

**POVERTY AND
INEQUALITY**
LATIN AMERICAN REPORT
2011



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Inequality is currently a key issue on the agenda in Latin America, and the evidence suggests that it will continue to be. Latin America is the most inequitable region in the world, presenting lower results than regions with more dramatic poverty levels such as Africa and parts of Asia.

In the general context of concern for overcoming poverty and the promotion of the social inclusion of poor and vulnerable individuals, part of the debate has moved away from causes and possible solutions and towards the analysis of the reasons for and effects of inequality on countries' opportunities for development.

This is the most pressing problem on Latin America's agenda. The countries of the region have found ways to put its democratic institutions back together after decades of authoritarian governments and have managed to insert themselves in world markets, achieve economic growth, and mitigate the plights of individuals living in poverty. But serious social problems persist.

Inequality impacts various political, economic and cultural phenomena. It is mainly expressed in access to several types of power (or lack thereof) and thus contributes to its own reproduction, as those who have power have few incentives to effect change. These issues present a challenge to the stability of both political democracy, which is forced to face demands for increased participation and representation, and to social democracy, given the existence of social groups with disparate opportunities for development, which are reproduced in vicious cycles.

The Latin American Center for Rural Development (Rimisp) presents the Latin American Report on Poverty and Inequality 2011. This document is designed to serve as a contribution to the discussion of poverty and inequality from the perspective of territorial

development, one of the approaches to the problem that has received the least amount of attention, and its unique impact on rural sectors of the region.

In Latin America, one's place of birth or residence is not a minor issue because it determines both socio-economic conditions and opportunities to access the goods that guarantee wellbeing. This is true of entire countries and areas within them. The region is home to countries that have achieved greater levels of growth, but that growth is concentrated in a limited number of territories.

This report postulates that regional inequalities, particularly those of the magnitude that we have seen in Latin America, are a problem and an obstacle to development. Understanding and confronting territorial gaps is not only good for the territories where conditions are not those that we would like to see. There is abundant evidence that these unequal relations create significant costs for the country. We are thus interested in both the aggregate results for each country and the way in which those results are distributed among the territories.

While we share the World Bank's notion (2009) that a world of perfect markets should bring about a process of regional convergence in the long-term, there is a set of factors that, in practice and on the horizons of one or two generations, impede or delay the achievement of that result.

In the first place, we are concerned about the existence of mechanisms that reinforce one another, generating spatially localized traps of poverty, inequality and economic inefficiency. In the context of its Rural Territorial Dynamics Program, Rimisp and its partners conducted an analysis of census data and national surveys of households in 10,000 municipalities. The study covered 400 million people living in 11 countries and yielded data

for two different points in time. Researchers observed changes in per capita income or expenditures, the monetary poverty rate and the distribution of per capita income or expenditure. They found that nearly 10% of the population of 11 countries living in 1,260 municipalities has experienced positive changes in per capita income or consumption, poverty rates and income distribution. These statistics show that growth with poverty reduction and improved income distribution is possible in Latin America, though it is the exception rather than the rule. While dynamics of growth with poverty reduction are present in 32% of the municipalities that are home to 24% of the population, dynamics of growth with reduction of inequality are much less frequent (seen in 13% of municipalities that are home to 10% of the population). Clearly, the challenge of equitable income distribution is considerably more complex than poverty reduction.

We are also concerned about the costs of overcrowding and its impact on the quality of life of those who live in densely populated cities or areas that attract large numbers of people due to the development of a profitable economic activity. As *The Economist* noted in an article on the limits imposed by large cities on productivity (August 13, 2011), congestion, lack of housing, pollution and the lack of urban planning that characterize large Latin American cities threaten to drag national economies down.

Finally, every country has non-economic objectives that require that it invests in the correction of regional imbalances. Experience shows that many of these policies are poorly conceived, poorly designed and poorly implemented and that there is an important space in which better work can be done. It is possible to achieve growth with greater territorial cohesion (inclusion) based on the territories themselves and not the simple convergence of the growth of just a few. This is why we are focusing on the territorial aspect of development.

This report lays bare the existence of notable territorial gaps and describes their impact on territories' opportunities for development. The document contains two main sections. The first describes territorial inequality and the second analyzes the implications of these inequalities in public policies and their relation to institutional capacities.

1. Assessing The Problem. Territorial Inequalities in Six Key Areas of Development

The average statistics of socio-economic indicators for each country frequently hide significant variations between urban and rural territories or different politico-administrative units. Some social indicators can make it seem that there are no problems in the area that they measure based on the national average, but they hide the fact that said average is composed of the results of territories in which the indicator is actually satisfactory as well as those of territories in which it is clearly unsatisfactory.

The 2011 Latin American Report on Poverty and Inequality offers a quantitative assessment of existing inequalities among the socio-economic results of various territorial units from a sample of Latin American countries. It identifies whether or not certain sub-national territories are particularly lagging (or advanced) compared to the national median and present significant negative (or positive) gaps compared to the development of the country as a whole. This is based on the notion that levels of development vary from one country to the next. Some present relatively low average levels of development and no particularly lagging or advanced territories based on the national median. Others have a relatively high average level of development, but only a few territories that present satisfactory results.

This assessment is based on data from Bolivia, Brazil, Chile, Colombia, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua and Peru on six different socio-economic areas: health, education, economic dynamism and



employment, income and poverty, citizen security, and gender equality.

Health. An adequate level of health is fundamental to individuals' quality of life and social development as well as individual and collective productivity. A good level of health allows an individual to keep from incurring the curative costs associated with illnesses and allows him or her to engage in study, work or household duties. In this sense, the state of health can be understood as a fundamental part of human capital because it allows people to improve their ability to produce goods and services and engage in activities in general, whether in the labor market or elsewhere. At the aggregate level, this translates into greater available human capital for activities oriented towards development.

The main trends identified in the analysis of this area suggest the following:

- Regardless of the average general result that the country presents in regard to health indicators, all of the countries have significantly lagging sub-national territories.
- Lagging sub-national territories tend to have smaller populations, are more rural and

tend to have a larger percentage of indigenous or Afro-descendent populations.

- With respect to the specific indicators studied in the area of health, in some cases, the previous tendencies are reverted in regard to the supply of public services such as the number of inhabitants per doctor. The areas that present the greatest relative lag are urban and densely populated.

Education. There is a social consensus in Latin America regarding the need to invest in human capital. This consensus considers education to be a powerful tool for promoting sustainable human development in order to increase countries' productivity and competitiveness and generate greater equality of opportunities. Investment in human capital fosters compatibility between economic growth and equitable development. Increasing equity and quality in education is a priority challenge. However, the evidence suggests that not all sectors of the population have equal access to quality education. The results of the analysis in this area indicate the following:

- Regardless of the national average, all countries present sub-national territories with significant lags in the area of education.

- Lagging sub-national territories tend to be smaller in terms of population and more rural and have larger percentages of indigenous or Afro-descendent populations. They also tend to be grouped together and located further from the national capitals and/or large cities. In many cases, they include border regions.
- In regard to the specific indicators studied in the area of education, some of the countries present greater internal territorial gaps in the literacy rate than the primary education enrollment rate, which may indicate that younger generations face less inequality.

Economic Dynamism and Employment.

Economic growth is a key element for overcoming poverty because it helps families create income through job creation (self-employed or salaried) and higher salaries. But economic growth alone is not enough to achieve equitable development because efficient social policies also play a key role in this process. However, in order to be sustainable, social policies require a dynamic economy that generates fiscal income to finance them. It is thus particularly important to determine whether territories present lags in the areas of economic dynamism and employment. The analysis revealed the following trends:

- Regardless of the general average result of the country in the area of economic dynamism and employment, all of them have significantly lagging sub-national territories.
- Sub-national territories that present lags in economic dynamism tend to be less populated, have a lower level of urbanization and have larger percentages of indigenous or Afro-descendent populations. They also present a higher percentage of young people under the age of 15 and older adults.
- In regard to the specific indicators studied in this area, some of the countries present less significant territorial gaps in the unemployment rate than in the employment rate in non-primary sectors of the economy. This could be indicating that workers move to more dynamic areas, thus narrowing the territorial unemployment gaps. This does not



occur with indicators that reflect structural conditions of economic capacity.

Income/Poverty. The discussion of public policies designed to overcome poverty and improve income distribution usually involves a debate over whether the focus should be on economic growth or social policy. The evidence suggests that both are necessary. A country's ability to generate greater income helps improve the population's standards of living, but this alone does not ensure that the fruits of progress reach everyone and are distributed equitably. Social policies play a key role in the latter process, but they must be efficient and sustainable. These policies must cover both support for the satisfaction of the basic needs of the most vulnerable population, as well as the creation of greater employment opportunities to enhance the capacity of the poor to generate work-based income. An effort should be made to create a virtuous circle. More equitable income distribution helps improve the social environment in the country. Decreasing the percentage of people living in precarious conditions facilitates their inclusion in the economy. All of this favors economic growth, which in turn supports job creation and, in the context of an efficient and equitable tax system, contributes to financing social policies. In practice, however, this virtuous cycle does not always materialize,

and some countries present important lags in the area of poverty and equity. These lags also can be observed within each country given that economic growth reaches some territories more than others. The following trends were identified:

- Regardless of the overall national average in the area of income and poverty, all nations have sub-national territories that are significantly lagging.
- The sub-national territories that present lags tend to be have fewer people, be more rural and have larger percentages of indigenous or Afro-descendent populations, as well as a higher level of dependence on the young population.
- In the case of household income, the pattern is reversed. The sub-national territories with higher Gini indexes of household income (greater income inequality), tend to have an older population, a lower percentage of the population that belongs to indigenous or Afro-descendent groups and be more urbanized.

Citizen Security. One way of defining citizen security is the absence of fear of being assaulted, being able to enjoy the privacy of one's home and to circulate in public secure in the knowledge that one's physical integrity will be respected. Citizen security is a key area for quality of life. However, compared to other socio-economic areas, it is more difficult to evaluate results for citizen security because it is closely linked to how people subjectively perceive their surroundings, and not only to objective conditions. In order to provide a comprehensive overview, an evaluation of citizen security ideally should include perception-based indicators, the availability of institutions that play a role in this area, and law enforcement results. The main tendencies identified through the analysis of this area are as follows:

- Regardless of the national average in the area of citizen security, each country has significantly lagging sub-national territories.

- The lagging sub-national territories in the area of crime and victimization rates tend to be larger in terms of population and more urban.

- There tends to be a relationship between a higher number of police officers per inhabitant and higher indicators of crime and victimization indicators. This could be interpreted as a reaction of the public sector that increases its effort in response to adverse indicators.

Gender. Both developed and developing countries continue to face challenges in the area of gender equality. These challenges must be faced for several reasons. First, gender equality is important in its own right, as it refers to equal rights of all individuals, regardless of whether they are men or women. Second, it has an instrumental importance as it contributes to economic efficiency and the achievement of other important development results, as a result of society making use of the talents and abilities of women who had once faced discrimination. The analysis of the dimension of gender equality resulted in the following trends:

- Regardless of national results for gender equality indicators, each country presents sub-national territories that are significantly less equitable.

- The sub-national territories that present the greatest gender equality within each country tend to have a smaller percentage of indigenous or Afro-descendent population, a higher level of urbanization (particularly for the indicator of the election of women to public office in local government) and larger populations (in the indicator of net labor participation).

- Territories that present deficiencies in gender equality tend to be adjacent to one another. This is also the case with territories presenting advantages in this area. This suggests that there are more egalitarian macro-areas in terms of gender, usually urban ones.

Development Gaps Within The Countries of The Region

In light of the results, the first part of the 2011 Latin American Report on Poverty and Inequality concludes the following:

- Regardless of the general average result presented by a country in the area of socio-economic indicators, sub-national territories present significant lags in the areas of health and education, economic dynamism and employment, income and poverty, citizen security, and gender inequality.

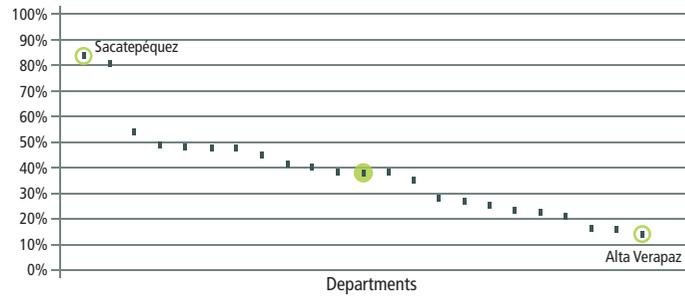
- Lagging sub-national territories tend to have common characteristics. In general, they tend to be smaller in terms of population, more rural, have a larger percentage of individuals from indigenous or Afro-descendent groups, and, to a lesser extent, have a larger percentage of young people under the age of 15. It is worth noting that lagging sub-national localities in the areas of citizen security and household income inequality (measured using the Gini index) also share certain characteristics, but different ones, as they have larger populations and are more urban.

- Lagging sub-national territories tend to be grouped together. They also tend to be located further away from the nation's capitals and/or large cities and in many cases are found in border areas. The most advanced sub-national territories also tend to be geographically grouped around the largest urban nuclei, which suggests a center-periphery development model in each country. This generates more advanced clusters as well as lagging regions, and virtuous circles in the first and poverty traps in the second.

- Indicators of the supply of public services, such as the number of police and doctors per inhabitant are not necessarily associated with better sub-national results. In some cases, there is greater supply in lagging territories. This could be due to a reactive-type public supply in response to poor results, though this should be studied in greater detail.

Regardless of a country's average performance, some territories are lagging

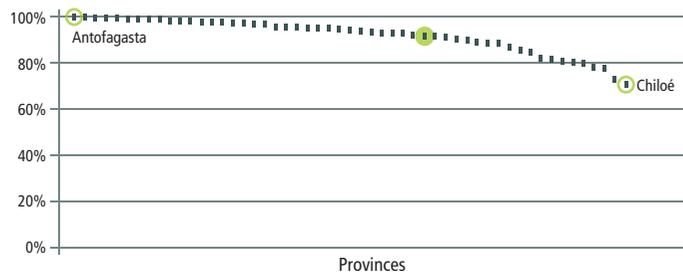
Guatemala: Access to improved sources of water and sanitation - 2006



■ Percentage of households with access, over the total of households ● Simple average at Departmental level

Source: Generated by the authors using ENCOVI 2006.

Chile: Access to improved sources of water and sanitation



■ Percentage of households with access, over the total of households ● Simple average at Provincial level

Source: Generated by the authors based on CASEN 2009.

Countries with good average performance as well as those with poor average results, have territories that are lagging. The graph illustrates the situation of access to improved water and sanitation sources in Guatemala and Chile, where coverage was 39% and 92% of households in 2006 and 2009, respectively. Areas like Guatemala City and Sacatepéquez presented coverage of nearly 80% while Quiché, Petén and Alta Verapaz presented rates lower than 20%. Chile also presents marked differences at the provincial level. Nineteen provinces present a percentage of over 96% (including Antofagasta and Santiago, where coverage is nearly 100%) while ten provinces have coverage rates of less than 85% including Chiloé and Biobío, where the rate is lower than 75%.



▪ The analysis suggests that there are several development challenges for different types of sub-national territories. A first group is mainly rural with small populations, low population density and a high presence of indigenous or Afro-descendent individuals. There are few jobs in non-primary areas and poor results in health, education and income. A second group is mainly urban and densely populated, and issues of crime and income inequality are more important there. Equitable development at the national level requires that the reality of these two types of sub-national territories be addressed.

▪ It is clear that there is a need to expand on the work that we have begun in order to explore the causes of the lags or advancement of certain sub-national territories, along the lines of analysis shown in the second part of this report. This involves understanding the conditions that may trigger vicious circles in some cases and virtuous ones in others. More specifically, we must research the factors that public policy should try to influence in order to modify the former and sustain the latter, and use that evidence to design and implement better public policies.

2. Inequality, Public Policy and Institutional Capacities

In its analysis of the implications of these territorial inequalities for public policies and their link to institutional capacities, the report argues that sectoral policies are not neutral about territorial inequality; a policy can contribute to the development of one territory, not have a significant impact on another and negatively affect a third.

The cases of two policies and one program are presented below. We analyze Chile's education policy, rural development programs in Mexico and the Human Development Cash Transfer Subsidy in Ecuador. These initiatives have different purposes, some more limited than others. Some have existed for years and one is a recent initiative. Despite their differences, they are all designed with sectoral purposes and have aggregate results that may be considered positive, but when they are assessed in a spatially disaggregated manner, we find significant inequalities in their results and impacts. The reasons why these initiatives do not reduce (and often accentuate) territorial gaps differ, and in many cases precede the design and implementation of the policies. They have to do with the type of territorial differences that policies perpetuate because they were not considered at the design stage.

Sectoral Policies with Differentiated Territorial Impacts

	Chile	Mexico	Ecuador
Public Policy	Decentralized educational policy	Policies for rural development	Human development subsidy
Start Date	1980	Over the past two decades (several programs)	2003
Main Characteristics	The government ceases to provide services; Transfer of responsibilities to municipalities and subsidized private sector; End of the idea of the Educating State as the axis of government action, and adoption of the concept of a Subsidiary State; Universal voucher system (subsidizing educational demand); Double dependency of schools: municipality for administration and finance and Ministry of Education for technical and pedagogical matters.	Rural programs with emphasis on social development and productive supports; Changes in amounts and global allocation of public spending directed at rural areas; Dual policy: introduction of innovative social spending programs focused on the poorest members of society; agricultural support absent for poor rural producers; focus on larger producers and states with greater agricultural production.	Conditional cash transfers program; Seeks to support human capital in poor families; No monitoring system to verify compliance with conditions.
Main Gaps	Inter- and Intra-Municipal Gaps: • Unequal distribution of students by municipality and student's socio-economic level; • Heterogeneity of public education (population size, dominant socio-economic level, urban or rural, geography and accessibility); • Heterogeneity in local capacities for municipal management of education services, and thus access to resources and special projects.	Territorial gaps between states and municipalities: • Regressive allocation of public resources for agricultural development, both by type of territory and by type of producer; • Significant territorial inequalities in the areas of income, education and health that are comparable to the differences between high and low income countries; • Differences in poverty rate based on size of localities; • Income inequality has increased in rural areas over the past decade, while it has decreased in urban areas and as a national average.	Gaps in impact between rural and urban areas: • Impact on school enrollment observed only in urban areas. • Slightly lower impact in number of hours worked by children in rural areas than urban ones.

Part of the explanation for the gaps is located within the territories themselves because they present unequal institutional and social capacities. This is shown by the significant territorial gaps in the indicators of the management capacities of local governments. On the other hand, the report ends with two cases of endogenous development: the Sierra Sur Project in Peru and the Land of Solidarity in southern Santander, Colombia. These cases show how certain socio-institutional arrangements reverse partially negative trends despite differentiated capacities and socially adverse contexts. Both experiences are the result of successful local management that involves various stakeholders, contributing a strong citizen and democratic component, increasing local management capacities and innovating in ways to develop and overcome poverty.

Sectoral Policies Are Not Neutral In Regard To Territorial Inequality

A single policy or program can be extraordinarily well-matched to one region, irrelevant for another and have an adverse effect on a third. As a result, we say that they are “spatially blind.” They do not see or internalize, much less correct or compensate, for differential impacts across space.

The analysis presented in the report underscores the importance given to the territory. The case of Mexico reveals a need to establish priorities based on how the stakeholders are positioned within the territory. The programs discussed in the report discriminate against resource-poor populations that could make better use of productive assets supplied by public programs, and focus on producers that could do without them due to their scale, wealth and closeness to markets. The result is a double waste of resources, one distributive and the other economic.

The Chilean case suggests that the characteristics of local education systems should start from the conditions of the territory. From that starting point, national educational policies should be “reconstructed”, promoting coordinated actions between the technical-pedagogical level and the financial-administrative one, which are necessary to provide education based on each area’s unique conditions and characteristics. In other words, educational improvements take place in specific classrooms, schools and territories, and policies should be flexible enough to allow local stakeholders to respond to the characteristics of the school communities and their social, economic and cultural context.

Decentralized Education Policy in Chile

The main elements that define the educational reform during the 1980s can be summarized as follows: the withdrawal of the central government from the direct provision of

services; the transfer of responsibilities for service provision to municipalities and the subsidized private sector; the end of the concept of the Educating State as the axis of government action; and the development of a financing model that involved competition over enrollment between public and subsidized private schools. The reform and each one of its elements were imposed from above, generated resistance and lacked political legitimacy. The national government did not provide any real support to the municipalities to enhance their ability to manage schools. Following the return to democracy in 1990, the main axes of the reform introduced in the 1980s were left unchanged. However, the State took a more pro-active stance in promoting education. Government action that had been focused almost exclusively on resource allocation, was now reinforced by initiatives to promote education.

Thirty years after the implementation of the current educational system, we find a segregated



system in Chile in which private education plays an increasingly important role and test results show important inter-municipal and intra-municipal disparities. The main effects of the reforms were the massive expansion of the school system, decreased enrollment in public schools, social segregation in the school system, stalled quality of learning, and heterogeneity in public education. There is a direct relationship between the size of the municipality, its dominant socio-economic level and the number of students enrolled in public education.

In general, these results can be attributed to the lack of a territorial management model for education. The report identifies a set of obstacles or factors that behave differently based on the type of territory. These factors are listed below in decreasing order in terms of the amount of control municipalities have over them:

Factors Specific to Municipal Management. The first aspect is the technical-pedagogical management capacity of the team responsible for education, which is led by the municipal Mayor. This capacity includes certain positive effects such as the ability to leverage additional resources for education, or having a better professional team. It also implies developing a vision that promotes participation and real integration of different stakeholders in the school community, understanding that territorial management of education is a task that should reach beyond the municipality. To this we must add a second aspect, regarding the political will of the leader of local government which, where it exists and if there are favorable elements for negotiation in the different levels of the regional administration, could allow for the successful management of resources and projects.

Factors of the Surrounding Environment. This refers to the capacity of a local education team to build support and collaboration networks in the internal environment –units of the local government- and the external environment –including the educational

community and other stakeholders, some of which may be found even outside the limits of the municipality. In this sense, quality and equal education for all young people in a municipality is the responsibility of the entire community, and not only the schools and the local government. One example of this is the work done by some school managers who have been able to link up with stakeholders from outside of the educational community. Some public school managers have coordinated all stakeholders from the educational environment, promoting team-based pedagogical technical work which is done in a participatory way, generating a positive organizational climate.

Structural Factors. This type of factor considers local demographic variables, elements related to the local economic structure and dynamics, population movements such as rural-urban migration, geographic isolation, climate conditions, connectivity and accessibility during different seasons, and the educational institutions in each territory. This type of factors can have a negative impact on the quality of education, as they can create strong constraints to effective management of the school system. One example of this is the region of Aysén in the extreme southern part of Chile; here, the municipalities and even the main towns are sparsely populated, and there are huge impediments to communications within the region and with other regions.

Factors derived from the institutional normative framework. Over the past three decades educational policy has improved the material conditions in which the system operates, and has led to improved learning and to reducing the social gap. But it has also contributed to a deterioration of public education. Measures designed to establish asymmetrical rules of the game that favor the subsidized private sector, the failure to incorporate school managers as key stakeholders, and the imposition of policy guidelines, programs, actions, and requirements on public schools, have affected the public schools across the board.



Different sets of factors require different responses. For example, in urban municipalities in metropolitan areas with high enrollment, structural factors weigh proportionally less than they do in isolated rural areas with low enrollment. For managers in the former group, dedicating most of their energy to quality institutional management and generating links to the community is acceptable. However, in schools located in municipalities in which structural factors have more of an impact, there is a need for greater cooperation with the community such that institutional management must be used to achieve that cooperation, in order to impact on structural constraints.

Rural Policy and Development in Mexico

Following a crisis experienced by Mexican agricultural production, ambitious reforms were introduced in the 1990s in order to modernize the sector and restore its dynamism. In general terms, this involved the end of the redistribution of agricultural land and the liberalization (though partial) of the land and agricultural markets. In parallel

and in complementary fashion, innovations and improvements were introduced to social policy for rural areas. The main objective was to develop more efficient and equitable agricultural support. Well-targeted anti-poverty programs were introduced, along with a gradual reassignment of social spending towards the rural sector, which corrected the urban bias that had dominated in previous decades. Social development and anti-poverty programs received greater emphasis within the overall public budget for rural development.

Most of the current agricultural support and rural development programs are part of this broad strategy, which has been called the Second Agrarian Reform. The report describes the direct and indirect effects of this set of programs, placing special emphasis on the way in which they impact inequality within the rural sector.

The main negative effect of the policy implemented in this Second Agrarian Reform in Mexico, has been an increase in rural inequality. In the past, Mexico like many other countries presented rural income inequality that was significantly lower than urban

inequality. However, over the past decade, national and urban income inequality have decreased, while rural inequality has tended to increase.

Not only is there extreme inequality in household income among municipalities, but the same is seen in basic education and health indicators. This situation is noteworthy, particularly if one considers the fact that these dimensions are the targets of the country's main social development programs. The data allow us to say that the gaps among Mexico's municipalities and towns are comparable to the ones observed between the world's richest and poorest nations.

The fact that there are significant social and economic gaps between the rural and urban sectors and within the rural sector –between states, municipalities and towns– is a manifestation of spatially-differentiated patterns of economic development. Not only have these patterns not been corrected by the new policies, but in some instances they have been deepened because of the differential territorial effects of the development programs analyzed in the Report. To this we can add the fact that nearly 60% of those living in extreme poverty live in rural areas, a trend that has remained unchanged for the past two decades. Hence, the absence of rural development policy planning and evaluation that takes territorial effects into account, has very negative implications. The evidence suggests that public resources are not allocated based on the needs and assets of different types of people, of agricultural producers, and of places, and their evolution over time.

The highest public spending on rural development benefits the country's richest states: Sinaloa, Tamaulipas, Sonora, Jalisco and Chihuahua. The largest expenditures reported by Procampo as well as by other programs that are supposed to address structural constraints, have also been made in these same states.

Ineffective resource allocation limits oversight of factors leading to the concentration of the

Ecuador's Human Development Subsidy

The Human Development Subsidy (HDS) is a conditional cash transfer program, targeted at the population living in poverty and extreme poverty. It was started in 2003.

The HDS has had differentiated effects in the cities and the countryside. While it has had a positive and significant impact on school enrollment in the urban areas, it has no statistically significant effect in rural regions. However, it has a positive and significant effect on the reduction of child labor in both areas, both through the likelihood that children will work and the number of hours that they work.

The differentiated effect on school enrollment is not linked to problems of supply. Rural schools have a higher School Lunch Program coverage and are serviced more days during of the school year. Children in the city have a longer commute (measured in minutes) and walk to school more than their rural counterparts. No information is available on other supply variables such as school infrastructure. In any case, it is well known that Ecuador's public rural schools have serious problems of infrastructure. The recommendation is that the HDS be combined with supply side interventions. In contrast to many other conditional cash transfer programs in Latin America, the HDS does not include any type of supply intervention. For example, other programs tend to accompany the cash transfer to the families with transfers to teachers and the school, providing text books and school supplies. In this sense, the HDS is exclusively a demand-side intervention.

Source: Ponce, J. (2011) Impact of the Human Development Subsidy on School Enrollment and Child Labor in Rural and Urban Ecuador. Poverty and Inequality, 2011 Latin American Report. Santiago de Chile.

Percentage of Municipal Self-Generated Income Compared to Total Income in Select Countries

	Very Negative Gap	Negative Gap	Average	Positive Gap	Very Positive Gap
Brazil (2008)					
Total Municipalities	5	675	4.039	612	234
% Of Population	0,00%	2,90%	41,00%	23,10%	33,00%
Population Density	11,6	34	51	331	734
El Salvador (2010)					
Total Municipalities	0	23	201	23	15
% of Population (2007)	0%	0,8%	49,7%	22,1%	27,4%
Level of Urbanization	0%	36,0%	36,4%	60,7%	58,8%
Population Density	0	81,1	366	1.509,50	628,9
Chile (2008)					
Total Municipalities	0	58	225	46	17
% Population	0,0%	2,7%	56,7%	32,7%	7,9%
Degree of Urbanization	0,0%	34,2%	60,4%	85,1%	93,0%
Population Density	0	14,3	751	1.427,10	2.892,00
Nicaragua (2005)					
Total Municipalities	0	21	108	16	8
% of Population (2005)	0,0%	4,1%	47,7%	19,7%	28,5%
Degree of Urbanization	0,0%	27,9%	35,2%	64,4%	63,5%
Population Density	0	99	115	226	672

Source: Developed by the authors based on information from the Ministry of Planning, Organization and Management (2008), IBGE and 2010 Census (Brazil); ISDEM (2011), VI Population Census and V Housing Census (El Salvador); SINIM (2008), 2002 Housing and Population Census (Chile); and the Treasury and Ministry of Public Credit of Nicaragua, 2010 and 2005 Population Census (Nicaragua)

With the exception of Mexico and Peru, the indicator of self-generated income relative to total income, is the one that has the lowest percentage of municipalities (and population) clustered around the national average; in other words, it is in this indicator that the territorial gaps are the largest. This means that in general terms the ability to generate income is unequally distributed among local governments in Latin America. Many municipalities depend mainly on transfers from the central government because they lack even a minimal ability to generate income. However, they represent a small part of the population. Urban and densely populated territories tend to have the greatest ability to generate resources.

resources of development programs. This has limited the redistributive process and, in this way, has deepened the characteristic duality of the Mexican countryside. There is a clear lack of a territorial approach in this resource allocation strategy. Such approach could allow for more effective control of the overall and specific impacts of public policies at the regional, state and municipal levels.

If this public policy model remains unchanged, the observed spatially-differentiated impacts will add to the reproduction of poverty, as a consequence of the policy itself.

Local Governments' Management Capacity

The central government is a key stakeholder to achieve equitable development because its public policy decisions directly impact the living conditions of the population that inhabits different parts of the territory. However, there is no doubt that part of the explanation for the gaps in socio-economic results detected in the first part of this report, lies in the territories themselves.

Latin American governments have made significant efforts to expand decentralization processes and have transferred authority and responsibilities to intermediate and local governments to manage development processes. However, the resources and capacities of sub-national governments to undertake this task, are unequally distributed.

The real opportunities available to local governments to exercise their powers vary greatly among the municipalities within a single country. While some have enough financial resources, infrastructure and technical capacities to carry out their mission and even introduce innovative approaches to the provision of complementary goods and services, others are in precarious conditions and in some cases fail to even meet their minimum obligations. These differences have a direct impact on the quality of life of those who inhabit one territory or another.

Unequal management capacities among local governments are attributed partially to the leadership, will and capacity for political action of leadership teams, but mainly to the incomplete implementation of decentralization processes and to the differentiated human and institutional capacities. It would seem that there has been a failure to introduce compensation mechanisms among territories, which has impacted the level of human and material resources available to the municipalities. This condition is linked to the existence of structural differences between areas with adequate assets, qualified human



capital and economic dynamism and socially, institutionally and economically lagging areas. The gaps tend to be reproduced indefinitely, as the local governments of areas with fewer resources tend to have a poorer performance than those responsible for managing more dynamic territories. There tends to be less capacity precisely there where there is more work to do. .

The analysis of the gaps in municipal management capacity indicators revealed the following trends:

- Most of the people of the Latin American countries covered in the Report, live in areas in which the local government has a management capacity that falls somewhere around the national average. However, in many cases, such management capacity falls short.
- The indicators show that the capacities of local governments to generate income and to make investments, present the greatest gaps.

In order to examine whether the unequal management capacity of local governments is linked to specific characteristics of the territories, we reviewed their performance in relation to a set of demographic indicators. This analysis indicates that:

- Sub-national territories that present lags in the management capacity of the local government have larger indigenous or Afro-

descendent populations than advantaged territories.

- Neither the size of the central town (by population) nor its level of urbanization or population density, seems to be determinant factors of the management capacity of local governments.

In addition, it was verified that local governments in different types of territories face different constraints and difficulties. Those in rural areas face isolation, long distances, small populations and the resulting higher costs of providing basic services in a context of lack of resources. Those in urban areas tend to face demands that cannot be attended due to lack of human or material resources; governments responsible for larger cities and metropolitan areas tend to have more resources but more complex issues in regard to transportation, lack of housing and security, and other problems characteristic of large urban agglomerations. In many cases, these governments do not have the authority to provide satisfactory responses.

Local Capacities for Overcoming Poverty: When Territorial Stakeholders Get Involved in Managing Development

There is no doubt that governments are key stakeholders in equitable territorial development. However, territorial agents also can play a key role in this process. We believe there is a need to have stakeholders who are capable of establishing links in a proactive way. These agents must be capable of changing their relationships with external parties in order to impact the direction of development with strengthened regional stakeholders who have an identity, autonomy and sufficient capacities to develop shared projects and visions. We are concerned about the capacity for collaboration of stakeholders in territories, the way in which members of local society build consensus, and how they reach common positions, identify conflicts, resources and needs, and balance their own interests with those of the collective.

The report describes two different cases in which this process has reversed unequal local development trends. The first was a public program funded by IFAD and implemented by Peru's Ministry of Agriculture, called Proyecto Sierra Sur. The second was an experience called the Land of Solidarity in Colombia. Both are the result of successful local management that involves various actors, contributing a strong citizen and democratic component, increasing local management capacities, and introducing innovative tools for development and overcoming poverty.

The discussion of Proyecto Sierra Sur focuses on the mechanism of a competition for funding that is used to select projects and allocate resources to community organizations. The most innovative component of the project could well be its ability to build citizenship through tools that promote transparency and empowerment, thus contributing to overcoming poverty in a particular poor section of Peru's southern Andean region. For its part, the Land of

Solidarity can be understood as a specific development model. It was initially designed to achieve productive transformation through an economy based on solidarity, but over time it has generated notable institutional changes that seem more or less irreversible and give southern Santander a unique specificity in Colombia's territorial map.

Sierra Sur Project, Peru, Breaking the Trend of Poverty and Inequality

The Market Strengthening, Income Diversification and Improvement of Life Conditions Project in Sierra Sur, known as Proyecto Sierra Sur, is based on the transfer of public resources to poor communities. Its purpose is to facilitate processes and initiatives that improve human, natural, physical, financial and social assets within the rural population of the territory of Sierra Sur in Peru. In doing so, it contributes to efforts to increase income generation and improve the living conditions of citizens as the key players of their own development.

The project co-funds rural families' efforts to improve the productive quality of their natural resources, as well as rural business initiatives. The goal is to provide support to 15,000 rural families. Sierra Sur is noteworthy because of its associative nature. It seeks to promote the population's abilities, serve as a catalyst for local aspirations, and, in doing so, contribute to building citizenship in the rural world.

One of the main management agencies of the project is the Local Resource Allocation Committee (Comité de Asignación Local de Recursos, CLAR), in which families compete for co-funding. CLAR looks to ensure efficient and transparent resource allocation, guaranteeing that everyone competes under equal conditions. Each CLAR is composed of members who represent civil society and the Peruvian government.

Sierra Sur situates us in the context of a development project with international funding (IFAD) and sectoral management

(AGRO-RURAL-Ministry of Agriculture), which has managed to position itself in the territory in order to contribute to the generation of changes in the life conditions of the beneficiaries. Even more importantly, it strengthens links between the government and civil society for the implementation of appropriate policies that are valued by the community. The main achievements and results include:

- The relationship with the community is the most innovative component of the experience. Its main focus is to achieve balanced development through the inclusion of communities and frame it within a policy of rural improvement promoted by the central government, with districts and departments as first-order allies. The involvement of the public has allowed for social oversight, self-monitoring and the evaluation of the allocation of public funds thanks to the use of co-financing as an instrument for funding the projects.
- Sierra Sur has developed different capacities of the people, such as their cultural identity, which allows them to add value to local goods and services, as well as to increase the number and diversify their clients.
- In short, those who participate in the CLAR have access to an active space for dialogue, discussion and exchange of alternative projects, in which everyone presents their points of view and provides evidence in favor of their initiative. Members also hold municipalities and project managers accountable for the use of public resources, increasing their knowledge of and links to decision-making processes on matters that are important to them.

The Provinces of Southern Santander, Colombia: Land of Solidarity

Southern Santander is called the “Land of Solidarity” because of its cooperative movement, which has become an important strategy for the development of rural local communities in northeastern Colombia. The

“We create our own concept of territorial development. It is a model of popular identification... we do not have a legal existence, only a cultural one” (Cooperativist, San Gil).

area is home to a network of work, housing, production, savings and credit cooperatives that have thousands of members. It has fostered socio-community development that has generated numerous social organizations, new institutions, improved living conditions, and new social relationships.

The area’s first cooperative dates back to 1964. Southern Santander currently has a significant cooperativist movement that sets it apart from the rest of the country and makes it an endogenous development experience that serves as a reference in Latin America. Today there are over 400 social economy enterprises in the area. This set of entities forms part of a growing social network that presents both strengths and weaknesses. This movement is seen by some as an emerging model for rural territorial development.

There seem to be two central elements that explain the consolidation of the solidarity model in the provinces in southern Santander: the organization and coordination of the experience, and the sustainability of the project that supported the origin and actions of the cooperativist movement.

Factors for social organization and coordination:

- Stakeholders’ ability to recognize each other as diverse and equal at the same time.
- The use of local potential and resources to develop socio-productive activities.
- The promotion of citizen participation as the “core cross-cutting idea” for the development of the region and a fundamental element for the construction of a culture of solidarity.

Factors for the sustainability of the process:

- The ability to incorporate innovations and technologies into the cooperatives' social and economic services.
- The development of a local, community-based and not-for-profit communications strategy.
- A vision of education as a transformative instrument.

In summary, the experience of Santander shows how stakeholders can substantially change the course of events in favor of their community when they organize and are empowered. The cooperative movement is more than a source of subsistence and a way out of poverty. It is a real alternative for income generation and the socio-economic development of the territory in which the results of growth are distributed more equitably.



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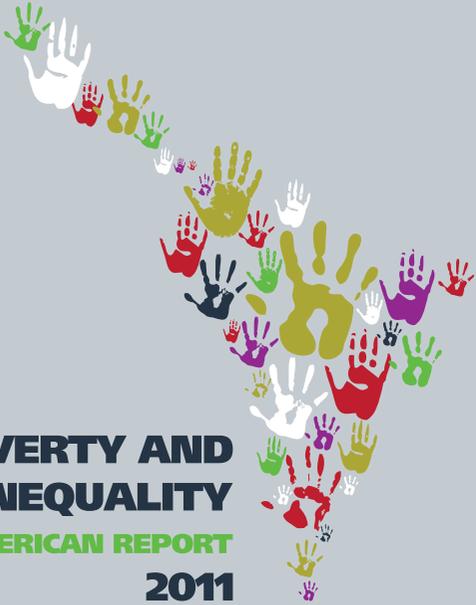
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