

Addressing Poverty and Inequality in Latin America and the Caribbean: a Social Primer

EXECUTIVE SUMMARY

Addressing poverty, inequality and related social challenges has represented the greatest quandary for the governments of Latin America and the Caribbean. Social programs traditionally associated with the region were never universal in scope and frequently broke down over the past decades. The structural adjustment policies of the 1980s and 90s referred to as the “Washington Consensus” improved the macro-economic situation of most Latin American and Caribbean countries, in some cases leading to sustained economic growth. However, the policies did not solve the problem of poverty and often unintentionally widened the gap between the rich and the poor in the region. Second-generation reforms, focusing primarily on institutional strengthening and governance issues continue to be implemented and monitored in the countries of the region with mixed results.

Recently, international financial institutions, multilateral development agencies and other organizations both within and outside of government, have re-oriented their research and policymaking toward specific and concrete poverty reduction strategies. Recognizing the link between poverty and inequality, these strategies identify those second-generation reforms considered most likely to bring about equity in the region. As opposed to the “Washington Consensus” in previous years, however, there is no agreement yet as to how to prioritize and sequence these reforms in order to yield the best results.

This paper was prepared as a primer for the purpose of presenting basic facts and current information on the poverty/inequality question in Latin America and the Caribbean to FOCAL’s readers. Following a brief discussion of the dimensions of poverty and inequality in the LAC region, the paper looks at some of the initiatives that have been carried out at the national and multilateral levels to address these challenges. The paper then considers the most recent poverty reduction studies of international financial institutions, multilateral development agencies, non-governmental think tanks and research centres.

RÉSUMÉ

La pauvreté, l’inégalité et les enjeux sociaux qui s’y rattachent constituent depuis toujours la plus grande difficulté à surmonter par les gouvernements d’Amérique latine et des Caraïbes. Les programmes sociaux traditionnellement mis en place dans la région n’ont jamais eu de portée universelle et ils se sont fréquemment détériorés aux cours des dernières décennies. Les politiques de redressement structurel des années 1980 et 1990 connues sous le vocable « Consensus de Washington » ont amélioré la situation macro-économique de la plupart des pays d’Amérique latine et des Caraïbes et, dans certains cas, elles

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ont entraîné une croissance économique soutenue. Toutefois, les politiques n'ont pas résolu le problème de la pauvreté et elles ont souvent, de façon non intentionnelle, agrandi l'écart entre les riches et les pauvres dans la région. Les réformes de la deuxième génération, qui portaient essentiellement sur les questions liées au renforcement des institutions et à la gouvernance, continuent d'être mises en œuvre et surveillées dans la région, avec des résultats variables.

Récemment, des institutions financières internationales, des agences multilatérales de développement et d'autres organisations gouvernementales et non gouvernementales ont réorienté leurs recherches et leurs processus d'élaboration de politiques sur les stratégies spécifiques et concrètes de réduction de la pauvreté. Reconnaissant le lien entre la pauvreté et l'inégalité, ces stratégies retiennent certaines réformes de la deuxième génération considérées comme plus adéquates pour combattre l'iniquité. Par comparaison au « Consensus de Washington » des années précédentes, toutefois, on ne s'accorde pas encore sur la façon de prioriser et d'ordonner ces réformes pour obtenir les meilleurs résultats possibles.

Cet article a été rédigé en vue d'établir une amorce de présentation à l'intention des lecteurs de FOCAL des faits essentiels et de l'information courante sur la question de la pauvreté et de l'inégalité dans les pays d'Amérique latine et des Caraïbes. Après une brève discussion des dimensions de la pauvreté et de l'inégalité dans cette région, l'article décrit quelques initiatives prises aux niveaux national et multilatéral à l'égard de ces problèmes, et passe en revue les études les plus récentes menées sur la diminution de la pauvreté par les institutions financières internationales, les agences de développement multilatéral, les groupes de réflexion d'organismes non gouvernementaux et les centres de recherches.

RESUMEN

El principal reto que afrontan los gobiernos de América Latina y el Caribe es resolver los problemas de pobreza, desigualdad y demás males sociales que los afectan. Los programas sociales en la región nunca han tenido un alcance universal y en décadas recientes hemos visto como estos son interrumpidos frecuentemente. Las políticas de ajustes estructurales de los decenios de 1980 y 1990, conocidas también como "Consenso de Washington", mejoraron la situación macroeconómica de la mayoría de los países latinoamericanos y caribeños, y en algunos casos generaron un crecimiento económico sostenido. Sin embargo, estas políticas no lograron eliminar la pobreza e incluso, en muchas ocasiones y sin proponérselo, acrecentaron las desigualdades entre ricos y pobres en la región. En la actualidad se pone en práctica un segundo grupo de reformas orientado principalmente al fortalecimiento institucional y a cuestiones de gestión gubernamental el cual muestra resultados disímiles en los distintos países de la región.

Recientemente las instituciones financieras internacionales, agencias multilaterales de desarrollo, y otras organizaciones tanto dentro como fuera del gobierno, han reorientado sus investigaciones y adopción de políticas hacia estrategias concretas y específicas en aras de reducir la pobreza. Estas estrategias parten del reconocimiento del vínculo que existe entre pobreza y desigualdad y determinan cuales de las reformas incluidas en el segundo grupo tienen más posibilidades de propiciar mayor equidad en la región. A diferencia del "Consenso de Washington" de años anteriores, no existe acuerdo aún sobre como priorizar y ordenar estas reformas para obtener los mejores resultados posibles.

El presente trabajo tiene el objetivo de poner al alcance de nuestros lectores un documento con información básica y actual sobre la situación de pobreza y desigualdad que vive a América Latina y el Caribe. Luego de una breve exposición acerca del nivel de pobreza en la región, se ofrece una ojeada a algunas de las iniciativas que se han desarrollado en el ámbito nacional y multilateral para encarar estos problemas. Asimismo, se relacionan los estudios sobre la eliminación de la pobreza más recientes realizados por instituciones financieras internacionales, agencias multilaterales de desarrollo, centros no gubernamentales de estudios y centros de investigaciones.

The Challenge of Poverty and Inequality

The most serious challenge facing Latin America and the Caribbean today is poverty and inequality. Poverty, whether defined according to a poverty line or a basic human needs approach, refers to the inability of an individual or family to satisfy minimum consumption needs. According to the Canadian International Development Agency (CIDA), poverty results from the lack of human, physical and financial capital needed to sustain livelihoods, and from inequities in access to, control of, and benefits from political, social, or economic resources. Around 39% of the Latin American Caribbean (LAC) region's 502 million people — about 177 million people — live in poverty [*World Bank 2000-2001 World Development Report: Attacking Poverty*]. Governments have struggled to improve on these numbers, but economic crises, ill-conceived policies, and natural disasters have reversed much of the progress made. The largest concentrations of poverty are found in Haiti, Central America, the Andean region, and North-Eastern Brazil.

The greatest concern about the LAC region's pattern of economic and social development is not poverty per se, but rather the way income is distributed. On average, Latin America and the Caribbean is the most unequal region in the world in terms of income disparities. The poorest 20% of the population receive 4.5% of all national income, while the wealthiest 10% receive 40% [*World Bank 2000-2001 World Development Report: Attacking Poverty*]. Internationally LAC countries score relatively high among developing countries in terms of income per capita, but as a result of the wide disparity between rich and poor, poverty has been far above what would be expected. Moreover, aggregate figures suggest that life expectancy, infant mortality rates, access to clean water, and adult literacy have improved considerably in Latin America and the Caribbean in the past decades. Yet, these basic social indicators vary from region to region, and inequality is also pronounced in this regard.

The profound inequality in the LAC region is deeply entrenched in a historical legacy of social

and economic exclusion based on class, gender, race and ethnicity. It has been reproduced over time through political, economic, social, and cultural institutions and practices. The inequality is so ingrained that it would take high economic growth over a sustained time period to bring substantial benefits to the poor. Further, in the last decade the economic restructuring and structural reform programs that have allowed these countries to put their economic and financial house in order have also resulted in greater disparity between the beneficiaries of the economic liberalization process and those left behind.

Dimensions of Poverty and Inequality

The Urban and Rural Poor

Poverty has become more urbanized in the LAC region. While the countryside remains the most under-developed area of Latin America and the Caribbean, the urban poor now outnumber the

rural poor and the deterioration of living conditions is now more acute in the cities than in the countryside. Yet the rural populations still make up a relatively larger share of the poor in some countries: 60% of the poor in Mexico, Central America, and the Andean countries live in rural areas. In most countries of the region, the rural poor have yet to benefit from economic growth.

Unequal distribution of land, and distortions in the market for agricultural inputs and services have contributed to persistent rural poverty.

The Poverty Profile

Poverty is most prevalent among women, children, and certain ethnic groups such as indigenous peoples and people of African descent. The urban poor consist mainly of female heads of households, fathers with little or no formal education, and unemployed young people. The rural poor consist of small-scale farmers, subsistence farmers with little opportunity to overcome poverty via agriculture, along with landless workers and indigenous groups.

The Poverty Cycle

Poverty tends to be inter-generational. The children of poor parents disproportionately fail primary school and hence fail to clear the first hurdle in the

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path out of poverty. In Latin America and the Caribbean, only a small proportion of young people manage to rise significantly above the educational level of their parents.

Access to Quality Education

From 1950 to 1980 governments of Latin America and the Caribbean made a noteworthy effort to expand educational systems. Literacy rates improved within this 30-year period, the number of university students increased substantially, and female enrolment in school also increased. Yet the educational systems are still failing to provide a quality education for every child in the region. There is still a tremendous disparity in the amount spent on poor students compared to their wealthier counterparts, public schools are inferior to private schools, and on average rural children receive a lower quality of education than urban children. While almost every child enters school, over 40% of them drop out before completing primary education [ECLAC *Equity, Development and Citizenship, 2000*]. Today it is even more difficult for the LAC region to improve its education systems as it tries to assume the responsibility imposed on education by the new knowledge-based society, while still dealing with endemic problems of segmented quality, poorly trained teachers, low education achievement, and high repetition rates.

Access to Basic Healthcare

Inequality remains the primary obstacle to sustaining a healthy population in the LAC region. The region's healthcare services suffer tremendous deficiencies in quality and coverage. While the burden of disease and ill health is most severe for the poor, they have the smallest amount of insurance protection. Workers in the informal sector and rural areas are generally excluded from social security programs that supply health insurance and it is estimated that some 83.6 million people have no access to healthcare services at all. In most countries of the region, public health services (usually of inferior quality) are reserved for the poor, while the middle classes purchase private health insurance.

Access to Employment

The majority of new jobs created during the 1990s were in the informal sector. Informality tends to be associated with unskilled workers. As a large majority of the labour force, the unskilled have difficulty finding formal sector employment. Limited educational opportunity and an unequal social structure constrain workers from investing in their own human capital. According to the estimates of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), 69 out of every 100 new jobs created between 1990 and 1997 were in the informal sector and the sector now employs 47% of the working population in the region's urban areas [ECLAC: *The Equity Gap, A Second Assessment, 2000*]. This means that almost half of the working population have low salaries, few or no benefits, little or no social protection, and do not pay income taxes.

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Crime and Violence

Public insecurity is a major hemispheric challenge. The rapid urbanization and the resulting unsustainable development of the region's cities are creating tensions and conflicts which most municipal governments are ill-equipped to address. One result of this trend are rising crime rates in almost every country of the region which disproportionately affect the poor. Petty crimes have become more violent, rates of domestic violence are rising, and the small arms trade, private security forces, and gated communities are more common. In order to combat criminal violence, some governments have shown a willingness to sacrifice democratic rights and freedoms.

Disillusionment with Democracy

In his 1996 article "*Democracy and Inequality in Latin America: A Tension of the Times*", Jorge Castañeda, (now Mexico's Foreign Minister), argued that "because in Latin America today there is more inequality than before, and because Latin America was already more unequal than any other part of the world, the fragile democracy whose birth or resurrection was witnessed in the past decade is likely to be short-lived". Castañeda still subscribes to this theory. The

inability of governments to attend to the basic needs of their citizens threatens to undermine public confidence in democratic institutions. In some countries of the region citizens appear willing to give up some measure of democracy and accept authoritarian-styled populist governments that they hope will lift them out of poverty.

What Has Been Tried?

From Social Pacts to the Reform Agenda

Most national constitutions in Latin America and the Caribbean include progressive language on social welfare, sometimes elevating a life free of poverty to the rank of a constitutional right. In reality many governments in the region historically maintained social pacts with only certain social groups to provide basic needs and to gradually raise their living standards. The main objective of these social pacts was essentially to uphold political and social stability through the selective redistribution of wealth from the elite to the poor, without modifying historic structures of inequality. Governments generally relied on massive bureaucracies to manage social demands, which were channelled in a highly centralized and clientelistic fashion through political parties and labour unions. Thus, the Latin American welfare state only applied to select groups in society and it differed substantially from country to country. Moreover, in the past three decades social pacts have broken down and the legitimacy of many political regimes in the region has been seriously threatened.

First-Generation Reforms: Structural Adjustment

Throughout the “lost-decade” of the 1980s most countries of the LAC region experienced prolonged bouts of high inflation, their economic growth was stunted, and poverty levels increased dramatically. In the late 1980s and early 1990s, the International Monetary Fund (IMF), the World Bank, Inter-American Development Bank (IDB) and other Western aid agencies persuaded those Latin American and Caribbean countries in need of macro-economic stabilization and restructuring to adopt a package of economic and institutional measures that became referred to as “structural adjustment”. The package included: inflation

reduction; fiscal discipline; redirected public expenditures; reduction of the size and scope of the State; financial liberalization; adoption of a single competitive exchange rate; trade liberalization; elimination of barriers to foreign direct investment; privatization of state-owned enterprises; and the creation of social emergency funds bypassing social ministries. In 1989 economist John Williamson began to refer to this list of policy recommendations as the “Washington Consensus”.

In some countries of the LAC region such as Chile, Brazil, and Peru, the almost exclusive emphasis on macro-economic reforms paid off rapidly. Most, however, witnessed a sharp decline in social investment as states were downsized and safeguards and subsidies were removed. By the mid-1990s it became apparent that the reforms had limits in terms of how far they could take countries on the path toward equitable economic growth. According to ECLAC figures, between 1990 and 1995 economic growth in the region averaged slightly over 2% per annum and the number of poor people in the region rose from 197 million to 209 million [ECLAC: *The Equity Gap, A Second Assessment, 2000*]. It was clear that much higher growth would be needed to make a dent in poverty levels. Also, specific interventions were urgently needed

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to address poverty and inequality. An educated workforce, stronger and more effective institutions and a series of other “second-generation” reforms, were necessary to complement macro-economic policy changes.

Second-Generation Reforms: Governance and Institution Building

The 1990s began with the wide-spread expectation amongst governments of the region that achieving sound macro-economic goals was the ticket to prosperity for poor countries. The decade ended with the understanding that sound macroeconomics is not a goal in itself but merely a pre-condition. Governments recognized that addressing poverty and inequality directly is imperative to consolidating and reaping the benefits of economic liberalization. The need for capable states, not

minimalist ones, began to frame most discussions and initiatives at the national and multilateral levels. While macro-economic policies remained important, the focus gradually shifted to reforms oriented toward governance and institution building. Highlights of such reforms include: the creation and reform of national financial institutions and boosting the competitiveness of the private sector; increasing the transparency and accountability of public and private sector institutions; reform of the financing and delivery of social services such as education, healthcare, and social security (including the restructuring of social ministries); reform of labour legislation and practices; and the overhaul of the administration of justice.

Second-generation reforms are costly and their impact is often not immediately felt. Administratively, they are more complex than macro-economic reforms because they require the involvement of a large number of government agencies and social actors. Ultimately the implementers of these initiatives are national governments, though support from international financial institutions, multilateral development agencies and the region's multilateral political body of the Organization of American States (OAS) is clearly necessary.

The Summit of the Americas process, in particular, has been an important promoter of second-generation reforms with action items enshrined in the texts of the 1994 Miami Summit; the 1998 Santiago Summit, and the 2001 Quebec City Summit. The Summit texts however, do not prioritize or sequence the myriad of action items. So far governments and international institutions have failed to mobilize the resources and political will necessary to deliver on many of these initiatives. Many experts are now promoting the increased involvement of organizations outside of government in the implementation and monitoring of Summit initiatives. There are a number of non-governmental organizations, policy centres, research centres, and think tanks that have vast experience analyzing the social priorities in the hemisphere that would be disposed to take on this task.

The Way Forward

Reducing inequality as the key to attacking poverty in Latin America and the Caribbean has been underscored in a number of recent studies and reports by international institutions such as the IDB, the World Bank, the IMF, and ECLAC. The Woodrow Wilson Center, the Carnegie Endowment for International Peace, Oxfam International and an abundance of academic literature also demonstrate a broad convergence of theoretical and policy perspectives on the poverty/inequality question in the region. All underscore the need to proceed with second-generation reforms in Latin America and the

Caribbean and focus on those reforms considered most likely to improve equity. The core policy recommendations espoused in recent Human Development Reports by the United Nations Development Program (UNDP) (1995, 1996, and 1998) and the UN-sponsored summits in Copenhagen on social development 1995, and Beijing on women 1997, along with the UN Millennium Summit broadly resemble the latest variants of these theoretical and policy perspectives. They are also reflected in CIDA's poverty reduction policies toward the region including the agency's 1996 Poverty Reduction Strategy and the Social Development Priorities

that were released in 2000, and the draft strategy for CIDA in the Americas entitled "Closing the Gap" (January 2001).

Not long ago, poverty reduction was supposed to "trickle down" naturally as a result of structural adjustment. Today a consensus appears to be building among experts that poverty reduction in Latin America and the Caribbean requires the foundation of economic growth combined with a number of specific second-generation reforms. There seems to be an agreement on the broad reforms to be implemented. However, a new "Consensus" to replace the previous "Washington Consensus" does not yet exist since there is still no agreement on how to prioritize these reforms or how to manage them.

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The “New” Poverty Reduction Agenda

What follows are elements of what could eventually coalesce into a true consensus or agenda for reducing poverty and inequality in Latin America and the Caribbean:

- Economic Growth and Fiscal Discipline
- Increased Access to Assets and Opportunities by the Poor
- Institutional Reform of the Social Sector
- Improved Social Safety Nets

Economic Growth and Fiscal Discipline

Economic growth and fiscal discipline continues to be the foundation of poverty reduction. High and sustained economic growth increases real wages and generates quality employment. Despite the disappointing economic performances of many LAC countries and the recent backlash against “globalization”, most analysts agree that growth can only be accomplished if Latin America and the Caribbean remain integrated in the global economy. The countries should continue to finance growth through foreign capital from trade and investment, and they should expand, deepen, and consolidate economic and institutional reforms. Economic instability from sudden changes in international capital flows or falling commodity prices; the transitional costs of economic reforms; or natural disasters, can be mitigated by assuring that national financial institutions are well managed and carefully regulated.

Increased Access to Assets and Opportunities by the Poor

Economic growth does not necessarily lead to greater equality of income. Greater wage gaps between the educated and uneducated in the LAC region are requiring governments to take measures to ensure fairer distribution of the benefits of growth. Not only will economic growth not address inequality in Latin America and the Caribbean automatically, inequality will ultimately undermine growth if the poor are not given access to the assets and opportunities necessary for participation in social and economic life. Theoretically, governments could increase public spending on

social programs and ensure that the poor have access to some basic needs, but if they do not provide the poor with sufficient levels of education and training, accompanied by the opportunities generated by policies such as the promotion of small and medium-sized enterprises and land reform, then sustainable economic growth will not be achieved and poverty will not be eradicated. The governments of East Asia employed a mixture of policies that included education and training, support for small and medium-sized enterprises, and land reform and they were successful in achieving levels of economic growth and prosperity superior to those seen in Latin America and the Caribbean.

Education and Training

Widening wage differentials in the 1990s are at least partly rooted in a history of highly unequal

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access to education in Latin America and the Caribbean, and the limited success by governments in reducing this inequality. Increasing spending on education is not enough; the challenge is to reform the education systems so that they reach the poor. At the beginning of the 1990s, workers in the region had an average of only of 5.2 years of education. This weak overall accumulation reflects in part unequal access of the poor to good-quality education. A relatively small proportion of the population completes secondary and higher education. Due to their limited supply, this small number of skilled workers earns relatively

high wages. At the same time one of the region’s main assets, its huge pool of cheap labour is fast becoming a liability. Governments must find a way to educate and train the poor for a more competitive workplace.

According to “Washington Contentious” a study of economic policies for social equity in Latin America sponsored by the Carnegie Endowment for International Peace and the Inter-American Dialogue, in the absence of specific efforts to make schools work for the poor, increases on education spending risk simply reinforcing the current unequal distribution of human capital. Policies to make schools work for the poor would include:

improving the quality of education, decreasing the quality gap between public and private, and rural and urban schools, and guaranteeing continuity within the school system. Incentives are needed for poor children to stay in school and skills should be taught that are necessary for today's economy and society, i.e. learning to learn rather than simply repeat facts. Unfortunately even when the political will exists to reform national education systems, the process is inherently complex and costly. The potential effect of education on equity will only be seen over the long-term, and most importantly, it will not come about at all unless quality employment is generated.

Support for Small and Medium-Sized Enterprises

Small and medium-sized enterprises are an important source of jobs for the poor, employing one third of the LAC region's labour force and accounting for 80% of all businesses. Given the flexibility of this sector and its proven role in employment and income generation for the poor and particularly for female heads of households, support for small and medium-sized enterprises is a key component of poverty reduction strategies. The lack of access to financial services and credit, however, is a critical barrier to the growth of this sector. Less than 5% of Latin American micro-entrepreneurs have access to formal financial services. Most such enterprises lack the required collateral to access credit and the cost of providing small loans is relatively high. Special measures to allow small and medium-sized enterprises to participate effectively in markets include: expanding and diversifying sources of credit by strengthening non-governmental organizations that work in this area and by helping banks reach smaller clients; and lowering the transaction costs of reaching export markets by expanding access to internet technology and by providing training in modern business practices. Although the promotion of small and medium-sized enterprises is a task for governments, improving access to credit would ultimately be left to private banking institutions.

Land Reform

In rural areas many small-scale farmers and landless workers would have an opportunity to increase their incomes if they were given access to the necessary resources. Land redistribution policies of the 1960s and 70s (the 1930s in Mexico) broke up large-scale land holdings into smallholder

systems. But the policies for the most part failed to improve the lives of the rural poor because of poor design and inadequate attention paid to supportive measures. The straightforward redistribution of land is therefore no longer a viable political alternative. Policies that implement aggressive market-compatible programs of land distribution, however, may still be an option if complimented by credit, technical assistance and training, and investment in infrastructure such as roads and irrigation. Unfortunately, land reform policies are not easily embraced by LAC governments. The structure of land ownership in the region is historically highly concentrated and there are many vested interests. In Brazil, for example, less than 2% of landholders own over 80% of cultivable land, and in Guatemala it is owned by 10 families. It is a situation that is difficult to change. Land reform is also necessary in urban areas where broad-ranging programs need to be implemented to formulize land and housing titles.

Institutional Reform of the Social Sector

Institutional reform of the social sector includes strengthening public institutions (making public institutions and public service delivery more accountable and transparent), strengthening public participation in local decision-making, and removing social and institutional barriers that result from distinctions of social status, gender, race and ethnicity. The reform process also targets tax collection and the social security system.

The limited amount of resources allocated to social spending, and the unequal distribution and poor performance of social programs due to weak public institutions, combine to produce serious social challenges in most countries of Latin America and the Caribbean. Often public spending policies tend to reinforce or reproduce inequality rather than improve it. Major changes have already taken place in the organization, management, and financing of the social sector in Latin America and the Caribbean. During the 1990s a variety of reforms were attempted with mixed results. They included: privatization of health, education, and social security programs; moves toward the market-oriented provision of social services; decentralization of services, relying on local governments and communities (including civil society organizations) for their delivery; establishment of fee-for-service schemes; targeting

of social programs to specific populations; and increased public participation in policy design and implementation. Indeed, a combination of some of these measures is still necessary, but with a different focus given the mixed results in the past.

Reform of the Tax Collection System

Increased social expenditure in Latin America and the Caribbean requires governments to acquire higher revenues through taxes. The tax systems typical to the region are difficult to administer and too easy to evade. Workers in the informal sector are extremely difficult to tax since most make less than \$15 a day and the sector is so diverse and disorganized. But the main problem is taxing those people who do have the resources to contribute. The upper and middle classes tend to evade paying taxes because they do not use the basic social services provided by the government, and they evade paying taxes simply because they can get away with it. In many countries, tax evasion has been explained over the years as a protest against bureaucracies deemed to be corrupt and inefficient. Some countries maintain banking secrecy laws that hinder investigations into whether corporations and individuals declare their full incomes.

Revenue should be increased from personal and corporate income taxes by eliminating loopholes and fiscal exemptions, reducing minimum income thresholds that benefit the wealthiest top percentile, and enforcing collection. In many cases tax forms need to be simplified and the number of goods and services subject to taxation need to be increased. Increased taxation on consumption rather than income is recommended because it is more difficult to evade. The regressive effects of consumption taxes would have to be corrected by re-distributive government expenditure. Also, the tax base needs to be widened by slowly integrating the informal sector into the tax system through simplification of bureaucratic procedures, improvement of public services, and social security schemes. It goes without saying that obliging a population (in most cases the burden would fall on the upper and middle classes) to pay more taxes is a tedious and

politically risky undertaking. Furthermore, where governments do not hold a majority of seats in the upper and lower houses of Congress, tax reform bills tend to be some of the most highly contested by opposition parties.

Social Security Reform

Social security systems contribute to the well-being of the population by protecting people from loss of income due to illness, old age, unemployment, disability etc. In Latin America and the Caribbean social security systems are highly segmented, covering middle class, urban employees and those groups that have the ability to organize themselves and be represented in public life. With few exceptions these systems do not protect the poor. In most countries of the region reforms are being attempted to incorporate new mechanisms into the social security systems to improve coverage and adapt to the challenges posed by changing demographics in the region.

In most of the LAC region birth rates are falling and the working age population is growing. If quality education becomes more accessible and adequate employment is generated, the opportunity exists for

the average income of the population to rise and for inequalities to decline. However, if the opportunity is not exploited, the growing labour supply will bring about more informal employment and unemployment, and the wage gap will widen further between skilled and unskilled workers. However, social security systems need to reflect these changes. Social security reform can be as contested as raising taxes since its costs are borne by specific groups in society that may lose benefits in the process. These groups have more incentive to organize in order to resist the reforms.

Improved Social Safety Nets

Short-term distribution programs or social safety nets assist people with basic needs. The benefits they provide such as food, basic healthcare, short-term employment, income support, subsidies to keep children in school, and emergency social funds can play a role during times of economic downturns. However, these benefits cannot

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substitute for macro-economic reform and sustainable economic growth and for basic social policies such as healthcare and education. In some cases these social safety net programs have been able to reach the poorest, most vulnerable groups in society and contribute to political sustainability and economic reform at the same time. Yet, in other cases the programs have been merely short-term palliatives affected by clientelism and patronage and used to appease political opposition and other vocal groups. They have had little impact on poverty reduction. The programs are necessary, but need to be carefully controlled. They should be designed to unfold automatically during times of severe unemployment or real wage declines (also following natural disasters). They need to be well targeted with effective and efficient delivery mechanisms, and kept independent from political manipulation.

Why so Little Progress?

In sum, there is an emerging consensus around key elements of a new anti-poverty agenda, which still has to be defined. Yet there is no agreement amongst experts on which reforms are the most urgent. Efforts to implement some of them are already underway in the LAC region as part of the broader hemispheric integration process. The hurdles along the way however, are difficult to overcome. First and foremost, in most of the countries the foundation for attacking poverty is missing: sustained economic growth. Growth has generally been weak in Latin America and the Caribbean. High performing East Asia economies experienced an eightfold increase in per capita income between 1960 and 1995, in sharp contrast with Latin America and the Caribbean where income per capita only doubled in the same period. This means that the region's fiscal capacity to finance social spending is also weak. Budgetary restraints and insufficient financial assistance from international financial institutions and development agencies result in well-worded commitments on paper, followed by little action. Moreover, it is extraordinarily difficult for the countries of the region to generate the resources they need for income redistribution. Effective state action requires an effective taxation system, and a lot of

disagreement exists about the appropriate means and levels of such taxation.

In multilateral fora such as the Summit of the Americas process, the political will appears to exist to develop a poverty-reduction agenda for the region. Sometimes this willingness is lost at the national level, or it may be present in the executive branch of government, but legislative branch divisions in the lower and upper houses of Congress may slow down the process. Many of the above mentioned initiatives also require changes to national laws and constitutions.

While first-generation macro-economic reforms were relatively simple and could be enacted by presidents and agencies of the executive branch, second-generation reforms involve an array of institutions that may not be capable of, or indeed

There is an emerging consensus around key elements of a new anti-poverty agenda, which still has to be defined. Yet there is no agreement amongst experts on which reforms are the most urgent.

committed to, implementing the initiatives. Complex institutional changes at federal, provincial, and local levels may be necessary, as well as the voluntary coordination of diverse and often competing social, economic, and political actors. Opposition might come from certain political and social groups and given that the poor are often a weak political constituency, privileged social sectors and the middle class might form coalitions opposing policies that favour the poor. Also, given the long-term nature of the poverty/inequality

challenge — and the imperceptible rate of progress, second-generation reforms are rarely in the forefront of election campaigns. Governments are still only elected for 5-6 years. Many do not stay in power even that long. Reduction of the region's poverty percentages will require 20 or 30 years of sustained growth *and* sustained policy commitment. This is why a new consensus is necessary.

A Role for Canada?

Developing a results-oriented and feasible strategy to address poverty and inequality in Latin America and the Caribbean is a tall order. It requires effective leadership, sufficient financial resources, transparent and accountable public institutions, and the construction of reform-minded coalitions of

government, civil society, and private sector actors. Some countries in the region are taking the necessary steps toward achieving many of the objectives discussed in this paper and Canada may be well positioned to accompany these countries in this process.

At the multilateral level of the OAS and the Summit of the Americas, Canada is a leader in the area of strengthening democracy, but has yet to become a dominant force behind the fight against poverty and inequality in the region. While Canada has played a significant role in the modernization of the OAS, Canada has not enhanced the capacity of the Organization to deal with social issues. At the Quebec City Summit, Heads of State highlighted poverty, income inequality and social exclusion in their speeches, but the Summit Plan of Action did not contain an actual strategy for the reduction of poverty in the region. In this sense, Canada as the Summit host missed an opportunity to shape a social agenda for the hemisphere and to put more emphasis on social issues as such. Nevertheless, the sectoral meetings of the Ministers of the Hemisphere carried out within the framework of the Summit of the Americas process have been providing some space for Canada to promote poverty and inequality reduction. Indeed, at the March 2001 meeting of the Finance Ministers of the Hemisphere, Canada's Finance Minister, Paul Martin, underlined this issue and a clear link between trade and poverty/inequality reduction was also made at the April 2001 Trade Ministerial in Buenos Aires.

At the bilateral level, the picture is somewhat different, with CIDA refining its strategy toward Latin America and the Caribbean and putting the emphasis squarely on reducing poverty and improving equity. Three goals form the core of this new strategy:

- To extend the benefits of growth.
- To reduce instability and vulnerability.
- To strengthen human resources and institutions.

However, with limited federal funding for international development cooperation, financial resources will continue to be allocated to a limited

group of countries in Latin America and the Caribbean, namely those with good policy frameworks, but high poverty levels. More advanced economies of the region may only request technical cooperation or "knowledge-based resources". Also, the goal of eradicating poverty is not the sole focus of Canada's international cooperation resources -CIDA Inc. for example is more concerned with Canadian investment and commercial interests. Moreover, CIDA is not the only actor and there is ample room to improve policy coordination to ensure all other actors in

Canada's international cooperation portfolio (the International Development Research Centre (IDRC), the Economic Development Corporation (EDC), the Department of Foreign Affairs and International Trade (DFAIT), etc.) have poverty reduction as one of their principal aims.

There is a potential role for Canada in the emerging consensus on poverty and inequality reduction in Latin America and the Caribbean, but there remains a long way to go before Canada becomes a leader in this area.

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Nancy Birsall and Augusto de la Torre, **Washington Contentious: Economic Policies for Social Equity in Latin America**. Carnegie Endowment for International Peace and the Inter-American Dialogue, 2001.

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June 2001

ISBN: 1-896301-65-7

Publication mail agreement: 1606328

The Canadian Foundation for the Americas (FOCAL) is an independent, non-governmental organization that fosters informed and timely debate and dialogue on issues of importance to decision-makers and opinion leaders in Canada and throughout the western Hemisphere. Established in 1990, FOCAL's mission is to develop a greater understanding of important hemispheric issues and help to build a stronger community of the Americas.

The lead writer of this policy paper was Stacey Wilson-Forsberg, Policy Analyst FOCAL. Other members of the FOCAL team who worked on this publication were Gerd Schönwälder and Nobina Robinson. The preparation and printing of this paper has been made possible thanks to support from the Department of Foreign Affairs and International Trade and the Canadian International Development Agency.

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