

# **Bi-Regional Conference on Social Protection and Poverty Reduction**

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# MDG-Based National Development Strategies

- **Adopting the MDG Framework has motivated longer-term and more ambitious national development strategies**
  - **Instead of short-term (3-year) programmes of poverty alleviation**
- **What are the implications for national policymaking?**
  - **Especially Economic Policies for Growth, Employment and Poverty Reduction**

# MDG-Based National Development Strategies

- **What is the role of Social Protection in MDG-Based National Development Strategies?**
- **It should be integrated with growth-promoting and employment-generating policies**
- **The components of social protection should be integrated with one another (not working at cross purposes)**

# MDG-Based National Development Strategies

■ **The Applied Research of the International Poverty Centre focuses on Three Policy Areas:**

**A. Pro-Poor Growth**

**B. Employment Generation**

**C. Social Protection (cash transfers)**

■ **Policy-oriented research should try to integrate all three complementary areas**

# **Some Notes on the Latin American Experience**

- **Inequality remains high, although it has begun to decline in some countries (Brazil; Mexico)**
- **Economic Growth remains moderate**
- **Employment Generation has been sluggish**
- **Educational outcomes have improved, helping to reduce wage inequality in some countries**
- **Social Protection exhibits divergent trends:**
  - **Most of the pension system is dis-equalizing**
  - **Social assistance (cash transfers) can be strongly equalizing**

# The Latin American Experience

- 1. What is the basis for accelerating economic growth in Latin America?**
  - Boosting public and private investment
- 2. How to increase the employment intensity of accelerated growth?**
  - What are the macroeconomic and sectoral tools?
- 3. How to ensure that poor workers participate in employment generation?**

# The Latin American Experience

- **What is the relationship between employment generation and social protection?**
  - **How sustainable are systems of social protection?**
  - **Are social security and social assistance compensating for the lack of employment? Can they effectively do so?**
  - **How effective has social protection been in reducing poverty and inequality?**



# Cash Transfer Programmes

## The examples of Brazil and Mexico

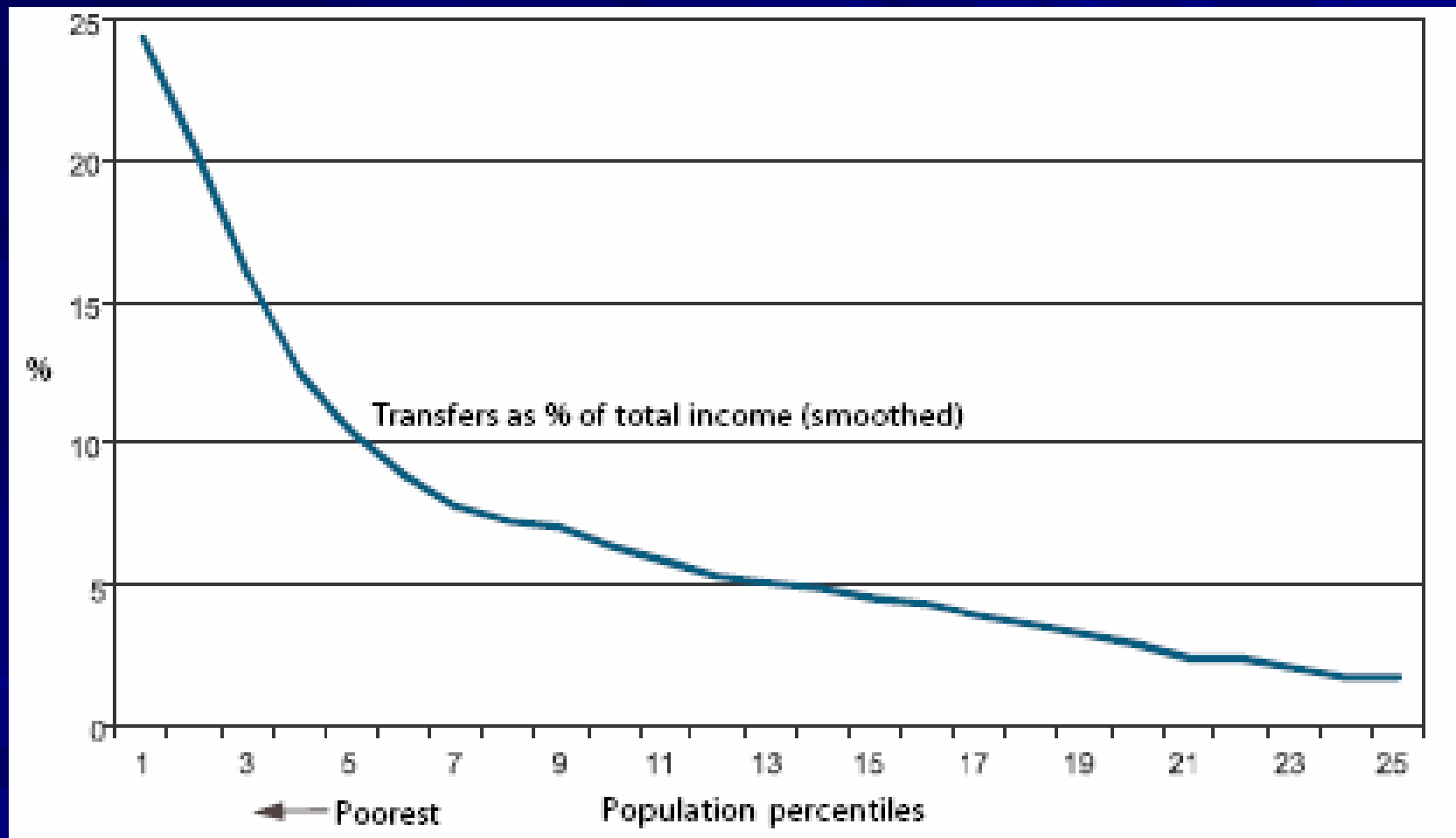
- Programmes cover 11 million households in Brazil and 5 million in Mexico
- Though large, they account for only 0.5-1.0% of national household income
- The size of transfers remains small (maximum of about US\$ 50 per month)
- But they tend to be well focused on lower-income households



# Cash Transfer Programmes

- Programmes have modestly reduced income poverty
  - *Bolsa Familia* responsible for reducing proportion of the poor by two percentage points
  - 80% of Brazil's *Bolsa Familia* transfer income goes to poor households (the bottom 32%)
  - 48% of *BF*'s transfer income goes to the extremely poor (the bottom 14%)
  - Important Point: Transfer income can be a significant share of the total income of the extremely poor: 10-25% for the bottom 5%, Mexico

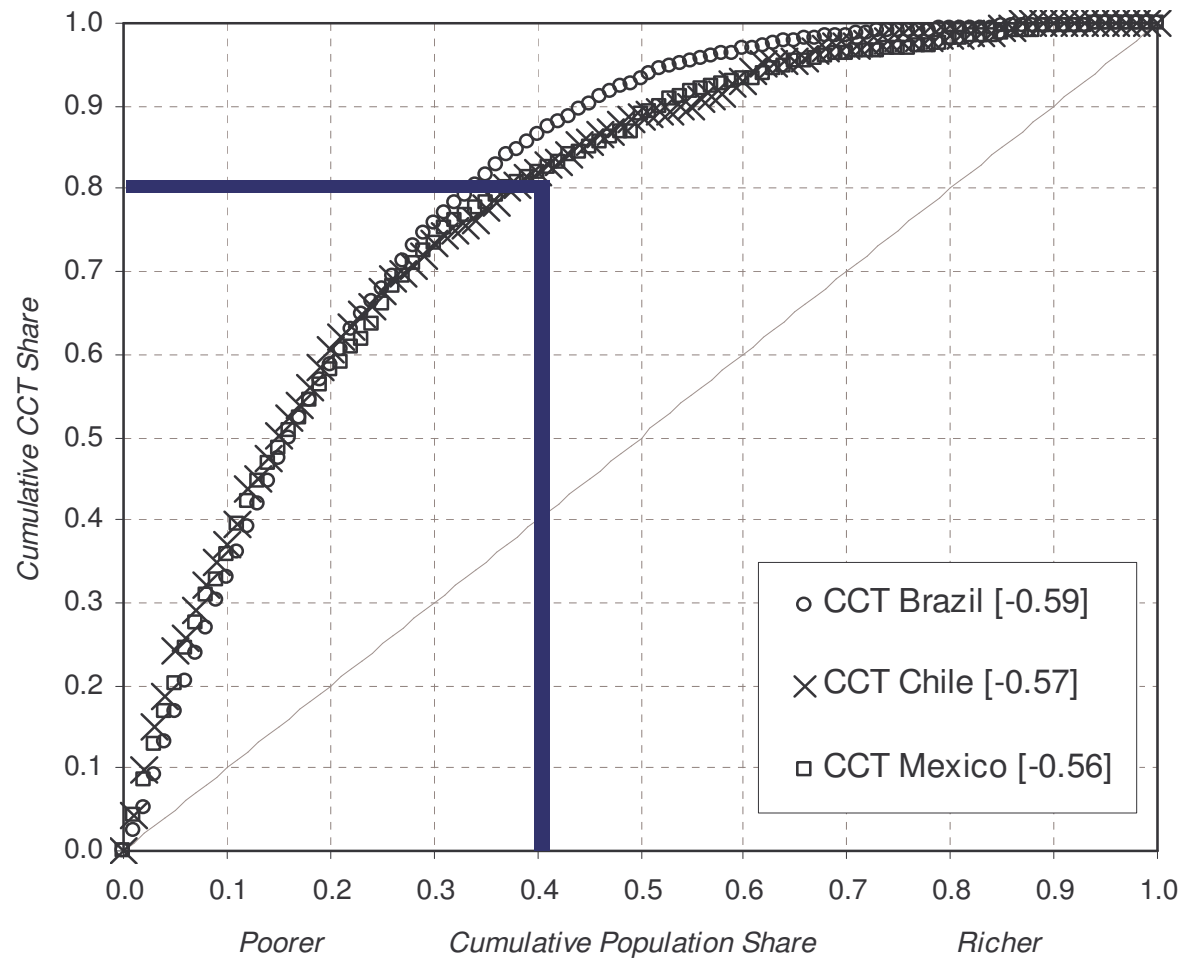
# The Effect on Extreme Poverty, Mexico



# Cash Transfer Programmes

- **Programmes have contributed to the reduction of inequality in Brazil and Mexico**
  - Gini coefficients dropped by 2.7 percentage points (5%) after the spread of such programmes (1995/6 – 2003/4)
  - Brazil cash transfers (BF) accounted for 0.57 percentage points (about one fifth) of the drop
  - Transfers to elderly/disabled (providing one minimum wage) accounted for another 0.18 percentage points
  - Note: Minimum-wage based pensions (e.g., rural pensions) accounted for another 0.88 percentage points (32%)

# Concentration Curve of Cash Transfers



# The Contribution of Cash Transfers to Inequality Reduction

- 80% of transfer income goes to the poorest 40% of the population (Brazil, Mexico, Chile)
- The Gini coefficients (concentration curves) are negative: -0.56, -0.57; -0.59
- This is why, though small, cash transfers clearly contribute to reducing inequality
- But labour income accounts for most of the drop in inequality (85% to 110%)
  - Due to its more equalizing distribution
- Social security, as a whole, contributes, in fact, to greater inequality (-15.5% to -22%)

# The Percentage Contribution of Cash Transfers to Inequality Reduction

<b>Income Source</b>	<b>Brazil</b>	<b>Mexico</b>
<b>Labour</b>	<b>85</b>	<b>110</b>
<b>Social Security</b>	<b>-22</b>	<b>-15.5</b>
<b>Cash Transfers*</b>	<b>21</b>	<b>20.5</b>
<b>Other Income</b>	<b>16</b>	<b>-15</b>

# Some Concluding Remarks

- **There is no substitute for creating more productive employment and broadening its coverage**
  - Especially for sustaining social protection
- **Employment depends on both the pace and pattern of growth, i.e., both faster and more equitable**
  - Focus on investment and its distributional impact: social & economic infrastructure
  - Influence the provision of commercial credit for private investment
- **Though equalizing, cash transfers' impact can be nullified by other components of social security (e.g., pensions)**



# Some Concluding Remarks

- Some pension components are equalizing:
  - Poverty-focused pensions (e.g., rural pensions) have reduced inequality in Brazil—accounting for 32% of its reduction even though they are only about 5% of total income
- Most of the pension system is dis-equalizing:
  - It has increased inequality by 56% while it has increased its share of total income from 11% to 16.5%
- Integrated pension reform is necessary for more substantial decreases in inequality