development, strengthening in particular resilience to disasters.

In closing, it is important to mention the key messages on inclusive social development contained in ECLAC's 2016 "Social Inequality Matrix" flagship report (ECLAC, 2016b). In order to reduce social inequalities, the report gives the following eight recommendations for public policy:

1. Coordinate economic policy, environmental policy and social policy, in line with Agenda 2030 and the Sustainable Development Goals;
2. Develop rights-based public policies with an integrated perspective to overcome social inequalities;
3. Aim for social development policies that are universal but sensitive to differences<sup>1</sup>;
4. Ground high-quality (effective, efficient, sustainable and transparent) social policy in stronger institutions and social compacts;
5. Strengthen the territorial dimension of social policy;
6. Generate systematic statistical information on the different dimensions of inequality;
7. Protect social spending and boost tax revenues;
8. Move from a culture of privilege to a culture of equality.

The latter is a key point, as looking back at the first decades of the twenty-first century, Latin America and the Caribbean has clearly understood that systematic exclusion undermines the social fabric and democracy and that, therefore, the culture of privilege and social injustice that has been a key feature of the region's societies must be left behind, and a culture of equality built in its place (Prado, 2014).

Those people whose social rights have been violated for centuries and who have been rendered invisible by exclusion and segregated by a system that favours a privileged few are now demanding equality and dignity. Moving towards a culture of equality requires, on the one hand, the abolition of privilege and the firm establishment of equal rights for all individuals, irrespective of their national origin, social class, sex, race, ethnicity, age, territory, religion, sexual orientation or gender identity, in accordance with the Universal Declaration of Human Rights of the United Nations and the successive covenants signed by the international community. On the other hand, resources in society must be distributed in such a way as to allow all its members to exercise their rights effectively (ECLAC, 2016b).

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<sup>1</sup> "Social development policies with a rights-based approach are aimed at universality, which makes it possible to foster social inclusion; however, such policies do not preclude the complementary use of targeted, selective or affirmative action policies in order to break down access barriers to social services and well-being that are faced by individuals living in conditions of poverty or vulnerability, women, Afro-descendants, indigenous peoples, persons living in deprived areas, persons with disabilities, and migrants, as well as children, young people and older adults, and thus progress effectively towards the universalization of rights" (ECLAC, 2016b, p. 79).

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