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productive
inclusion and
extreme poverty
eradication in Brazil

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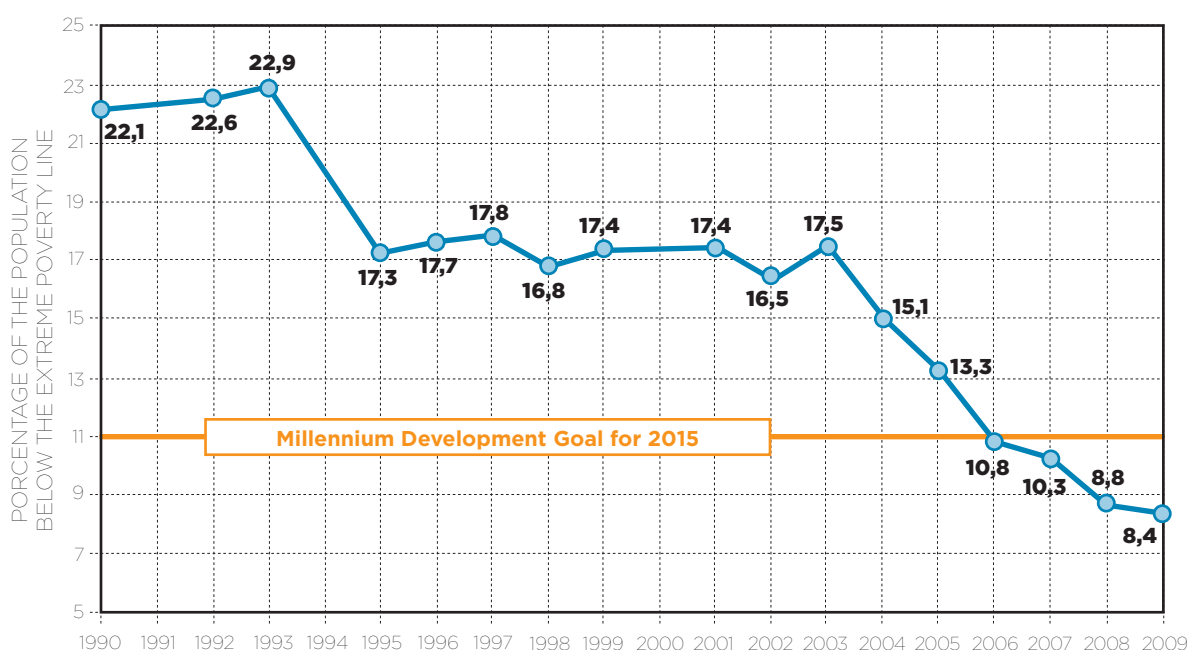
Exit doors, productive inclusion and extreme poverty eradication in Brazil

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Brazil, a wealthy country in promoting the productive inclusion of the poorest

The 1st target of the Millennium Development Goals is to reduce extreme poverty¹ to half its value in 1990 by 2015. In Brazil, this goal was reached in 2006, almost a decade in advance (Graph 1).

Graph 1: Evolution of extreme poverty rate in Brazil: 1990 - 2009



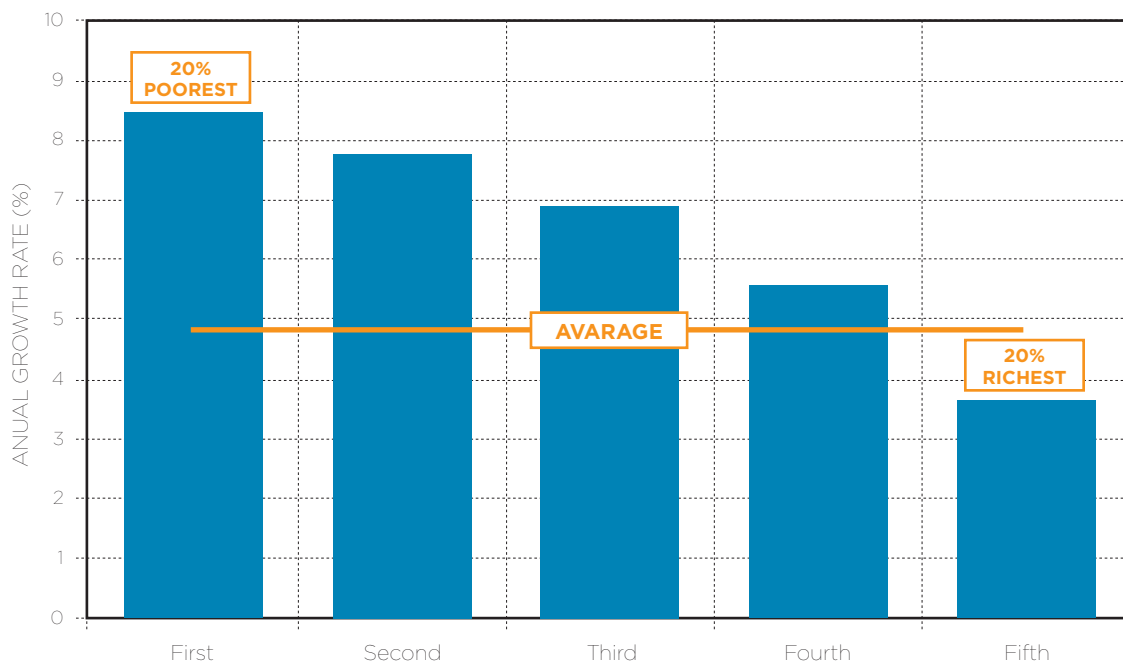
Source: Estimates based on Pesquisa Nacional por amostra de Domicílios (Pnad) of 1990 and 2009.

A point that deserves even greater highlight is the increased speed in which extreme poverty is being reduced since 2003². With the per capita income of the poorest 20% of the population rising at rates higher than 8% per year (Graph 2), the country has been able to reduce extreme poverty in half every five years. The goal to which Brazil had committed to (the first Millennium Development Goal) was to reach this same objective in a period of 25 years (1990-2015).

¹ Scarce income is certainly one of the multiple dimensions of poverty. This paper will cover only that dimension, as does the 1st Millennium Development target.

² We adopted the regionalized extreme poverty line calculated by IPEA (IPEADData).

Graph 2: Annual growth rate in *per capita* income by fiths of the distribution: Brazil, 2003 to 2009



Source: Estimates based on Pesquisa Nacional por amostra de Domicílios (Pnad) of 1990 and 2009.

Clearly, a significant part of this accentuated income growth among the poorest segments of the population is due to a more generous and better targeted approach in the implementation of public transfers, especially the *Bolsa Família* cash transfer program, as well as the demographic transformations (decline in the fertility rates) that reduced the size of the poorest families. Most fail to acknowledge, however, that the productive insertion of the low-income population contributed to the growth in their *per capita* income as much as the two other factors combined (cash transfers and lower fertility rates).

In fact, Table 1 reveals that between 2003 and 2009 the *per capita* income of the poorest 20% of the population rose in R\$ 39, and that the growth in work-related income alone accounted for R\$ 19 (49%) of that value. The work-related income of the poorest 20% of the population grew 6% *per year* during this same period of time. Given that more than 70% of these families' income is work-related, even if the government cash transfer programs hadn't been more generous and the fertility rates among the poor families hadn't declined, their *per capita* income would still have grown 5% *per year* due to the increase in work-related income alone.

Table 1: Characteristics of the income growth of the 20% poorest: Brazil, 2003-2009

| Indicator | 2003 | 2009 | Variation | | |
|--|------|------|-------------------|--------------|------------------------|
| | | | Absolut (R\$/mês) | Relative (%) | Annual growth rate (%) |
| Income <i>per capita</i> (R\$/month) | 62 | 100 | 39 | 63 | 8,4 |
| Percentage of adults (%) | 55,0 | 58,0 | 3,0 | 5,5 | 0,9 |
| Non work-related income <i>per adult</i> (R\$/mês) | 25 | 49 | 25 | 100 | 12,3 |
| Work-related income <i>per adult</i> (R\$/mês) | 87 | 123 | 35 | 40 | 5,8 |
| Percentage of the family income originated from work (%) | 78,0 | 71,0 | -7,0 | -9,0 | |
| Income <i>per capita</i> if only work-related income had grown (R\$/mês) | | 81* | 19 | 31 | 4,7 |

Source: Estimates based on Pesquisa Nacional por amostra de Domicílios (Pnad) of 2003 and 2009.

Note: * Income *per capita* cif work-related were as 2009, all else constant, in 2003 values.

A country in which the income of poor-family workers has been undergoing such deep transformations could not, by any means, be classified as a country that has no exit strategies for extreme poverty or where the productive inclusion of the poor is limited. Quite the opposite, it is undeniable that, at least since 2003, Brazil has demonstrated a significant capacity of promoting the productive inclusion of its most vulnerable segments.

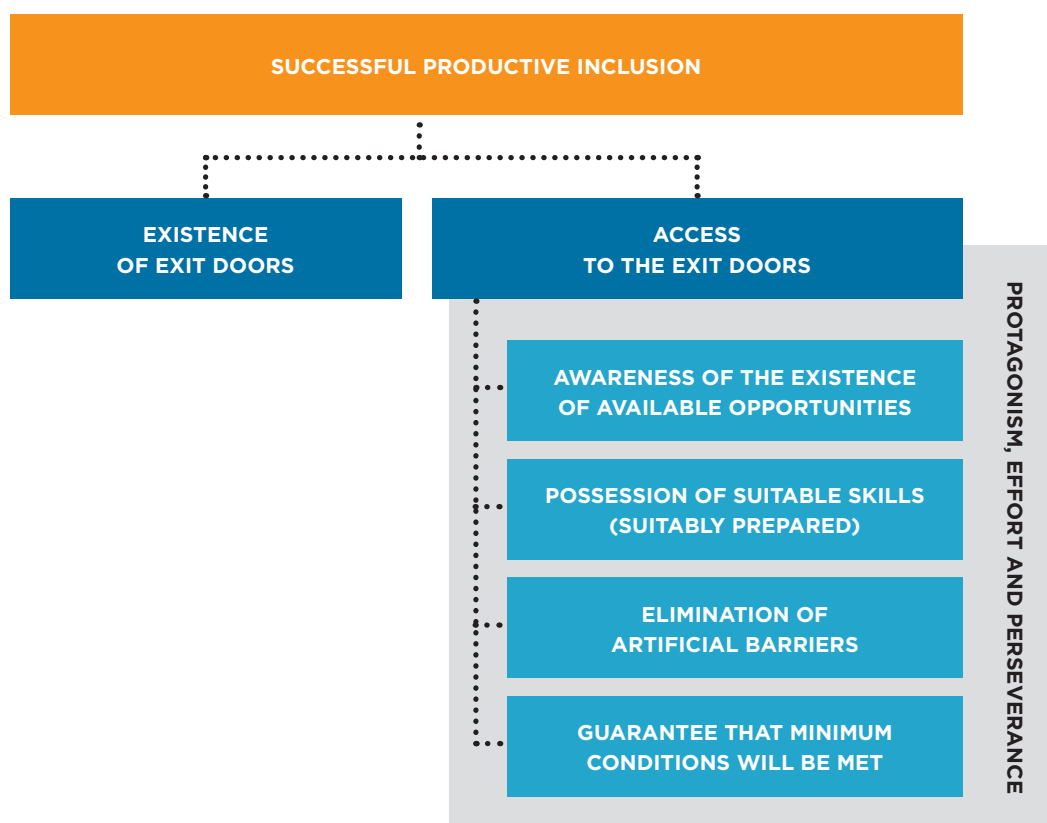
Conditions for a successful productive inclusion: availability of good opportunities, guarantees for effective access, and protagonism

For a productive inclusion to take place successfully it is necessary that high quality productive opportunities exist and that they are available (existing exit doors). These opportunities don't necessarily have to be new. A successful productive inclusion is not exclusively determined by the creation of new opportunities. Success resides in the quality of the available opportunities, regardless of being new or pre-existing.

Nevertheless, the abundant availability of high quality opportunities is not enough. A successful productive inclusion also depends on making sure the poorest segments

of the population actually have access to them. There are four underlying conditions to guarantee this (Diagram 1). First, workers must be aware of the available opportunities (they must know where the exit doors are). New job openings only reduce unemployment levels when workers actually know where to find them. Second, these workers must be suitably prepared (have the necessary skills) to effectively take advantage of the available opportunities. In several cases, the mismatch between workers' competences and skills and the available job requirements may be the main reason behind the high unemployment rates. Third, effective access relies on the absence of artificial barriers (usually related to discrimination and other types of social exclusion) that may prevent workers from taking advantage of the available opportunities (free access to the exits). Lastly, some minimum conditions must be guaranteed to these workers in order to enable them to fully benefit from the available opportunities, such as the right to minimum income and to food and transportation subsidies.

Diagram 1: Conditions for a successful productive inclusion



The existence of high quality opportunities that are actually accessible to the poor is not enough to guarantee a successful productive inclusion. Low-income families must be diligent and relentless in order to fully take advantage of these opportunities (effective use of the exit doors). In fact, opportunities are not merely services that we can passively benefit from. Quite the opposite, truly effective opportunities require protagonism, effort and perseverance, which are underlying qualities to achieve a successful productive inclusion.

An effective country on the eradication of extreme poverty is that in which both private and public sectors contribute as much as possible to the productive inclusion of the low-income population

A country is said to be wealthy in terms of productive inclusion when its poorest segments have effective access to high quality opportunities (exit doors). Nevertheless, productive inclusion is not, and can never be, exclusively promoted by the public sector. Ideally, both the public and private sectors must contribute as much as possible.

That doesn't mean, however, that the public and private sectors must provide support in exactly the same way. In fact, the opposite is true. Ideally, there should be considerable specialization in the intervention of each of these sectors.

Typically, the private sector supports the creation of new productive opportunities and helps to improve the quality of the pre-existing ones. The faster the pace of economic growth and the more inclusive it is, the greater will be the improvement in quality and the expansion of the opportunities granted to the poor. It is important to stress that, in a globalized world, the domestic demand does not matter that much, because new local productive opportunities are constantly created as a result of the national, or even international, demand expansion, which directly or indirectly requires a larger local production.

Although the public sector can also contribute to the creation and improvement in the quality of the productive opportunities granted to the low-income workers, its fundamental role is to allow them to fully take advantage of the available opportunities. Therefore, the public policies must make workers aware of the available opportunities, offer them the possibility of acquiring the necessary skills (professional training programs), remove any barriers that may prevent them from benefiting from these opportunities (anti-discrimination policies), and provide minimum conditions (cash transfer programs, food and transportation subsidies) to enable them to productively learn and use these new skills.

Ultimately, it doesn't matter for a poor worker whether his productive inclusion was facilitated by the public or the private sector. What matters to this person is that a sufficient amount of high quality productive opportunities exist (there are exit doors) and that he or she has had full access to them.

Any assistance is important to help build a country without extreme poverty. The larger the contributions coming from the public and private sectors and the world economy are, the better. The most important aspect is to obtain support from all sectors and, as a result, achieve the highest reduction in poverty. Little does it matter which sector contributed the most.

The public sector must complement the initiatives implemented by the private sector to generate productive opportunities in communities with less-dynamic economies

The creation of new or the improvement of existing productive opportunities should not be perceived as an exclusive role of the private sector. Public policies should also contribute to this end. Although this contribution may benefit every community, it should be mainly focused on communities where high quality productive opportunities are scarce. In such locations, the public sector should boost the local economy, working closely with the private sector whenever possible.

There are three complementary ways in which the public sector can contribute to generate new high quality opportunities and to improve the existing ones: *i*) direct use of public expenditures to create local job positions (for example, engaging poor local workers in the construction works of the Program to Accelerate Growth - PAC, or redefining procurement methods in public and philanthropic institutions (schools, hospitals etc.) to purchase the local production, such as in the Food Purchase Program - PAA), *ii*) public supervision and promotion of agreements among entrepreneurs and workers that may result in improvements in the quality of the available job positions (some successful examples of this strategy are the enhancement of labor conditions in the sugar cane production sector and the fight against child and slave labor), and *iii*) subsidized supply of productive services in order to increase the value of production and boost the local economy (support to local productive arrangements, solidarity economy etc.).

Direct creation of productive opportunities: the direct use of public expenditures to create local opportunities may be implemented in three different ways, which differ in terms of their direct influence in generating job openings for the poorest families. The first option, which has more direct and immediate impacts, involves the public creation of job positions. This can be done via employment campaigns (temporary public jobs) or the public selection of poor family workers for permanent public job positions (i.e. the proposal of *Brasil sem Miséria* Program to absorb workers in activities such as community kitchens, popular restaurants and other food security strategies).

A second alternative, which has more indirect impacts, is the direct purchase of local products by public and philanthropic institutions (schools, hospitals, prisons etc.). The Food Purchase Program (*Programa de Aquisição de Alimentos da Agricultura Familiar* - PAA) is the most noteworthy example. Through this initiative, school meals are purchased from local family farmers. In this case the impact is indirect, once the public expenditure focuses on the production level, not on the direct employment of workers as in the first option above.

A third possibility of generating new jobs would be to link public investments in infrastructure to the employment of poor family workers in the communities in which these investments are made. This strategy has been frequently used in the Program to Accelerate Growth and in the *Minha Casa Minha Vida* Housing Program.

In all those strategies, the increase in job opportunities is tightly connected to the rise in public expenditures in the community. Nonetheless, there are large limitations to this model's sustainability, given that in all those cases the opportunities heavily rely on the continuity of the public expenditure. There is no intrinsic expansion of the local economy in any of those cases. The above-mentioned interventions don't significantly contribute to make the local economy more diversified, productive, competitive and connected to the regional, domestic and international markets.

Legislation, supervision and tripartite agreements: in several cases, a significant increase in the supply of high quality productive opportunities can only be obtained by improving the quality of the existing opportunities. That being the case, it is fundamental for the public sector to act as a legislator, supervisor and dialog promoter. Informal job positions are usually of inferior quality and are a result of an inflexible legislative framework, which prevents them from adapting to specific situations. Therefore, a more flexible legislation may lead to an increase in the level of formal employment and, consequently, to an improvement in the quality of the work opportunities. This has been the goal behind the simplified tax collection system, called *SIMPLES*. It can also come to be the result of the current efforts to make the legislation more flexible in order to bring individual entrepreneurs into the formal market. In other cases, the path to fight informal employment and unsuitable work conditions is supervision and compliance to the existing legislation. In this area, important progress has been made in the fight against slave labor, child labor and the sexual exploitation of adolescents. However, among all the alternatives meant to improve the quality of the available job openings, perhaps the most effective and less costly one is the creation of tripartite agreements. This approach has been successfully used to improve the quality of employment conditions for workers in the agriculture sector and may continue to be an important channel to enhance the quality of productive opportunities in the rural areas.

Expansion of the local economy: public policies can also be used to promote a sustainable development of the local economy. There are three complementary strategies that should be used in this case. The first aims to boost local production via productivity increases that may be obtained through: *i*) access to and introduction of new technologies, which require customized technical support as well as subsidies to purchase upgraded equipment, *ii*) better access to and intensified use of strategic inputs (water, land, seeds, high productivity seedlings and equipment), which, in turn, require easier access to microcredit and subsidies to purchase these key inputs, and *iii*) improvement in the forms of organizing production, especially through the creation of cooperatives and other types of solidarity economy models, as well as the development of productive chains and local productive arrangements.

The second strategy aims to enhance the quality of the existing locally produced goods and to diversify the local production. Regarding quality improvement, the main goal is to certify local products and, consequently, increase their value. These programs are usually focused on improving the sanitary conditions of the production process, as well as the final product presentation (including packaging). Additionally, it is necessary to diversify the local production (introduce new products). The integration of productive processes through the creation of productive chains and local productive arrangements may contribute both to diversify the local production and to improve the production quality and certification.

Finally, a third strategy that may also be used to boost local economy is to promote market expansion for the local products via different trade-incentive measures, such as direct sale of local farm products to supermarkets and restaurants, both locally and in large regional urban centers. In this case, it is very important to create cooperatives and other solidarity economy models to store and trade the local production.

Regarding the vital role of public policies: it is important to guarantee that the poorest workers will have effective access to the available productive opportunities

It is undeniable that the fundamental contribution of public policies to the productive inclusion must be to guarantee that low-income workers will have full access to the locally available productive opportunities. Although public policies may also be effective in creating new high quality opportunities (creation of exit doors), their fundamental purpose is to ensure full access to these opportunities (effective access to exit doors). Therefore, there is great complementarity between the role played by the public and the private sectors. When the economy and the markets show a great capacity of generating good productive opportunities focused on the poorest segments of the population, then public policies can focus on: *i*) providing information about locally available opportunities; *ii*) preparing, training, providing instruments and lifting existing barriers (discrimination), and *iii*) providing minimum conditions for low income workers to fully take advantage of the available opportunities. There is no single instrument, however, that must be used for each specific case. Public policies use a variety of different interventions in order to guarantee these conditions.

Providing information about locally available opportunities: good quality job intermediation services must exist for workers to be well informed about the availability of local productive opportunities (they must know where the exit doors are). This type of service is usually provided by the National Employment System (*Sistema Nacional de Emprego - SINE*). The team of social assistants working at the Family Protection Service (*Serviço de Proteção e Atendimento Integral à Família - PAIF*) may also perform this job intermediation, disseminating information about available opportu-

nities to the poorest families, either during house visits or when talking to individuals who seek guidance in the Social Assistance Reference Centers (*Centros de Referência da Assistência Social* - CRAS).

Training and overcoming discrimination: there are several productive services focused on training and preparing workers to fully take advantage of the available opportunities, such as professional training courses, programs to facilitate access to credit and subsidized technical and accounting support. However, efforts to make low-income workers aware of the available opportunities and to prepare them to take advantage of them will be useless if they are stifled by the existence of artificial barriers (discrimination factors). Therefore, the elimination of such barriers is just as important as preparing low-income workers to fully take advantage of the available opportunities. The enforcement of anti-discrimination legislation and the creation of affirmative actions and other mechanisms to promote equal opportunities contribute to reduce these barriers.

Guaranteeing minimum conditions: minimum conditions in order to allow people to benefit from opportunities are guaranteed mainly via cash transfers, but also through food security programs, transportation subsidies and other measures. Some may argue that more generous cash transfers may discourage the poorest from actively pursuing new productive opportunities. However, evidence shows that the opposite is true. Employment rates among the poorest population have increased in the last five years, while, parallel to this, public cash transfers have become more generous. Perhaps, if public cash transfers hadn't been more generous, several of the opportunities that were presented to the poorest population and that produced a 6% growth *per* year in their work-related income would not have been absorbed due to the lack of minimum conditions. One may not forget that taking advantage of an opportunity (as anyone who has ever opened a business or started a new job well knows) requires a lot of effort, perseverance and ability of dealing with uncertain events. Therefore, any kind of support that can be given to the poorest through more generous and stable cash transfers will facilitate and promote their productive inclusion, rather than discourage them from pursuing that goal.

Towards the end of extreme poverty

Between 2003 and 2009, the work-related income of the poorest 20% of the population rose 40% in the country (Table 1). This and other statistics reveal that, since 2003, Brazil has been productively including important segments of its poorest population. It is true, however, that in spite of its intensity, this productive inclusion process has not yet been able to completely eradicate extreme poverty in the country. It is necessary, therefore, to give continuity to this process and intensify it as much as possible. Undoubtedly, this is one of the main objectives of the *Brasil Sem Miséria* (Brazil Without Misery) Plan.

In order to achieve these goals, *Brasil Sem Miséria* strives to create new opportunities, enhance the quality of the existing ones, eliminate barriers and improve the access and the conditions for the poorest segments of the population to fully take advantage of the available opportunities. The strategy consists in using all the channels outlined in this document to promote productive inclusion. In order to do that, *Brasil Sem Miséria* proposes to: *i)* strengthen all the mechanisms that had been successfully used in the past, *ii)* redesign the ones that proved to be ineffective, and *iii)* introduce new programs and innovative actions, especially in strategic areas such as professional training and customized technical support for family farmers.

Finally, it is important to highlight that *Brasil Sem Miséria* correctly perceives productive inclusion as a result of coordinated and complementary actions carried out by the public and the private sectors, where communities' different needs and potentials are recognized and taken into consideration through the provision of a wide range of regionally customized programs.