

Chapter I

Poverty

This chapter describes a number of aspects of poverty in Latin America in the 1990s. It looks at poverty trends, the asymmetrical effects of economic growth on poverty in boom and bust periods, the factors that had the most bearing on poverty, the vulnerability that poverty often entails and the particular features of rural poverty.

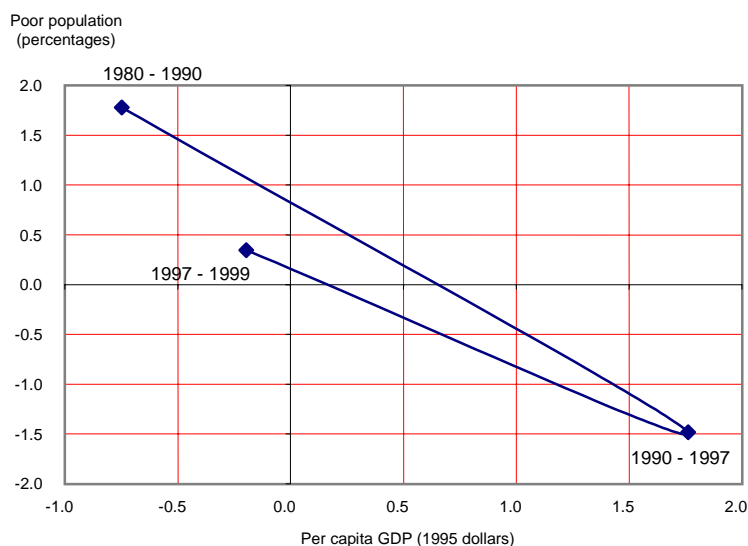
1. Magnitude and profile of poverty

(a) Poverty trends in the 1990s

The processes of economic recession, expansion and stagnation that the Latin American countries experienced in the 1980s and 1990s had a significant impact on the levels of poverty and indigence they recorded. Although, as the next section will show, economic performance is not the only factor that impinges on poverty and how it evolves, there is a clear link between general economic trends and the signs of this phenomenon.

Figure I.1 shows how poverty levels changed in the 1980s and 1990s, in keeping with variations in economic growth. In particular, in the 1990s the growth experienced between 1990 and 1997 and the corresponding reduction in poverty contrast with the biennium 1998-1999, when economic growth virtually stood still and poverty increased slightly.

Figure I.1
LATIN AMERICA: ANNUAL GROWTH RATES OF GROSS DOMESTIC PRODUCT (GDP)
AND OF THE POOR POPULATION, 1980-1999
(Percentages)



Source: ECLAC, on the basis of special tabulations of data from household surveys conducted in the respective countries.

The link between economic growth and changes in poverty percentages was patently asymmetrical from one decade to the next. In the 1980s per capita output declined by an annual average rate of just under 1%, while poverty moved upward. This increase in poverty was not completely offset in the 1990s, even though output expanded at close to 2%. In fact, the poor population represented 40.5% of the total in 1980, 48.3% in 1990 and 43.5% in 1997, then moved to 43.8% in 1999. Bearing in mind that per capita output at 1995 values dropped from US\$ 3,654 in 1980 to US\$ 3,342 in 1990, then rose to US\$ 3,807 in 1999, the ground lost in the 1980s was only partially made up in the 1990s (see figure I.1 and table I.1).

Despite the developments of the biennium 1998-1999, the balance of the 1990s overall was positive, since poverty declined in at least 11 countries, where the majority of the region's poor live (see table I.2). For further information see tables A.1 and A.2 in the statistical appendix.

Table I.1
LATIN AMERICA: POOR AND INDIGENT HOUSEHOLDS AND INDIVIDUALS, ^a 1980-1999
(Millions of households and individuals and percentages)

	Poor ^b						Indigent ^c					
	Total		Urban		Rural		Total		Urban		Rural	
	Millions	%	Millions	%	Millions	%	Millions	%	Millions	%	Millions	%
Households												
1980	24.2	34.7	11.8	25.3	12.4	53.9	10.4	15.0	4.1	8.8	6.3	27.5
1990	39.1	41.0	24.7	35.0	14.4	58.2	16.9	17.7	8.5	12.0	8.4	34.1
1994	38.5	37.5	25.0	31.8	13.5	56.1	16.4	15.9	8.3	10.5	8.1	33.5
1997	39.4	35.5	25.1	29.7	14.3	54.0	16.0	14.4	8.0	9.5	8.0	30.3
1999	41.3	35.3	27.1	29.8	14.2	54.3	16.3	13.9	8.3	9.1	8.0	30.7
Individuals												
1980	135.9	40.5	62.9	29.8	73.0	59.9	62.4	18.6	22.5	10.6	39.9	32.7
1990	200.2	48.3	121.7	41.4	78.5	65.4	93.4	22.5	45.0	15.3	48.4	40.4
1994	201.5	45.7	125.9	38.7	75.6	65.1	91.6	20.8	44.3	13.6	47.4	40.8
1997	203.8	43.5	125.7	36.5	78.2	63.0	88.8	19.0	42.2	12.3	46.6	37.6
1999	211.4	43.8	134.2	37.1	77.2	63.7	89.4	18.5	43.0	11.9	46.4	38.3

Source: ECLAC, on the basis of special tabulations of data from household surveys conducted in the respective countries.

^a Estimates corresponding to 19 countries of the region.

^b Households and population living in poverty. Includes indigent households (population).

^c Indigent households and population.

Brazil, Chile and Panama made considerable headway, with reductions of over 10 percentage points in poverty levels. Significantly, in the period 1991-2000, those countries' per capita GDP grew at average annual rates of 1.2%, 5% and 2.6%, respectively. Poverty also decreased in Costa Rica, Guatemala and Uruguay, by between 5 and 10 percentage points.

By contrast, in Venezuela the percentage of poor households increased from 22% in 1981 to 34% in 1990. Ecuador, Colombia and Paraguay also failed to make much progress in reducing poverty in the last decade.

Table I.2
LATIN AMERICA (18 COUNTRIES): POVERTY AND INDIGENCE INDICATORS,
1990-1999
(Percentages)

Country	Year	Households and population below the poverty line ^a		Households and population below the indigence line	
		Households	Population	Households	Population
Argentina ^b	1990	16.2	21.2	16.2	21.2
	1999	13.1	19.7	13.1	19.7
Bolivia ^c	1989	49.4	53.1	49.4	53.1
	1999	54.7	60.6	54.7	60.6
Brazil	1990	41.4	48.0	41.4	48.0
	1999	29.9	37.5	29.9	37.5
Chile	1990	33.3	38.6	33.3	38.6
	2000	16.6	20.6	16.6	20.6
Colombia	1991	50.5	56.1	50.5	56.1
	1999	48.7	54.9	48.7	54.9
Costa Rica	1990	23.7	26.2	23.7	26.2
	1999	18.2	20.3	18.2	20.3
Ecuador ^d	1990	55.8	62.1	55.8	62.1
	1999	58.0	63.6	58.0	63.6
El Salvador	1999	43.5	49.8	43.5	49.8
Guatemala	1989	63.0	69.1	63.0	69.1
	1998	53.5	60.5	53.5	60.5
Honduras	1990	75.2	80.5	75.2	80.5
	1999	74.3	79.7	74.3	79.7
Mexico	1989	39.0	47.8	39.0	47.8
	2000	33.3	41.1	33.3	41.1
Nicaragua	1993	68.1	73.6	68.1	73.6
	1998	65.1	69.9	65.1	69.9
Panama	1991	36.3	42.8	36.3	42.8
	1999	24.2	30.2	24.2	30.2
Paraguay	1990 ^e	36.8	42.2	36.8	42.2
	1999	51.7	60.6	51.7	60.6
Peru	1999	42.3	48.6	42.3	48.6
Dominican Republic	1998	25.7	30.2	25.7	30.2
Uruguay ^d	1990	11.8	17.8	11.8	17.8
	1999	5.6	9.4	5.6	9.4
Venezuela	1990	34.2	40.0	34.2	40.0
	1999	44.0	49.4	44.0	49.4
Latin America ^f	1990	41.0	48.3	41.0	48.3
	1999	35.3	43.8	35.3	43.8

Source: ECLAC, on the basis of special tabulations of data from household surveys conducted in the respective countries. For a definition of each indicator, see ECLAC, *Social panorama of Latin America, 2000-2001* (LC/G.2138-P), Santiago, Chile, October 2001. United Nations publication, Sales No. E.01.II.G.141, box I.1.

^a Includes households (individuals) living in indigence or extreme poverty.

^b Greater Buenos Aires.

^c Eight departmental capitals plus the city of El Alto.

^d Urban areas.

^e Asunción metropolitan area.

^f Estimates for 19 countries of the region.

(b) Spatial distribution of poverty

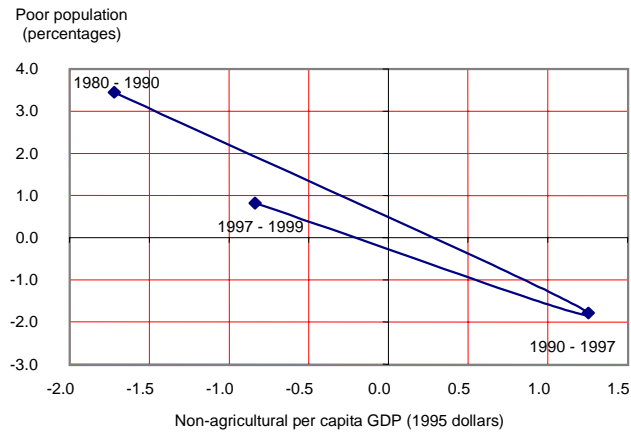
A major change has taken place in the spatial distribution of the population, with the result that poverty today is largely an urban phenomenon. Of the region's 211 million poor people in 1999, 134 million lived in urban areas and 77 million in rural areas. The incidence of poverty is much higher in rural areas than in cities, however (64% as against 37%). In addition, as shown in table I.2, poverty is more extreme in rural areas, since most of the rural poor are indigent (46 million), while the urban poor are mainly non-indigent (91 million).

Migration from the country to the city brought about an increase in the urban poor as a proportion of the region's total poor population. As a result of migration, the urban economy faced the challenge of absorbing a larger proportion of the working-age population and of meeting the increased demand for social services. Despite this, the urban economy proved able to absorb rural migrants into jobs that were of higher productivity than those in their places of origin.

Trends in urban poverty have followed trends in total poverty fairly closely. Figure I.2 shows that in the 1980s and 1990s urban poverty, like total poverty, evolved in consonance with the cycles of recession (1980-1989), expansion (1990-1997) and stagnation (1998-1999) described previously. Nevertheless, changes in urban poverty and non-agricultural output were sharper than changes in total poverty and total output. In fact, the coefficient of urban poverty increased by 10 points in the 1980s and dropped by 5 points in the 1990s (see table I.1), which indicates that economic growth affected urban poverty more asymmetrically than total poverty.

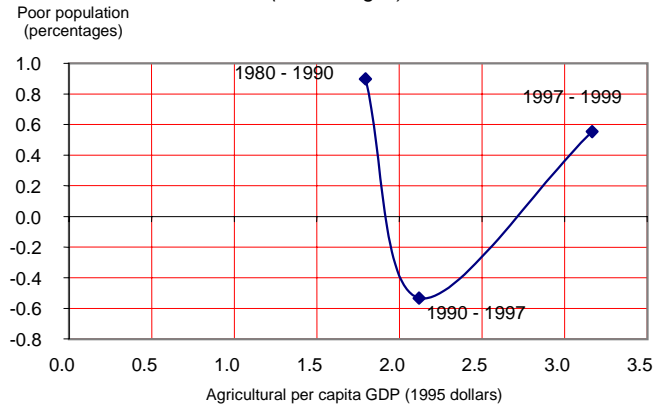
The situation in rural areas differed from the one in urban areas. Agricultural output did not follow the same cycle as total output. In fact, agricultural GDP grew in all three periods examined, expanding particularly vigorously in the biennium 1998-1999. In turn, rural poverty rates increased in the period 1980-1990, dropped in 1990-1997 and rose again in 1998-1999 (see figure I.3). This shows that rural poverty patterns were more closely linked to the growth of the economy at large than to variations in agricultural output. A subsequent section of this chapter will analyse in greater detail the particular features of rural poverty and the migration phenomenon, which has helped to accentuate the differences in productivity between different strata in the rural environment.

Figure I.2
 LATIN AMERICA: GROWTH RATE OF GDP AND OF THE POOR POPULATION,
 URBAN AREAS, 1980-1999
 (Percentages)



Source: ECLAC, on the basis of special tabulations of data from household surveys conducted in the respective countries.

Figure I.3
 LATIN AMERICA: GROWTH RATE OF GDP AND OF THE POOR POPULATION,
 RURAL AREAS, 1980-1999
 (Percentages)



Source: ECLAC, on the basis of special tabulations of data from household surveys conducted in the respective countries.

(c) The profile of poor households

Of the 211 million Latin Americans living in poverty in 1999, about 22 million lived in households whose per capita income was not less than 90% of the minimum monetary threshold needed to meet their basic needs. This means that close to 10% of the poor were relatively well placed to rise above the poverty line, since their current income was only just below the level needed to satisfy their minimum consumption needs. Presumably the better position of this subgroup with respect to the rest of the poor population gave them a greater capacity to respond to economic and social policies for poverty reduction. On the other hand, 45 million people were categorized as the non-poor population most at risk of becoming poor, since their income was not more than 25% above the poverty line income level. This population group is highly vulnerable to economic fluctuations, since the slightest negative impact on their income can lead to a significant decline in their living standards (see table I.3).

The vulnerability of poor households is exacerbated by certain features that go hand in hand with the phenomenon of poverty. These tend to occur in contexts of low income and offer a more complete picture of the living standards of the region's poor. An overcrowded dwelling, an unemployed head of household and a poor educational climate in the household are traits that entail a high probability of poverty.

In effect, about 77 million Latin Americans live in overcrowded dwellings (defined as three or more people to a room). Of the features selected for the analysis, this is the characteristic that most clearly differentiates the poor from the non-poor, insofar as overcrowding is a powerful indication that the individuals in question do not receive enough income to cover their basic needs. Of Latin America's poor, 29% live in overcrowded dwellings, while only 6% of the non-poor live in such conditions.

Another dwelling-related indicator that points to a shortage of resources, although it is less likely to indicate poverty, is the lack of access to drinking water, which affects 165 million people, of whom over 109 million are poor (66.7%). While problems of access to drinking water affect 52% of the poor population, they are not unique to this group, since 20% of the region's non-poor share this difficulty.

Table I.3
LATIN AMERICA: SELECTED FEATURES OF THE POVERTY PROFILE, 1999

Population in private households	Number of individuals (thousands)	Proportion of total population ^a (%)	Probability of ^b	
			Poverty	Indigence
Total	482 727	100.0	43.1	18.4
Urban	361 619	74.9	36.6	11.9
Rural	121 108	25.1	62.7	37.8
Poor	211 392	100.0	-	-
Urban	134 229	63.5	-	-
Rural	77 163	36.5	-	-
Indigent	89 368	100.0	-	-
Urban	43 033	48.2	-	-
Rural	46 334	51.8	-	-
With income of 0.9-1.0 poverty lines per capita	21 668	4.5	100.0	-
With income of 1.0-1.25 poverty lines per capita	44 897	9.3	-	-
With less than US\$ 1 per capita per day ^c	76 415	15.8	100.0	88.1
With less than US\$ 2 per capita per day ^c	175 189	36.3	95.1	50.0
In overcrowded households ^d	76 605	15.9	79.6	46.4
In households without access to drinking water ^e	164 506	34.1	66.7	34.9
In households with a high demographic dependency ratio ^f	68 381	14.2	68.1	41.2
In households with low employment density ^g	109 995	22.8	65.1	35.9
In households where the head of households is:				
Female	90 677	18.8	43.1	17.5
With a low level of education				
- Fewer than 3 years of schooling	130 465	27.0	63.3	31.8
- Fewer than 10 years of schooling	375 636	77.8	51.7	22.3
Unemployed	15 825	3.3	71.2	43.6
Employed in low-productivity sectors ^h	152 615	31.6	48.7	23.4
Employed in agriculture ⁱ	100 696	20.9	65.1	36.8
Employed in establishments of:				
- Up to 5 workers	37 879	7.8 (17.8)	39.0	12.2
- Between 6 and 10 workers	12 575	2.6 (5.9)	29.1	8.2
Employed without professional or technical skills	165 443	34.3 (86.4)	38.5	14.1
Children not attending school ^j	5 972	1.2 (7.9)	76.5	48.2
Children in households with poor educational climate ^k	83 661	17.3 (56.0)	74.0	39.2
Young people aged 15 to 19 who work	18 655	3.9 (36.6)	46.9	18.6
Young people aged 15 to 24 who neither study nor work	21 823	4.5 (23.2)	58.1	24.7

Source: ECLAC, on the basis of special tabulations of data from household surveys conducted in the respective countries.

^a Figures in brackets refer to the percentage of individuals with the attribute in question out of the total group (for example, children aged 6 to 12 who do not attend school as a proportion of all children in that age group).

^b Poor and indigent as percentages of all the individuals in each category.

^c Calculated on the basis of the current exchange rate in each country.

^d Households are considered overcrowded when they house three or more individuals per room (excluding kitchen and bathroom).

^e Households without piped drinking water inside the dwelling.

^f Households in which the proportion of individuals under the age of 15 and over the age of 64 to those between 15 and 64 is higher than 0.75.

^g Households in which the proportion of employed to total household members is less than 0.25.

^h Employers and wage earners in establishments of up to 5 individuals, domestic employees and own-account and unpaid family workers with no professional or technical skills.

ⁱ Includes those employed in agriculture, forestry, hunting and fishing.

^j Refers to children between the ages of 6 and 12.

^k Children under the age of 15 in households whose adult members (aged 25 and over) have an average of 0 to 5.99 years of schooling.

A number of demographic features also display a close correlation with poverty, especially since they are strongly linked to the capacity to generate income. One of these is a high rate of demographic dependency, since the lower the ratio of individuals of working age to the number of children and elderly people in the household, the harder it is for those individuals to obtain enough resources to sustain the whole household. Another relevant feature is low employment density, defined as the existence of not more than one employed person per four members of the household. This is also associated with an above-average probability of poverty. Although both factors are representative of poverty—with a probability of 68.1% and 65.1%, respectively—the second is more extensive in the region, as it affects one third of all poor people.

The likelihood of being poor also depends, among other factors, on the employment and educational status of the head of household, who is usually the main breadwinner. The unemployment of the head of household is therefore one of the most likely indicators of poverty (71%) for the members of the household in question. However, the proportion of poor people in this situation is very low (5.3%), which means that this feature is not particularly significant, quantitatively speaking, in the overall picture of poverty. It can therefore be inferred that job creation programmes, however well targeted at poor population groups, have only a limited capacity to significantly alter overall poverty figures. Instead, the objective of reducing poverty requires measures to help increase wages, be it through wage policies or through training and skills programmes. This last point is further supported by the fact that close to 39% of poor people live in households headed by an individual with fewer than three years of schooling, even though this is also true of 18% of non-poor individuals.

Two other important features with regard to heads of household warrant discussion. One of these is that the probability of poverty among the almost 91 million people who live in households headed by women is similar to the average probability, indicating that this feature is not in itself a conditioning factor of poverty. It has also been observed that the probability of poverty among members of households headed by agricultural workers, whose income is typically precarious, is no greater than the probability deriving from the simple fact of living in a rural area.

Often, poverty seriously affects the preparation of children and young people to join the labour market by increasing rates of school non-attendance and dropping out. Indeed, according to the data considered,

children who do not attend school have a high probability of being poor (76.5%). Nevertheless, non-attendance at school is becoming less common among poor and non-poor population groups alike, accounting today for only 1.2% of the population and 7.9% of children between the ages of 6 and 12. By contrast, children under 15 who live in households with a poor educational environment—that is, households whose adult members have fewer than six years of schooling on average—number over 83 million in Latin America (56% of the children in this age group), of whom 74% are poor. The educational environment in the household is a key determinant of the continuity of schooling and the achievement of higher levels of education on the part of children and young people. In addition, the presence in the household of young people who work and young people who neither work nor study is also associated with above-average probabilities of poverty. In the region there are just over 18 million young people between the ages of 15 and 19 who work, and almost 22 million young people between the ages of 15 and 24 who neither work nor study. Together these two segments represent about a quarter of all the individuals in this age group (see table I.3).

In summary, and in very general terms, a review of the living conditions of Latin America's poor reveals that these people often live in dwellings without access to drinking water and, to a lesser extent, in dwellings that are overcrowded (i.e., with more than three people per room); that the households to which they belong have a high ratio of demographic dependency and low employment density; and that the head of household often has fewer than three years of schooling and, in some cases, is unemployed. Among children under the age of 15, low levels of education among the adults in the household is also associated with poverty.

2. Factors related to poverty reduction

Poverty levels are affected by both economic factors and demographic and social factors. The economic factors include economic growth, public transfers and relative prices. Demographic and social factors include the size, composition and geographical location of the household, as well as the level of education of its members. The labour market forms the bridge between economic growth and the features of the households that supply the labour force.

It should be pointed out, first, that the impact of these factors varies from one country to another within Latin America. This is indicative of structural differences among the countries and of their varying degrees of freedom to implement the relevant public policies in the framework of

similar development patterns. Moreover, urban and rural areas are affected differently by these factors. As noted earlier, aggregate economic growth does not have the same impact on urban poverty as it has on rural poverty. Migration also affects the two areas unevenly. The consideration of the labour market in this section refers basically to urban areas, since the specific features of rural Latin America are dealt with in another section. By the same token, the effects of poverty on education will be examined in greater detail in chapter V.

(a) Economic growth

In general, economic growth in Latin America proceeded at a moderate pace, without recessions, until 1997, except in Argentina, Mexico and Uruguay, which were hit by the crisis of 1994-1995. After 1997 the South American countries moved into a period of slow growth and, in some cases, recession. By contrast, Mexico, the Central American countries and some Caribbean nations enjoyed strong economic expansion in the five-year period 1996-2000. This shows that poverty reduction did not follow the same pattern over time in the different countries and that in some of them the process reversed itself towards the end of the 1990s, as shown in table I.2.

An examination of developments over the whole of the 1990s shows more clearly than ever the strong relationship that exists between poverty reduction and growth. As shown in figure I.4, the largest upturns and downturns in per capita income were associated with reductions and increases, respectively, in poverty levels. This was particularly obvious in the extreme cases —Chile and Venezuela— but there were also significant departures from this linear relationship.

Similar growth rates had different impacts on poverty levels. In Chile, for example, per capita GDP expanded by 55% between 1990 and 2000, which translated into a 50% drop in poverty (16 percentage points). In Uruguay a much smaller increase in per capita GDP (28%) brought about a larger relative decrease in poverty (53%, or 6 percentage points) within a similar period of time. In Bolivia and Panama per capita GDP grew at similar cumulative rates of around 16% and 20% over the period, but the decline in urban poverty was very different in the two countries: 14% and 25%, respectively. By contrast, the 9% expansion of per capita GDP in Brazil brought poverty levels down by 28% (see table I.4 and figure I.4). To a large extent, these differences in poverty reduction rates reflect the varying degrees to which low-income groups were able to benefit from the fruits of economic growth. This ability, in turn, depends not only on the magnitude of economic growth, but also on its quality and on the particular characteristics of economic, social and demographic

changes in each country, which are themselves a reflection of the factors discussed below.

Table I.4
LATIN AMERICA (14 COUNTRIES): PER CAPITA GDP AND PERCENTAGE OF THE
POPULATION LIVING IN POVERTY AND INDIGENCE, 1990-1999

Country	Year	Per capita GDP (1995 dollars)	Percentage of the population		Variation over the period (annual average)			Coefficient of elasticity	
			Poor	Indigent	GDP ^a	Coefficient of			
						Poverty (P)	Indigence (I)	(P)/GDP ^a	(I)/GDP ^a
Argentina ^b	1990	5 545	21.2	5.2					
	1999	7 435	19.7	4.8	3.3	-0.8	-0.9	-0.21	-0.23
Brazil	1990	3 859	48.0	23.4					
	1999	4 204	37.5	12.9	1.0	-2.7	-6.4	-2.45	-5.03
Chile	1990	3 425	38.6	12.9					
	2000	5 309	20.6	5.7	4.5	-6.1	-7.8	-0.85	-1.01
Colombia	1991	2 158	56.1	26.1					
	1999	2 271	54.9	26.8	0.6	-0.3	0.3	-0.41	0.51
Costa Rica	1990	2 994	26.2	9.8					
	1999	3 693	20.4	7.8	2.4	-2.7	-2.5	-0.95	-0.87
Ecuador ^c	1990	1 472	62.1	26.2					
	1999	1 404	63.5	31.3	-0.5	0.2	2.0	-0.49	-4.27
El Salvador	1995	1 675	54.2	21.7					
	1999	1 750	49.8	21.9	1.1	-2.1	0.2	-1.81	0.21
Guatemala	1989	1 347	69.1	41.8					
	1998	1 534	60.5	34.1	1.5	-1.5	-2.2	-0.90	-1.33
Honduras	1990	686	80.5	60.6					
	1999	694	79.7	56.8	0.1	-0.1	-0.7	-	-
Mexico	1989	3 925	47.8	18.8					
	1998	4 489	46.9	18.5	1.5	-0.2	-0.2	-0.13	-0.11
Nicaragua	1993	416	73.6	48.4					
	1998	453	69.9	44.6	1.7	-1.0	-1.6	-0.57	-0.89
Panama	1991	2 700	42.8	19.2					
	1999	3 264	30.2	10.7	2.4	-4.3	-7.0	-1.41	-2.12
Uruguay ^c	1990	4 707	17.8	3.4					
	1999	5 982	9.4	1.8	2.7	-6.8	-6.8	-1.74	-1.74
Venezuela	1990	3 030	40.0	14.6					
	1999	3 037	49.4	21.7	0.0	2.4	4.5	-	-
Latin America	1990	3 349	48.3	22.5					
	1999	3 804	43.8	18.5	1.4	-1.1	-2.2	-0.69	-1.31

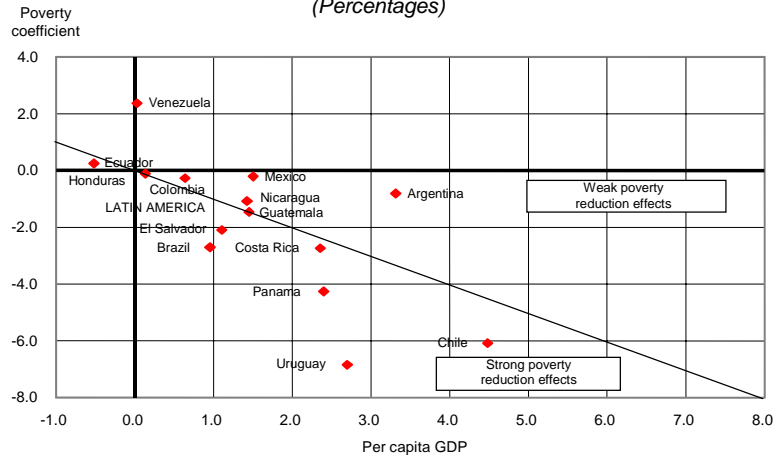
Source: ECLAC, on the basis of official figures and special tabulations of data from household surveys conducted in the respective countries.

^a c/p: at constant 1995 prices.

^b Greater Buenos Aires.

^c Total for urban areas.

Figure I.4
LATIN AMERICA (14 COUNTRIES): AVERAGE ANNUAL VARIATION IN PER CAPITA
GDP AND POVERTY COEFFICIENT, 1990-1999
(Percentages)



Source: ECLAC, on the basis of special tabulations of data from household surveys conducted in the respective countries.

(b) Employment and wages

In the 1990s economic growth was accompanied by significant changes in the labour market. In general, the higher rates of economic growth were achieved through uneven increases in labour productivity among sectors, segments and firms of different sizes and through the integration of firms, also to differing degrees, into the international economy. Rises in productivity, especially in urban areas, were concentrated in more highly skilled, better paying types of employment. The effect of economic growth on poverty through the channel of employment was therefore not as strong as might have been expected. The countries also varied in terms of their economic capacity to increase low-productivity employment and in terms of the associated social patterns. Since most low-productivity jobs are in the informal sector, the open unemployment rate, though important, cannot provide a complete picture of the labour market's effects on poverty.

A given household's total number of members, number of employed and unemployed members and level of labour income—measured in multiples of the poverty line—clearly help determine how likely it is to be poor. An important observation in this regard is that the nature of the labour market is very uneven across the Latin American countries. Open unemployment and the employment density of

households vary considerably from one country to another. For example, Brazil and Mexico have relatively low rates of open unemployment and high employment density. By contrast, in Argentina rates of unemployment are high and employment density is low in low-income households, but labour income is higher. The combination of these dimensions gives rise to very different profiles with respect to earned income in poor households.

In 1999 employment density in the decile in which the poverty line is situated ranged from 0.24 in Argentina to between 0.27 and 0.28 in Chile, Costa Rica and Uruguay to just over 0.4 in Brazil and Colombia and 0.48 in Honduras. In the 1990s employment density in this decile increased in most of the countries, with Brazil, Ecuador, Honduras, Mexico, Panama and Venezuela posting the biggest upturns (see table I.5). In Chile, where economic growth was much stronger, average employment density in households close to the poverty line increased from 0.24 to 0.27, while in Brazil it rose from 0.38 to 0.43. Real income, however, rose faster in Chile than in Brazil. The regional overview shows that, in most countries, rates of poverty reduction were determined not so much by increases in real income as by increases in average employment density, which rose by between 0.02 and 0.06 in almost all the countries except Colombia, Paraguay and Uruguay, where it virtually stood still. In most of the countries poor households dealt with the situation by sending more of their members to work in low-productivity jobs.

As will be discussed in greater detail in chapter III, open unemployment rose in the 1990s and adversely affected poverty trends. Owing to a decrease in urban unemployment—for just a few years of the decade—in Bolivia, Chile and Costa Rica, urban poverty fell slightly more in those countries than in the rest of the region. In those three countries the number of employed persons in low-income households increased and open unemployment declined among the active population in the poorest quintile. This trend was especially pronounced in urban areas of Bolivia and Costa Rica.

Households obtain a very high proportion of their resources from the earned income of their economically active members.¹ Low earned income accounts for a substantial proportion of cases of poverty. It is therefore useful to examine the kinds of employment in which low pay levels are most common.

¹ Almost 70% of the income of urban households in all strata is generated in the labour market. In turn, two thirds of household income from work consists of wages and salaries (see chapter IV).

Table I.5
LATIN AMERICA (12 COUNTRIES): EMPLOYMENT DENSITY IN SELECTED STRATA
OF THE POPULATION, ^a 1990-1999

Country/Year	Employment density				
	Total	Decile 1	Decile 10	Households close to the poverty line ^b	
Argentina (Greater Buenos Aires)					
	1990	0.40	0.13	0.71	0.23
	1999	0.42	0.19	0.72	0.24
Brazil					
	1990	0.45	0.27	0.59	0.38
	1999	0.47	0.33	0.55	0.43
Chile					
	1990	0.36	0.17	0.52	0.24
	2000	0.39	0.20	0.58	0.27
Colombia					
	1990 ^c	0.41	0.25	0.59	0.41
	1999	0.41	0.24	0.56	0.41
Costa Rica					
	1990	0.38	0.16	0.59	0.26
	1999	0.41	0.15	0.63	0.27
Ecuador (urban areas)					
	1990	0.41	0.21	0.61	0.42
	1999	0.43	0.21	0.60	0.46
EL Salvador					
	1995	0.39	0.23	0.59	0.37
	1999	0.41	0.24	0.60	0.38
Honduras					
	1990	0.35	0.27	0.53	0.43
	1999	0.41	0.25	0.59	0.48
Mexico					
	1989	0.37	0.25	0.52	0.33
	2000	0.44	0.32	0.59	0.39
Panama					
	1991	0.36	0.15	0.54	0.29
	1999	0.42	0.20	0.62	0.33
Uruguay (urban areas)					
	1990	0.40	0.25	0.52	0.25
	1999	0.41	0.28	0.53	0.28
Venezuela					
	1990	0.36	0.12	0.63	0.29
	1999	0.41	0.14	0.65	0.39

Source: ECLAC, on the basis of special tabulations of data from household surveys conducted in the respective countries.

^a Employment density: number of employed persons as a proportion of the total number of household members. Decile 1 and decile 10 refer to the bottom and top 10% of households, respectively, in terms of per capita income.

^b According to the definition of the poverty line in the country in the final year.

^c Eight major cities.

It is well known, and confirmed by the figures for the 1990s, that the likelihood of poverty is lower among professionals and technicians than among other workers; among public-sector wage earners than among private-sector wage earners; and among formal-sector workers than among informal-sector workers. As will be discussed in the chapter on employment, in the 1980s and 1990s both private and informal employment increased as a proportion of total employment. Bearing wage differences in mind, this phenomenon alone tended to increase poverty levels. In effect, in the late 1990s in urban areas, poverty levels were lower among public-sector workers than among workers in private firms with over five employees. In turn, the incidence of poverty was higher among those employed in establishments with fewer than five employees than among those employed in firms with more than five. The highest rates were observed among wage earners in small establishments and among individuals employed in domestic service (see table I.6). In most of the countries poverty levels were a little lower among own-account workers.

Poverty levels among wage earners in formal-sector establishments with five or more employees call for some discussion. In most of the countries these levels were very similar to the average for the employed poor population considered in table I.6 (the table does not include employers, professionals or technicians), and the difference in poverty rates between formal- and informal-sector workers was smaller than many qualitative studies have suggested. Furthermore, formal-sector employees living in poor households represent over 25% of the total poor population, on average, and over 50% in Chile, for example.

This explains the fact that, in some countries, a high proportion of the employed poor are formal-sector wage earners. In Brazil, Chile, the Dominican Republic, Mexico and Venezuela, and in representative (though not all) urban areas of Argentina and Colombia, this proportion is over 35%. By the same token, in 10 of the 16 countries considered, between 30% and 60% of private-sector wage earners live in poor households. Patterns vary greatly in this respect, however: the proportion ranges from less than 10% in Uruguay to over 50% in Ecuador, Honduras and Nicaragua. In Argentina, Chile, Costa Rica and Panama it is between 10% and 20%, while in Bolivia, Brazil, Colombia, El Salvador, Mexico, Paraguay and Venezuela it ranges from 30% to 50%² (see table I.6).

² This study of the relationship between employment and poverty does not take into account groups in which poverty levels are higher than among the employed population, i.e. inactive groups receiving income (retirees and pensioners) and the unemployed. This explains the fact that the percentage of poverty among the employed is lower than among the population at large.

Table I.6
LATIN AMERICA: EMPLOYED POOR BY EMPLOYMENT CATEGORY AND
DISTRIBUTION OF TOTAL POOR^{a, b}, URBAN AREAS, 1999
(Percentages)

Country	Total employed ^c	Public sector wage earners ^d	Non-professional and non-technical private sector wage earners			Non-professional and non-technical own-account workers
			In establishments employing		Domestic employees	
			More than 5 workers	Up to 5 workers		
Argentina	10	6	9	17	22	9
(Greater Buenos Aires)	100	7	36	25	12	21
Bolivia	41	23	41	53	27	50
	90	6	15	15	2	52
Brazil	24	14	26	32	39	28
	85	7	28	11	14	25
Chile	14	6	16	22	17	13
	98	7	52	15	9	15
Colombia ^d	38	12	38	...	35	55
(8 major cities)	95	3	38	...	5	49
Costa Rica	10	3	9	14	27	16
	94	6	28	17	15	28
Ecuador	53	30	55	70	61	63
	87	6	23	18	6	34
El Salvador	29	9	26	44	41	37
	88	4	23	21	6	34
Guatemala	40	19	41	53	46	48
	77	4	19	24	8	23
Honduras	64	41	64	81	58	74
	85	6	27	14	4	34
Mexico	25	11	26	44	38	26
	94	6	36	27	5	20
Nicaragua ^d	54	...	54	68	74	53
	83	...	25	18	9	30
Panama	15	5	12	24	20	25
	82	6	26	11	8	31
Paraguay	26	11	27	40	27	33
(Asunción)	91	6	26	21	10	28
Peru	28	14	21	32	23	38
	84	5	12	15	5	47
Dominican Republic	21	21	18	25	26	24
	88	12	27	10	6	32
Uruguay	5	2	5	9	12	10
	98	5	26	15	17	35
Venezuela	35	28	37	52	50	34
	90	12	26	18	3	30

Source: ECLAC, *Social Panorama of Latin America, 2001-2002* (LC/G.2183-P), Santiago, Chile, October 2002. United Nations publication, Sales No. E.02.II.G.65.

^a The upper line of each entry shows the percentage of employed poor in each category who live in households that receive income below the poverty line.

^b The lower line of each entry shows the percentage of employed poor with respect to the total employed in the respective category.

^c The total does not add up to 100 because employers and professionals and technicians are not included.

^d In Nicaragua public-sector wage earners are included with wage earners in establishments employing more than 5 workers. In Colombia wage earners in microenterprises are also included in this category.

Although poverty among State employees is relatively low, it reaches significant levels in a number of countries. In Bolivia, the

Dominican Republic, Ecuador and Venezuela over 20% of public-sector workers are poor, while in most of the countries the poor employed in the public sector represent between 3% and 7% of the total.

Wage earners in microenterprises and domestic service workers together account for between 20% and 35% of the employed poor. In countries with a high proportion of low-skilled own-account workers (see table I.6), poor wage earners in that group represent between 17% and 27% of the total. Clearly, this profile of poverty among the urban employed is closely linked to their low occupational earnings. Non-professional, non-technical wage earners employed in firms with five or more workers received, on average, an income of between 2.5 and 3.6 times the poverty line per capita, which in most of the countries was about 20% lower than the average income of the employed population, and not always higher than the earnings of non-professional, non-technical own-account workers (see ECLAC, 2001a).

Workers in microenterprises received an average monthly income of between 1.6 and 2.7 times the poverty line. In many countries this was below the threshold needed to give them a good chance of remaining above the poverty line. Domestic employees, who accounted for 4% to 7% of urban employment, earned an average income of 1.4 to 2.2 times the poverty line.

From these findings it can be surmised that, for a large proportion of private-sector workers, employment offers no assurance that they will stay above the poverty threshold, even if they work in medium-sized or large firms. Similarly, in a number of the countries, the fact that a significant proportion of public-sector employees are poor constitutes an obstacle to the process of State reform and modernization.

(c) Reduced inflation

The decline in the rate of inflation also helped to reduce poverty levels, particularly in those countries where it dropped rapidly from very high levels, such as Argentina, Peru, Brazil and, to a lesser extent, Chile, Mexico and Uruguay. Greater consumer price stability lessened or eliminated the erosion of average real wages, especially lower wages, whose purchasing power falls faster in conditions of high inflation or hyperinflation. The slowdown in inflation was accompanied in many cases by a rise in the real minimum wage. Later in the decade the impact of lower inflation on poverty declined, especially when the objective of keeping inflation very low was adopted as part of economic policy.

(d) Variations in relative prices

In most of the countries changes in the relative prices of goods and services effectively made the basic consumption basket of lower-income sectors cheaper. For a number of reasons, such as changes in the production and trade structure, trade liberalization, exchange-rate policies and the characteristics of the agricultural sector, in some countries the average variation in the retail prices of products that are used to estimate inflation differed appreciably from that of products that make up the consumption basket of poor population groups. In general, the prices of mass consumer products, particularly food, rose more slowly than the prices of other domestically consumed goods and services, which boosted the purchasing power of low-income strata.³

This development is evident from a comparison between trends in food prices, which have a stronger impact on the budgets of low-income households, and the variation in the prices of other goods used to estimate the consumer price index. As shown in table I.7, between 1990 and 1999 the price of food rose by a smaller percentage than the prices of other goods in 10 of the 13 countries considered. In five of those countries (Colombia, Ecuador, Paraguay, Uruguay and Venezuela) this percentage was about 80% or even lower. Argentina, Bolivia, Chile, the Dominican Republic and Mexico exhibited a similar (albeit smaller) price gap. Only in Costa Rica, Honduras and Panama did food prices rise faster than the prices of other goods.

(e) Increased transfers

Public and private transfers, predominantly retirement and other pensions, played a key role in reducing poverty in the 1990s. Although they are usually poorly distributed, these transfers often represent a significant financial contribution to poor households. The relative importance of transfers in household income varied considerably from one country to another within the region. The degree to which they targeted poor households also varied. In a number of countries, including Argentina, Costa Rica, Panama and Uruguay, transfers accounted for over 20% of the total income of urban households, while in Brazil, Chile, Colombia, Mexico and Venezuela, this percentage hovered around 10%. Brazil is a particularly interesting case in this regard, since its policy of massive transfers to low-income sectors in urban and rural areas between 1990 and 1993 made a major contribution to poverty reduction.

Table I.7
LATIN AMERICA: RELATIVE VARIATION IN CONSUMER FOOD PRICES

³ In some countries the positive impact of this trend was partially offset by a steep rise in utility rates (water, electricity and urban transport), which rose faster than the average consumer price index in those countries.

WITH RESPECT TO OTHER GOODS AND SERVICES, 1990-1999
(Percentages)

Country	Reference date ^a	Food CPI ^b	Other goods and services CPI ^b	Ratio food CPI ^b /CPI ^b other
Argentina	September 1990	100.0	100.0	1.00
	September 1999	270.5	304.5	0.89
Bolivia	August 1990	100.0	100.0	1.00
	October-November 1999	225.6	233.9	0.96
Colombia	August 1990	100.0	100.0	1.00
	August 1999	475.8	587.2	0.81
Costa Rica	June 1990	100.0	100.0	1.00
	June 1999	404.7	392.5	1.03
Chile	November 1990	100.0	100.0	1.00
	November 2000	207.3	233.2	0.89
Ecuador	October 1990	100.0	100.0	1.00
	October 1999	1 506.3	1 901.6	0.79
Honduras	August 1990	100.0	100.0	1.00
	August 1999	489.3	461.2	1.06
Mexico	Third quarter 1990	100.0	100.0	1.00
	Third quarter 2000	503.4	551.7	0.91
Panama	August 1989	100.0	100.0	1.00
	July 1999	114.1	111.7	1.02
Paraguay	June- August 1990	100.0	100.0	1.00
	July-December 1999	265.9	335.4	0.79
Dominican Republic	March 1990	100.0	100.0	1.00
	March 1997	256.7	282.6	0.91
Uruguay	Second semester 1990	100.0	100.0	1.00
	1999	1 222.5	1 837.2	0.67
Venezuela	Second semester 1990	100.0	100.0	1.00
	Second semester 1999	2 559.9	4 164.3	0.61

Source: ECLAC, Statistics and Economic Projections Division.

^a Corresponds to the reference month for income measurement in the household surveys used to estimate poverty in each country.

^b Consumer price index.

In Uruguay further reductions in poverty levels were achieved partly through the maintenance of a high rate of transfers and a steep rise in pensions in the early part of the decade. Transfers also rose in Chile, albeit to a lesser degree, in the form of monetary subsidies —welfare pensions and family allowances— and non-monetary assistance provided to low-income households, which helped to reduce poverty from 1990 onward.

(f) Migration

The findings on rural and urban poverty set out above illustrate the importance of migration in the distribution of poverty between the two sectors and in total poverty.

The effects of migration on nationwide poverty levels are also related to the age structure and educational status of both migrants and those they leave behind. Migration has a major impact on the age and gender structure of the urban and rural population. In urban areas the pyramid is broader in the productive age groups, while the opposite occurs in rural areas. In Brazil, for example, 67.5% of the urban population is between the ages of 15 and 64, while only 60.4% of the rural population is in this age group. In addition, the rural population has a higher proportion of older adults than its fertility and mortality rates would suggest. In Bolivia only 3.4% of the urban population is aged 65 or over, while this age group accounts for 5.1% of the rural population.⁴ Both the bulking out of the urban pyramid in the middle age groups and the ageing of the rural population are largely the result of the selective migration —and its cumulative effects over time— of young people moving from the country to the city.

These observations are consistent with the net rural-to-urban migration rate, which is higher in the 15-19 and 20-24 age groups. In addition, in many countries the migration rate for women is higher than the one for men (ECLAC, 2001a). In Brazil the average annual rate of net rural-to-urban migration in the 1990s was 13 per 1,000 for men aged 20 to 24 and 14 per 1,000 for women in the same age group. This means that almost 50% of the expansion of the urban population between the ages of 20 and 24 was due to migration. In the age groups between 40 and 60 the rate was 5 per 1,000 and represented less than 20% of the growth of the urban population in this age group. This reveals two phenomena: first, that the individuals who migrate are usually the ones who are better placed to position themselves in the urban environment and, second, that the rural environment retains the relatively less educated part of its original population.

⁴ See www.eclac.cl/celade/proyecciones.

Moreover, processes of international migration are becoming increasingly important. When migration is increased by economic recession, a particular kind of relationship develops between growth and poverty—a relationship that is even more particular when migrants send monetary remittances back to their country of origin. As noted earlier, the age, family and educational composition of households plays a key role in determining the magnitude and frequency of transfers and the variation in the household income of those who remain in their place of origin.

In summary, a number of the determining factors of poverty are difficult to alter in the short term. Basically, economic growth affects poverty through the labour market, the source from which households obtain the bulk of their autonomous income. In this regard, all the findings indicate that the region's employment structure fails to generate enough sufficiently productive and adequately paid jobs, forcing vast sectors of the Latin American population to seek employment in low-productivity, low-paying activities in order to avoid poverty.

In these circumstances, the role of other poverty-reducing instruments is also important. These instruments include public transfers—properly targeted—and policies for reducing inflation or altering relative prices to make them more favourable for lower-income strata.

3. The nature of rural poverty

(a) The magnitude of rural poverty and recent trends

Although the majority of the poor live in cities, the incidence of poverty continues to be higher in rural areas. In Brazil, Colombia, Mexico and Venezuela, about half of the rural population is poor, while in Honduras the figure is 80%.

Furthermore, in Bolivia, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Paraguay and Peru poverty remains predominantly a rural phenomenon, while in Colombia, Mexico and the Dominican Republic almost 45% of the poor reside in rural areas (see table I.8). Similarly, about half of the indigent population lives in rural sectors.⁵

⁵ In the Latin American countries with the lowest per capita output, where indigence is more widespread, rural indigence is more than twice the level of urban indigence (see tables A.1 and A.2 of the statistical appendix).

Table I.8
LATIN AMERICA: MAGNITUDE AND RELATIVE SHARE OF RURAL POVERTY,
AROUND 1999
(Percentages)

Rural households below the poverty line	Poor rural households in relation to total poor households		
	Less than 35%	Between 35% and 49%	50% or more
Over 65%			Guatemala Honduras Nicaragua
Between 51% and 65%		Colombia Ecuador Mexico	Bolivia El Salvador Paraguay Peru
Between 31% and 50%	Brazil Panama Venezuela	Dominican Republic	
Up to 30%	Argentina Chile Uruguay		Costa Rica

Source: Prepared on the basis of ECLAC, *Social Panorama of Latin America, 1998* (LC/G.2050-P), Santiago, Chile, May 1999. United Nations publication, Sales No. E.99.II.G.4, table 16 of the statistical appendix.

Even where poverty is predominantly urban and progress has been made in reducing it, rural poverty still persists. In most of region, rural poverty declined only very slightly or even increased, although some countries —Brazil, Chile and Panama— made substantial headway in reducing it. Rural poverty is therefore structural in nature: it is deeper than urban poverty and less directly linked to economic growth in the agricultural sector.⁶ These features are associated with the low productivity of the population employed in agricultural activities and with the high rate of population growth typical of areas that are still in the early stages of demographic transition.

Rural-to-urban migration is partly responsible for the continued low productivity of the rural poor, since, as already noted, young people with a higher level of education are generally the ones who migrate, while adults with less schooling remain in the rural environment.

In countries where the bulk of the rural population still lives in poverty —Bolivia, Colombia, Honduras and Mexico— most of this population is indigent. By contrast, where rural poverty is less widespread

⁶ In the first half of the 1990s the decline in urban poverty followed the growth of per capita GDP more closely than rural poverty. Of course, rural poverty also fluctuates in response to business cycles, natural phenomena and public policies on issues such as agricultural prices and income transfers.

—Chile, Costa Rica and Panama— the non-indigent poor outnumber the indigent poor. These differences between countries appear to reflect trends in structural mobility associated with rural economic development.

Where rural poverty has declined, the decrease in levels of indigence has been proportionally higher. This shows that the improvements were no less beneficial for the indigent poor than for the non-indigent poor. In other words, economic growth and policies to combat rural poverty helped much of the population living in hard-core poverty, not only those households whose income was closest to the indigence threshold. This is also supported by the fact that, as shown in table I.9, the average income of indigent households rose between 1990 and 1997.

Table I.9
LATIN AMERICA: POVERTY AND AVERAGE INCOME ^a IN RURAL AREAS, 1990s
(Percentages)

Country	Period	Percentages			Percentages			Average household income:			
		Indigence initial year	Non-indigent poverty initial year	Total poverty initial year	Indigence final year	Non-indigent poverty final year	Total poverty final year	Indigence initial year	Non-indigent poverty initial year	Indigence final year	Non-indigent poverty final year
Bolivia	1997-1999	53.8	18.2	72.0	59.6	16.0	75.6	0.24	0.75	0.2	0.76
Brazil	1990-1999	37.9	26.0	63.9	20.5	24.7	45.2	0.34	0.74	0.29	0.71
Chile	1990-2000	12.1	21.4	33.5	6.7	12.6	19.3	0.37	0.79	0.37	0.81
Colombia	1991-1999	30.6	24.8	55.4	31.1	24.7	55.8	0.34	0.77	0.32	0.77
Costa Rica	1990-1999	12.3	12.6	24.9	9.4	11.1	20.5	0.31	0.79	0.31	0.79
El Salvador	1995-1999	26.5	31.7	58.2	29.3	29.7	59.0	0.32	0.75	0.27	0.73
Guatemala	1989-1998	45.2	26.9	72.1	39.6	25.1	64.7	0.32	0.76	0.37	0.76
Honduras	1990-1999	66.4	17.1	83.5	63.2	19.1	82.3	0.26	0.75	0.27	0.74
Mexico	1989-1998	22.6	26.1	48.7	23.0	26.0	49.0	0.39	0.78	0.4	0.75
Nicaragua	1993-1998	58.3	20.4	78.7	52.6	20.1	72.7	0.27	0.77	0.26	0.76
Panama	1989-1999	21.1	21.4	42.5	12.6	20.0	32.6	0.35	0.76	0.39	0.78
Venezuela	1990-1994	16.5	21.9	38.4	22.9	24.8	47.7	0.39	0.78	0.38	0.77

Source: ECLAC, on the basis of special tabulations of data from household surveys conducted in the respective countries.

^a In multiples of the per capita poverty line.

Overall, in the 1990s rural poverty declined in six of the eight countries for which information is available, namely Brazil, Chile, Costa Rica, Guatemala, Honduras and Panama. Some households managed to cross the poverty threshold, while others shed their indigent status to become non-indigent poor households. This indicates that hard-core

poverty was also eased by the upturn in income and the other factors mentioned, such as policies to combat rural poverty.

The increase in rural income benefited all income strata, albeit in differing proportions, as a result of the general expansion of agricultural output and the intensification of non-agricultural rural activities (commerce and services). In almost all the cases examined declines in indigence and poverty levels were associated with increases in average real income.⁷

In Chile both the average labour income and the average autonomous income of rural households fell between 1990 and 1998. The maintenance of these households' monetary income and the resulting decline in rural poverty are therefore attributable to income from the monetary subsidies extended by the State (see MIDEPLAN, 1999).

(b) Factors affecting rural poverty

The persistence of rural poverty is attributable to factors which are comparatively more rigid than the factors affecting urban poverty. Rural areas' demographic and educational profiles are characteristic of stages through which urban areas have already passed, while their geographical features, such as isolation, lack of access to communications and difficulties in obtaining basic services, also leave the rural population at a clear disadvantage with respect to city-dwellers. As well, there are a number of difficulties related to agricultural activity —the mainstay of most rural workers— such as technological backwardness, high risk and low productive potential. In addition, the soils worked by the poor often show the effects of environmental degradation. Another problem is insufficient access to water, credit and, in particular, land, which is a key cause of rural poverty in many countries because of its impact on income generation and the effect of the structure of land ownership on the productive potential of agriculture.

In countries where poverty is mainly a rural phenomenon and where more than half the rural population is poor, the rate of natural population growth is also a key problem. These countries are at an incipient or moderate stage of demographic transition and have high fertility rates. This means that they are caught in a kind of demographic trap: the division of the land among numerous heirs contributes to soil exhaustion and the proliferation of smallholdings, and this, in turn, is associated with an increase in the number of landless poor families and

⁷ Had this not been the case, and had the decline in the percentage of indigent households been accompanied by a downturn in their average income, this would have meant that hard-core rural poverty did not benefit from the expansion of output in rural areas.

with the growing need to resort to survival strategies based on family labour.

However, according to projections prepared by the Population Division of ECLAC - Latin American and Caribbean Demographic Centre (CELADE), the number of Latin American countries in which the rural population is growing in absolute terms will have fallen from 14 in the period 1990-1995 to 10 by 2010, owing to the universal phenomenon of gradually declining fertility rates and persistent rural-to-urban migration.⁸

(c) Rural poverty and the structure of production and employment

Seasonality, multiple employment, production for home consumption and unpaid family work—which characterize agricultural activities in many parts of the region—make trends in rural employment hard to identify. Nevertheless, a number of general features can be noted. First, according to estimates, wage employment varied little as a proportion of total rural employment in the 1990s, since it held steady or declined only slightly in several countries, including Chile, Colombia, Costa Rica, Honduras and Mexico. It dropped sharply, however, in the Dominican Republic and increased in Guatemala, Panama and Venezuela. In turn, the campesino population⁹ remained unchanged or shrank slightly in Chile and Venezuela, expanded in Brazil, Colombia and the Dominican Republic and declined in the other countries. In most of the countries own-account non-agricultural work tended to increase, and trends in the proportion of employers were uneven (see table I.10).

In addition, the data available suggest that the incidence of poverty is higher among campesinos than among other occupational groups, although, as shown in table I.10, there are large differences between countries in this respect: poverty among campesinos ranges from 20% in Chile to 89% in Bolivia.

⁸ According to estimates, rural population growth will change course by 2010, causing the rural population to shrink in absolute terms in Colombia, the Dominican Republic, Ecuador and Mexico. These countries will thus join the eight other countries in which this phenomenon has already begun (see ECLAC, 1999a).

⁹ In household survey terminology, “campesinos” are own-account workers and unpaid family members employed in agricultural activities.

Table I.10
LATIN AMERICA (16 COUNTRIES): DISTRIBUTION OF ECONOMICALLY ACTIVE
POPULATION BY TYPE OF EMPLOYMENT, RURAL AREAS, 1990-2000
(Percentages)

Country	Year	Total	Employers	Wage earners			Own-account and unpaid family workers	
				Total	Public sector	Private sector ^a	Total	Agriculture
Bolivia	2000	100.0	0.5	8.6	2.8	5.8	90.9	83.0
Brazil	1990	100.0	3.0	44.3	-	44.3	52.7	44.3
	1999	100.0	2.0	34.3	5.2	29.1	63.7	56.4
Chile ^b	1990	100.0	2.8	64.9	-	64.9	32.3	25.0
	2000	100.0	2.5	65.1	4.9	60.2	32.5	24.3
Colombia	1991	100.0	6.3	48.6	-	48.6	45.0	25.5
	1999	100.0	3.7	47.2	3.7	43.5	49.2	27.9
Costa Rica	1990	100.0	5.1	66.2	10.5	55.7	28.7	16.8
	2000	100.0	5.8	66.9	9.6	57.3	27.3	12.3
Ecuador	2000	100.0	3.2	42.4	3.9	38.5	54.3	40.7
El Salvador	2000	99.8	4.6	47.2	3.9	43.3	48.1	26.7
Guatemala	1989	100.0	0.6	38.7	2.9	35.8	60.7	47.5
	1998	100.0	2.0	42.9	1.7	41.2	55.1	34.8
Honduras	1990	100.0	0.6	34.9	4.0	30.9	64.6	47.6
	1999	100.0	3.1	33.4	3.7	29.7	63.5	41.3
Mexico ^c	1989	100.0	2.5	50.2	-	50.2	47.3	34.6
	2000	100.0	5.0	51.0	6.6	44.4	44.0	25.1
Nicaragua	1993	100.0	0.2	38.4	6.6	31.8	61.3	45.8
	1998	100.0	3.3	43.7	-	43.7	53.0	39.7
Panama	1991	100.0	2.9	39.1	12.5	26.6	58.0	45.5
	1999	100.0	3.2	44.9	10.1	34.8	51.9	31.6
Paraguay	1999	100.0	3.4	27.0	3.4	23.6	69.7	54.0
Peru	1999	100.0	6.3	19.9	2.3	17.6	73.9	61.9
Dominican Republic	1992	100.0	4.0	52.4	13.2	39.2	43.7	21.6
	2000	100.0	1.8	40.3	8.1	32.2	57.8	32.6
Venezuela	1990	100.0	6.9	46.6	8.3	38.3	46.5	33.3
	1997	100.0	5.4	49.6	5.4	44.2	44.9	33.1

Source: ECLAC, on the basis of special tabulations of data from household surveys conducted in the respective countries.

^a Includes domestic employees. In Brazil (1990), Chile (1990), Mexico (1989) and Nicaragua (1998), includes public-sector wage earners.

^b Data from national socio-economic surveys (CASEN).

^c Data from national surveys of household income and expenditure (ENIGH).

An increase in wage employment in both agricultural and non-agricultural activities has helped to reduce poverty. In a few cases, however, these changes have raised poverty among workers engaged in wage-earning activities, even in private firms with more than five employees (see table I.11).

Table I.11
LATIN AMERICA (15 COUNTRIES): POVERTY IN SELECTED OCCUPATIONAL
GROUPS, ^a RURAL AREAS, 1990-2000
(Percentages)

Country	Year	Total population	Total employed	Public-sector wage earners	Non-professional, non-technical private-sector wage earners			Non-professional, non-technical own-account workers	
					In establishments employing over 5 workers	In establishments employing up to 5 workers ^b	Domestic employees	Total	In agriculture, forestry and fishing
Bolivia	1999	81	80	14	25	58	37	86	88
Brazil ^c	1990	71	64	-	45	72	61	70	74
	1999	55	49	39	47	40	41	54	55
Chile	1990	40	27	-	28	36	23	22	24
	2000	24	16	9	16	20	10	16	21
Colombia	1991	60	53	-	42 ^d	-	54	67	73
	1999	62	50	12	41 ^e	-	45	64	66
Costa Rica	1990	27	17	-	13	23	22	24	27
	1999	22	12	3	7	21	22	17	21
El Salvador	1995	64	53	24	43	56	50	63	72
	1999	65	55	16	42	56	47	71	80
Guatemala	1989	78	70	42	72	76	61	71	76
	1998	70	66	40	63	77	60	69	69
Honduras	1990	88	83	-	71	90	72	88	90
	1999	86	81	38	79	89	75	85	89
Mexico	1989	57	49	-	53 ^f	-	50	47	54
	1998	55	46	16	44	59	64	49	61
Nicaragua	1993	83	75	71	64	77	59	82	89
	1998	77	70	-	61	69	49	80	87
Panama	1991	51	40	10	25	43	43	52	57
	1999	42	29	5	19	39	30	37	42
Paraguay	1999	74	65	10	47	57	43	75	79
Peru	1999	73	66	33	42	54	38	73	78
Dominican Republic	1997	39	25	17	14	26	40	30	42
Venezuela	1990	47	31	22	35	36	44	31	36
	1994	56	42	27	50	50	53	42	44

Source: ECLAC, on the basis of special tabulations of data from household surveys conducted in the respective countries.

^a Refers to the percentage of employed in each category residing in households that have an income below the poverty line.

^b In Bolivia (1999), Chile (1996), El Salvador, Panama, the Dominican Republic and Venezuela, includes establishments employing up to 4 workers only.

^c The 1990 figures for establishments employing over 5 workers refer to workers with a contract of employment ("carteira"), and the 1990 figures for establishments employing up to 5 workers refer to workers without such a contract.

^d Includes public-sector wage earners.

^e Includes wage earners in establishments employing up to 5 workers.

^f Includes wage earners in the public sector and in establishments employing up to 5 workers.

Agriculture is the sector of the economy with the largest proportion of precarious employment. The highest proportion of workers without a contract or social security coverage is to be found among agricultural wage earners. In addition, the practice of subcontracting is becoming more and more widespread.

Male non-agricultural rural employment increased in seven of the eight Latin American countries for which recent information is available (see table I.12). In those seven countries the proportion of the male rural population whose main activity was non-agricultural work ranged from 22% to 57%, while the corresponding rate for employed rural women was over 65% in eight of 10 countries. In short, about a quarter of the decline in agricultural employment was absorbed by displacement into non-agricultural activities.

Table I.12
LATIN AMERICA: POPULATION EMPLOYED IN NON-AGRICULTURAL ACTIVITIES
AS A PERCENTAGE OF THE EMPLOYED POPULATION IN RURAL AREAS,
1990-1999
(Percentages)

Country	Men				Women			
	1990	1994	1997	1999	1990	1994	1997	1999
Bolivia	...	...	18.2	16.5	...	...	15.6	16.8
Brazil	26	21.3	23.7	25.8	47.1	28	30.1	31.6
Chile	19.2	26.6	25.9	27.6	67.2	70.7	65.1	63.3
Colombia	30.9	35.7	32.9	31.2	71.4	77.4	78.4	77.4
Costa Rica	47.8	55.4	57.3	57.4	86.8	89.2	88.3	90.3
El Salvador	...	...	32.7	36.1	...	...	81.4	86.5
Guatemala	21.4	...	...	27.2	69.2	...	...	67.7
Honduras	18.6	24.7	21.5	23.4	88	87	83.7	87.9
Mexico	34.7	42	44.9	46.8	69.1	64.7	67.4	74.8
Nicaragua	...	25.9	...	24.5	...	80	...	73.6
Panama	25	36.6	39.3	40.3	86.1	91.5	90.3	91.9
Paraguay	...	...	...	29.9	...	...	...	57.8
Peru	...	...	18.9	18.7	...	...	32.7	27.9
Dominican Republic	...	...	54.8	...	...	...	92.4	...
Venezuela	33.9	35.4	...	...	78.2	87.2	...	...

Source: ECLAC, on the basis of special tabulations of data from household surveys conducted in the respective countries.

The growing importance of non-agricultural employment derives from a combination of factors, such as technological advances in agricultural production; investments in road infrastructure, which have enabled rural residents to commute to urban areas; constraints on the rental and purchase of agricultural land; and deficiencies in the credit and crop insurance markets. In addition, families themselves tend to seek means of diversifying their production in order to mitigate the risks inherent in agricultural activity (see ECLAC/FAO/IDB/RIMISP, 2003 and ECLAC/GTZ, 2003).

This increase in the proportion of non-agricultural rural employment is very uneven, however: in the poorest areas, for example, non-agricultural rural employment first emerges in the form of small-scale goods production on the landholding itself, using traditional, labour-intensive technologies. There follows a second phase, still in the poorest areas, in which other agriculture-based activities are added, particularly the processing, distribution and marketing of agricultural products. These activities are aided by increases in agricultural and urban incomes. The better-off rural areas then move into a third phase, which involves some elements of manufacturing and generates a rural-urban interpenetration. In this third phase, manufacturing firms move into small and medium-sized towns, rural workers are subcontracted to produce durable intermediate goods and rural services related to increases in urban income, such as services related to tourism and country homes, are expanded. In addition, this phase leads to a rise in non-agricultural employment in health and education services and in other social services for the rural population, such as construction and transport.

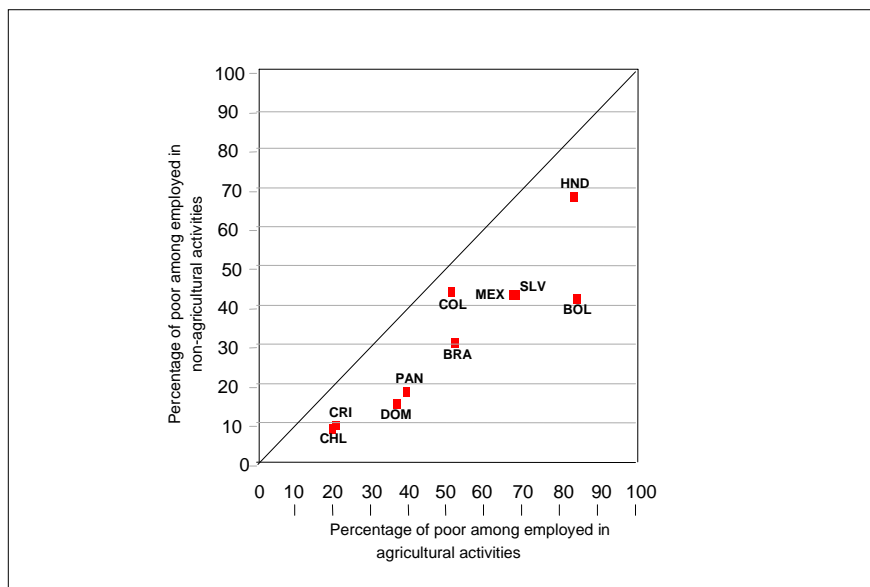
For many members of poor rural households, entry into non-agricultural activities is a survival strategy. What is more, a large proportion of the rural population employed in non-agricultural activities remains poor or extremely poor, depending on how far the respective country has progressed in terms of non-agricultural rural development (Reardon, Cruz and Berdegúe, 1999). In most of the countries, as figure I.5 shows, poverty levels are much lower (50%) among workers employed in non-agricultural activities than among those employed in agricultural activities.

(d) Access to land

In 2000 Latin America was still one of the regions with the highest concentration of land ownership. Three groups of countries may be distinguished in this regard. The countries in the first group (Chile, Mexico and Paraguay) have Gini indices of over 0.90; those in the second (Argentina, Brazil, Colombia, Costa Rica, El Salvador, Panama and

Venezuela) have Gini indices of between 0.79 and 0.85; and those in the third (Dominican Republic, Honduras, Jamaica, Puerto Rico and Uruguay) have indices of about 0.75.

Figure I.5
 LATIN AMERICA: POVERTY AMONG THE POPULATION EMPLOYED IN
 AGRICULTURAL AND NON-AGRICULTURAL ACTIVITIES
 IN RURAL AREAS, 1997-1998
 (Percentages)



Source: ECLAC, on the basis of special tabulations of data from household surveys conducted in the respective countries.

Among the countries for which information is available, only Honduras (in the third group) had an even lower Gini index, which in the mid-1990s dropped from 0.71 to close to 0.65 (see table I.13).¹⁰

These levels of concentration, in combination with other factors, explain the many conflicts that arose in the 1990s over land ownership.¹¹

¹⁰ Gini indices take into account only the size of the landholding, not its quality. They therefore fail to consider, among other things, the landholding's distance from markets, weather conditions, access to irrigation systems and, in general, the crop yields permitted by the soil quality. In some countries the consideration of these factors could reveal trends that are at variance from those indicated with regard to the distribution of agricultural potential.

In Brazil, for example, the number of families involved in land occupations rose from 8,000 in 1990 to 63,000 in 1997. In the Dominican Republic, between 15% and 17% of the land, whether private or State-owned, is occupied on a de facto basis by poor campesinos. In Chile indigenous communities have made increasing claims on the land.

Over time, governments have taken a variety of measures to deal with the land distribution problem. In the 1960s and 1970s there were a number of attempts at agrarian reform, but these policies later gave way to other distribution arrangements. In the 1990s efforts to formalize rural land ownership through land title and registration programmes began to figure more prominently on the political agenda.

Table I.13
LATIN AMERICA AND THE CARIBBEAN (16 COUNTRIES): GINI INDICES OF LAND
CONCENTRATION, 1970-1994
(Percentages)

Group of countries ^a	Gini index		
	Circa 1970	Circa 1985	Circa 1994
Chile	0.92	...	0.92
Mexico	0.93	...	...
Paraguay	...	0.93	0.93
Brazil	0.84	0.85	0.81
Colombia	0.86	0.79	0.79
Costa Rica	0.81	0.80	...
Ecuador	0.81	...	...
El Salvador	0.80	0.83	...
Panama	0.77	...	0.85
Peru	0.88	0.83	0.86
Venezuela	0.90	0.89	...
Honduras	0.71	...	0.66
Jamaica	0.79	...	...
Puerto Rico	0.76	0.77	...
Dominican Republic	0.78	0.73	...
Uruguay	0.81	0.80	0.76

Source: ECLAC, Agricultural Development Unit, on the basis of agricultural censuses conducted in the respective countries.

^a The countries are divided into three groups by their Gini index values.

¹¹ In Paraguay, for example, there were over 200 land occupations between 1989 and 1996, involving more than 600,000 hectares and almost 40,000 campesino families. Between 1989 and 1991 over 3,000 arrests were made in relation to land occupations, and armed groups were set up to dissuade the campesinos involved (see Molinas, 1999).

Recent studies¹² show that transactions on the agricultural land market tend to take place within the same stratum of producers, and therefore do not modify the unequal structure of land ownership. Also, the most dynamic markets are located close to cities and in newly settled areas—not, in other words, where the poorest campesinos usually live. Changes in the structure of land ownership have therefore been limited and have not benefited the most marginalized households.

Moreover, it is acknowledged that credit markets have certain shortcomings and that the poorest campesinos lack the resources to buy land. This has led to the creation of special credit access programmes, which are up to 75% subsidized in some cases. However, in Latin America the formal land market exists alongside another market in which informal title is the prevalent form of ownership. This limits access to credit for working and investment capital.

As a fixed asset and a factor of production, land has particular features—as a geographically dispersed immovable asset whose financial value is heavily dependent on weather conditions, location, access to water and other factors—that make markets for agricultural land significantly different from markets for mass-produced goods. By their very nature, land markets are extremely imperfect and segmented, and involve high and largely fixed transaction costs (Muñoz, 1999).

In addition, most of the region's countries lack one of the most important tools for the development of a rural land market: an efficient, reliable and workable registry system that gives users the legal and financial information they need to participate in the market (Tejada and Peralta, 1999). All this has helped to perpetuate the high concentration of land markets and the shortcomings of credit markets, which impact negatively on small-scale producers and campesino families.

4. Vulnerability and poverty

(a) The concept of social vulnerability

The terms “vulnerability” and “vulnerable groups” have been used to refer to a social phenomenon of multiple dimensions which is manifested in the feelings of risk, insecurity and helplessness expressed by the population in public opinion polls. How vulnerable individuals and households are is directly related to their degree of control over

¹² Joint ECLAC/GTZ project on policies to develop rural land markets in Latin America, 1999.

different kinds of resources and assets, the mobilization of which enables them to make use of the existing opportunity structures at a given point in time, either to enhance their well-being or to prevent it from declining when it comes under threat (Katzman, 1999).

The resources available to individuals and households include all the tangible and intangible assets they control, such as labour capacity, human capital, productive resources and social and family relationships. Labour, which is the most important resource of middle- and low-income groups, has been affected by external liberalization, the demands of competitiveness and the increased flexibility of the labour market.¹³ In this framework, the abiding trend towards structural unemployment and informal employment has worsened, leading to more precarious employment, the weakening of trade unions and a decline in their bargaining power. With regard to human capital, there are still obstacles that hinder the process of giving new generations the capital they need for an era in which knowledge is an essential factor of production. In addition, human capital is devalued in cases where former employees of firms that have become uncompetitive and failed cannot find new jobs in firms that have stayed afloat by using new technologies and new methods of labour organization to deal with changes in their environment. Social vulnerability is also associated with a lack of access to productive resources on the part of low-productivity sectors, which have to deal with external trade liberalization and the loss of traditional markets as their outputs are displaced by newly introduced goods and services, and which moreover do not usually have the benefit of suitable protection and development policies. Vulnerability is also worsened when social relations, which form an important part of the social capital of individuals and families, are weak. These links and networks are crucial in affording access to jobs, information and positions of power. Contemporary transformations have affected traditional forms of organization, social participation and political representation, and this has even weakened social cohesiveness in many countries. Family relations, which provide individuals with support and assistance, have also been damaged by the increase in the number of failed marriages and the emergence of new, less stable types of unions.

¹³ As stated in UNDP (2002, p. 29), it is possible to distinguish various sectors of employers and workers who have successfully withstood this trend towards greater flexibility. Also, there is a category of low-skilled workers who have always worked in flexible conditions; the discussion of increased flexibility thus refers only to other workers. This means that the problem is asymmetrical flexibility, which implies that the costs of the adjustment are unequally distributed among the population.

(b) Measuring vulnerability

The rotation of households into or out of poverty can be a good indicator with respect to the population that can be considered vulnerable. Owing to fluctuations in household income from one year to the next, it is not unusual for the number of families below the poverty line to increase, or indeed decrease. Although longitudinal surveys that could systemically monitor this phenomenon are not conducted in Latin America, it is possible to identify households whose per capita income is between 1 and 1.25 times the poverty line or between 1.25 and 2 times the poverty line. Between 7% and 11% of the region's households—in different countries and at different times—are in the first group, and an average of about 20% are in the second. Given that national income in the different countries fluctuated widely in the 1980s and 1990s and that a significant proportion of the population experienced job loss at least once during those periods, it can reasonably be deduced that there was a more frequent rotation of households moving into or out of poverty. These figures therefore lead to the conclusion that around 30% of households may be considered vulnerable.

(c) Policies to address vulnerability

As government policy gradually incorporates the objective of reducing vulnerability as a complement to combating poverty, new tasks begin to figure on the economic and social policy agenda. The objective of reducing vulnerability is yet another reason to develop economic policies aimed at achieving faster, steadier growth. It also calls for efforts to substantially raise the productivity of micro- and small enterprises, which, it is now clear, are no passing phenomenon. Meanwhile, it is necessary to increase the coverage, priority and efficiency of social policy. Among other things, this means targeting the low- and middle-income groups that are least able to cope with frequent economic recessions.

The variability of household income has worsened the situation of many families by forcing them to liquidate assets or to resort to extremely costly loans. This is particularly true of low- and middle-income households which, while not actually becoming poor, experience a decline in well-being and a feeling of insecurity. What is more, drops in household income can hamper families' access to social services, thereby exacerbating the downturn in their living standards and their loss of stability.

Efforts to reduce social vulnerability and continue to combat poverty are particularly hard to pursue in a context of fierce international competition that calls for macroeconomic discipline, trade liberalization

and labour flexibility. It is therefore essential to develop a new social policy that is closely linked and coordinated with, rather than separate from, economic policy (ECLAC, 2000a).

In the framework of this convergence between social and economic policy, labour market-related measures must be adopted to reduce vulnerability. The fundamental measures required include the promotion and protection of employment, which, in macroeconomic terms, means maintaining relative prices that do not hurt employment; ongoing training of the labour force to prepare people to work with new technologies and thus to cope better with the restructuring of production; and the improvement of labour legislation to safeguard workers' rights and promote harmonious and equitable relations within firms. It is also necessary to provide formal education for young people to prevent them from joining the labour force prematurely; to promote women's access to the labour market in non-discriminatory conditions; and, lastly, to develop financing formulas for the implementation of unemployment insurance, in order to provide workers with effective protection during times of economic recession and productive readjustment. Labour adaptability can thus help to boost systemic competitiveness while making workers less vulnerable and enhancing their technical and professional skills.

In addition, the vast majority of low-productivity sectors consist of low-technology micro- and small enterprises whose workers lack professional or technical skills, and of equally unskilled own-account workers. In almost all the Latin American countries these sectors account for at least half of all jobs. Policies such as guaranteeing these enterprises and own-account workers ready access to credit, technology and markets, and supporting them in the areas of information, product development, marketing channels and business management, are indispensable if these productive units are to be viable concerns. At the same time, such policies should help to increase the productivity and stability of those sectors' activities in order to increase the amount of income they generate and reduce poverty and vulnerability.

Clearly, it is no easy matter to put such policies in place. First of all, microenterprises are hard to locate, both because many of them are not properly registered and because they often change addresses or cease to exist. In addition, they often fail to comply with institutional requirements, especially in the financial area. Accordingly, unless the sector can be helped to achieve at least some degree of organization of its own, measures for its benefit could be very costly.

Second, with regard to access to social services, specific measures to reduce poverty, particularly extreme poverty, should be complemented

with other measures to assist low- and middle-income strata whose income is more variable and prone to decline. This means providing access to high-quality services such as education and health care. It has already been noted that vulnerable groups find their access to these services constrained in times of economic crisis because they can no longer afford health-care premiums or education costs, which are increasingly managed by the private sector. Even in boom periods, the quality of the services available to the most vulnerable sectors is far from ideal, and it worsens in times of recession. Clearly, no policy that is supposed to maintain certain minimum social standards can exclude the possibility of requiring individuals with more resources to pay for their own consumption of these services so that the benefits of public policies can be concentrated in vulnerable groups.

In particular, continuous access to quality education must be a central component of any policy for reducing vulnerability. In this respect, the gaps in the education of vast sectors of the population became apparent in the 1980s and 1990s, when education proved to be increasingly ill-adapted to productive processes based on new technologies. Education and vocational training, especially for those who are neither professionals nor technicians, are not very compatible with the demands of the new forms of production. This is particularly evident when individuals who lose their jobs try unsuccessfully to find employment in other occupations. Efforts to reintegrate such individuals into the labour market have had little success. Thus, the insufficient qualifications of a considerable proportion of the population can easily become a source of vulnerability. This should be a wake-up call for the education system and has prompted a number of reforms in this regard. Such reforms should ensure, among other things, that students have opportunities to update their knowledge on an ongoing basis.

It is also important to guarantee that retirement and other pensions, particularly those involving the lowest amounts, at least maintain their value, since their purchasing power tends to decline in times of inflation or budget cuts.

Third, the countries should design social policies that can meet the basic needs of the whole population by combining the resources, initiatives and capacities that exist in civil society and within the State. Monetary income, mainly from labour, is not the only means of enabling individuals to achieve their aspirations in terms of well-being. Factors such as housing, the surrounding environment, social infrastructure—drinking water, electricity, telephone, sewerage systems, paved roads, sports complexes, etc.—health and education, organizational networks, the instruments and tools developed by households and their initiatives

are also important in this regard. These are resources which can be used by public or private initiatives to protect or further social development.

Fourth, in the 1990s the governments embarked on major efforts to increase social spending, even though economic growth was limited in most of the countries. At the same time, increasingly deregulated markets and the need to be highly competitive in economies that were becoming more and more open revealed major areas of inefficiency in the public and private sectors. For this reason, social policy must be viewed in a wider context in which more efficient use of resources is essential. In particular, it is necessary to reform social public institutions and train their staff better if social spending is to continue to expand.

In turn, efficiency improvements are closely associated with more extensive civic participation. That is to say, in addition to the proper use of fiscal resources and the implementation of operational methods that combine these resources with others from socially-oriented non-governmental organizations, it is necessary to develop a public policy that encourages the direct involvement of the citizenry. In this regard, social networks and the non-governmental organizations that support them are beginning to gain importance in some areas. The State should forge an alliance with these new organizations, in order to deal with the wide range of social problems that jeopardize public safety and social well-being.

Fifth, a number of proposals have been put forward to deal with increases in vulnerability as a result of international financial crises, through the creation of special funds or safety nets which would enable State assistance to reach the groups worst affected by the domestic recessionary impact of such crises. These funds could be financed from State savings set aside in boom periods or from international cooperation. Although such cooperation is not easy to secure, it is generally agreed that this type of measure needs some kind of permanent institutional structure that can respond quickly and effectively when crisis breaks out.

Sixth, it is necessary to create an appropriate institutional structure to implement social policy, in keeping with the conditions and requirements imposed by the new development model adopted by the Latin American countries. In this regard, it is necessary to afford social affairs the same degree of importance as economic and political affairs and to achieve a convergence between sectoral policies and programmes in the areas of health, education, housing and social security, on the one hand, and measures that target specific vulnerable groups and geographical areas, on the other. By the same token, there is a need to combine the efforts of different actors and institutions to eradicate poverty and reduce vulnerability.

In summary, the figures for the 1990s show that in many of the region's countries, a huge volume of resources could be needed to significantly reduce poverty and social vulnerability. It is therefore vital to speed up and stabilize economic growth, in view of both its direct impact on poverty and the additional leeway it affords to public revenue and spending. At the same time, economic expansion must be built, at least in part, on an improvement in low-productivity jobs, to avoid a situation in which social policy alone must compensate for slack growth and unstable income levels. Likewise, a medium-term vision for the social policy budget, together with the creation of reserve funds, would help to prevent excessive fluctuations in the resource flows of low- and middle-income strata.

Methodological annex

(a) Method used to measure poverty

The estimated poverty rates used in this chapter were calculated using the cost of basic needs method, which is based on the calculation of poverty lines. The poverty line is the minimum income the members of a household must have in order to satisfy their basic needs. Where the necessary information was available, the poverty line for each country and geographical area was estimated on the basis of the cost of a basic food basket covering the population's nutritional needs, taking into account their consumption habits, the effective availability of food items and their relative prices. To the value of this basket was then added an estimate of the resources households need to satisfy their basic non-nutritional needs.¹⁴

The indigence line corresponds to the cost of the food basket, and indigents, or the extremely poor, are defined as individuals living in households whose income is so low that even if all of it were used to buy food, such households would still not be able to properly meet the nutritional needs of all their members. The value of the poverty line was obtained by multiplying the value of the indigence line by a constant factor that accounts for basic non-food costs, which was 2 for urban areas and about 1.75 for rural areas (see ECLAC, 1999c, box I.2).¹⁵

The differences in food prices between metropolitan areas and other urban and rural areas were taken into account in the calculation of indigence lines. In general, prices in other urban areas and in rural areas were 5% and 25% lower, respectively, than the prices registered in metropolitan areas.

With regard to sources of information, household income data were taken from household surveys conducted in the respective countries. In line with usual practice, both missing answers to certain questions on income—in the case of wage-earners, own-account workers and retirees—and probable biases arising from underreporting were

¹⁴ Information on the structure of household consumption of both food and other goods and services was obtained from surveys on household budgets conducted in the respective countries. Where no data from a recent survey of this type were available, other relevant information on household consumption was used.

¹⁵ The only country for which this general approach was not used was Brazil. In this case, the study used new indigence lines estimated for different geographical areas within the country, in the framework of a joint project conducted by the Brazilian Geographical and Statistical Institute (IBGE), the Brazilian Institute of Applied Economic Research (IPEA) and ECLAC.

corrected. In the latter case, the survey entries for income were compared with equivalent figures from an estimate of the household income and expenditure account from each country's system of national accounts. Income was understood to include compensation for wage labour (in cash and in kind) and own-account labour (including self-supply and the consumption value of home-made products), income from property, retirement and other pensions and other transfers received by households. For most of the countries the imputed rental value of owner-occupied dwellings was added to the income of households living in such dwellings.

To calculate the percentages of poor and indigent households and individuals, the monthly per capita value of the respective lines was compared with the total income of each household, also expressed in per capita terms. In turn, nationwide poverty and indigence indices were calculated as a weighted average of the figures corresponding to each geographical area, which means that they reflect not only the incidence of poverty in each area, but also the percentage of poverty and indigence with respect to the total population of each country.

(b) Indicators for measuring poverty

Poverty is considered to be an eminently normative concept associated with individual well-being. Consequently, there is neither a single definition of the phenomenon nor a universal method for measuring it. There is a consensus, however, that poverty must be measured in at least two stages: the poor population must be identified, and poverty must be aggregated using a synthetic measurement.

In the first stage, a threshold known as the poverty line (z) is defined as a means of identifying the population whose per capita income (ypc) is lower than the cost of a basket of items that satisfy basic needs ($ypc < z$).

In the second stage —aggregation— an indicator is selected to reflect individuals' income shortfall in relation to the poverty line. A "good" poverty indicator should meet certain criteria, the most important of which are the following three axioms:

- **Monotonicity:** a reduction in the income of a poor household —*ceteris paribus*— should increase the poverty indicator.
- **Transfer:** a transfer of income from a poor household to a wealthier one —*ceteris paribus*— should increase the poverty indicator.

- Decomposability: it should be possible to calculate a given population's poverty indicator as the weighted sum of the indices of the different subgroups of which it is composed.

The most commonly used poverty measurements may be summarized on the basis of a parametric index family proposed by Foster, Greer and Thorbecke (1984, pp. 761-766):

$$FTG_{\alpha} = \frac{1}{n} \sum_{i=1}^q \left[\frac{z - y_i}{z} \right]^{\alpha} \quad (1)$$

where $\alpha > 0$ and q is the number of individuals with income lower than z .

When $\alpha = 0$, the expression (1) corresponds to what is known as the poverty incidence index (H), which represents the proportion of individuals whose income is lower than the poverty line (z).

$$H = q/n \quad (2)$$

Because it is easy to calculate and interpret, this indicator is the most commonly used of all. However, although it is decomposable, it does not satisfy the first two axioms listed above, so that its usefulness for poverty analysis is in some ways limited.

When $\alpha = 1$, however, an indicator measuring the relative shortfall in the income of poor individuals with respect to the value of z can be obtained. This indicator is known as the poverty gap (PG):

$$PG = \frac{1}{n} \sum_{i=1}^q \left[\frac{z - y_i}{z} \right] \quad (3)$$

The poverty gap (PG) satisfies the axiom of monotonicity, but not the axiom of transfers, which means that this indicator does not reflect unequal income distribution among the poor.

Lastly, an index reflecting both the poverty gap and income distribution is obtained when $\alpha = 2$:

$$FTG_2 = \frac{1}{n} \sum_{i=1}^q \left[\frac{z - y_i}{z} \right]^2$$

Although it is less intuitive than the previous indicators, this one is particularly useful for policy design and evaluation. Since it satisfies all three axioms, it serves to generate conclusive classifications of countries, geographical units or social groups in order to pinpoint the worst pockets of poverty.

(c) Methodological considerations with respect to alternative poverty estimates

Poverty can be measured using a number of different methodologies, whose results vary widely and may even contradict one another. It is therefore important to be aware of the existence of measurements that differ from those used by ECLAC in the Social Panorama of Latin America and to take due precautions in interpreting and comparing their results. Specifically, the procedure used by the World Bank to draw up international comparisons of poverty is described below as an example of an alternative methodology for calculating poverty lines.

The World Bank uses a single poverty line to compare poverty in different countries or over time. This threshold, which reflects poverty levels in the lowest-income countries, is calculated as the median value of the world's 10 lowest national per capita poverty lines. In 2000 this value was US\$ 32.74 per month in terms of purchasing power parity (PPP), or US\$ 1.08 per day. Thus the threshold known as "a dollar a day" reflects a level of income low enough for the person who receives it to be considered poor anywhere in the world. The World Bank also usually includes a higher poverty line in its tables, obtained by multiplying the above value by two to reflect slightly higher standards of poverty.

When a single poverty line is used for all countries, problems of comparability inevitably arise because price levels are different in each country. This problem may be solved, at least partially, by using different exchange rates to reflect purchasing power parity (PPP). In other words, exchange rates are corrected so that a dollar has the same buying power anywhere in the world. In World Bank (2001) the poverty line is expressed in "PPP dollars" valued at 1993 prices.¹⁶ The final step in the poverty calculation procedure is to adjust the survey data to the reference year of the poverty line by deflating those values in accordance with the consumer price index (CPI) over the period.

It is important to clarify that the purpose of the poverty line described here is to establish a common basis on which to make international comparisons. Consequently, when the objective is to evaluate or formulate policies or to analyse the characteristics of poverty in depth, the World Bank itself recommends using poverty lines that

¹⁶ The PPP exchange rates used today are estimated by the World Bank using International Comparison Programme (ICP) data from 1993, which cover a total of 110 countries. These estimates are not comparable to the PPP values used in previous years, which come from the Penn-World tables, since they can vary considerably owing to the methodology used.

reflect the specific situation in each country. The poverty lines calculated by ECLAC are of precisely this type, since they take into account each country's current energy requirements and demographic features.

Table I.14 compares ECLAC poverty estimates for the Latin American countries based on national poverty lines to World Bank poverty estimates based on international poverty lines, equivalent to US\$ 32.74 (indigence) and US\$ 65.48 (poverty) per month (1993 PPP). As the table shows, the World Bank's poverty and indigence estimates are almost always lower than the estimates calculated by ECLAC.

Table I.14
LATIN AMERICA: ESTIMATES BASED ON NATIONAL AND INTERNATIONAL
POVERTY LINES
(Percentages of the population)

Country	Year	National lines (ECLAC)		Year	International lines (World Bank)	
		Indigence	Poverty		Less than US\$ 1 per day ^a	Less than US\$ 2 per day ^b
Bolivia	1989 ^c	23.3	53.2	1990	11.3	38.6
Brazil	1996	13.9	35.8	1997	5.1	17.4
Chile	1994	8.0	28.6	1994	4.2	20.3
Colombia	1997	23.5	50.9	1996	11.0	28.7
Costa Rica	1997	7.8	22.5	1996	9.6	26.3
Ecuador	1994 ^d	25.5	57.9	1995	20.2	52.3
El Salvador	1997	23.3	55.5	1996	25.3	51.9
Guatemala	1989	41.8	69.1	1989	39.8	64.3
Honduras	1997	54.4	79.1	1996	40.5	68.8
Mexico	1996	21.3	52.1	1995	17.9	42.5
Panama	1997	13.0	33.2	1997	10.3	25.1
Paraguay	1994 ^d	18.8	49.9	1995	19.4	38.5
Dominican Republic	1997	14.4	37.2	1996	3.2	16.0
Uruguay	1990 ^d	3.4	17.8	1989	<2.0	6.6
Venezuela	1996	20.5	48.1	1996	14.7	36.4

Source: ECLAC, on the basis of special tabulations of data from household surveys conducted in the respective countries, and World Bank, *World Development Report 2000-2001: Attacking Poverty*, New York, Oxford University Press, September 2001.

^a Equivalent to US\$ 32.74 per person per month.

^b Equivalent to US\$ 65.48 per person per month.

^c Eight departmental capitals plus the city of El Alto.

^d Urban areas.

(d) Value of the indigence and poverty lines used to calculate the estimates

Table I.15
LATIN AMERICA (18 COUNTRIES): INDIGENCE LINES (IL) AND POVERTY LINES (PL)
(Monthly values per person)

Country	Year	Income reference period	Currency ^a	Local currency				Exchange rate ^b	US dollars			
				Urban		Rural			Urban		Rural	
				IL	PL	IL	PL		IL	PL	IL	PL
				Local currency					US dollars			
Argentina	1990 ^c	September	A	255 928	511 856	...	...	5 791.0	44.2	88.4	...	...
	1994	September	\$	72	144	...	...	1.0	72.0	143.9	...	...
	1997 ^d	September	\$	76	151	...	...	1.0	75.5	151.0	...	...
	1999	September	\$	72	143	...	...	1.0	71.6	143.3	...	...
Bolivia	1989	October	Bs	68	137	...	...	2.9	23.8	47.5	...	...
	1994	June-November	Bs	120	240	...	...	4.7	25.7	51.4	...	...
	1997	May	Bs	155	309	125	219	5.3	29.4	58.8	23.9	41.8
	1999	October-November	Bs	167	333	130	228	5.9	28.0	56.1	21.9	38.3
Brazil	1990	September	Cr\$	3 109	6 572	2 634	4 967	75.5	41.2	87.0	34.9	65.7
	1993	September	Cr\$	3 400	7 391	2 864	5 466	111.2	30.6	66.5	25.8	49.2
	1996	September	R\$	44	104	38	76	1.0	43.6	102.3	37.2	74.9
	1999	September	R\$	51	126	43	91	1.9	26.7	66.2	22.7	48.1
Chile	1990	November	Ch\$	9 297	18 594	7 164	12 538	327.4	28.4	56.8	21.9	38.3
	1994	November	Ch\$	15 050	30 100	11 597	20 295	413.1	36.4	72.9	28.1	49.1
	1996	November	Ch\$	17 136	34 272	13 204	23 108	420.0	40.8	81.6	31.4	55.0
	1998	November	Ch\$	18 944	37 889	14 598	25 546	463.3	40.9	81.8	31.5	50.1
	2000	November	Ch\$	20 281	40 562	15 628	27 349	525.1	38.6	77.2	29.8	52.1
Colombia	1991	August	Col\$	18 093	36 186	14 915	26 102	645.6	28.0	56.1	23.1	40.4
	1994	August	Col\$	31 624	63 249	26 074	45 629	814.8	38.8	77.6	32.0	56.0
	1997	August	Col\$	53 721	107 471	44 333	77 583	1 141.0	47.1	94.2	38.9	68.0
	1999	August	Col\$	69 838	139 716	57 629	100 851	1 873.7	37.3	74.6	30.8	53.8
Costa Rica	1990	June	¢	2 639	5 278	2 081	3 642	89.7	29.4	58.9	23.2	40.6
	1994	June	¢	5 264	10 528	4 153	7 268	155.6	33.8	67.7	26.7	46.7
	1997	June	¢	8 604	17 208	6 778	11 862	232.6	37.0	74.0	29.1	51.0
	1999	June	¢	10 708	21 415	8 463	14 811	285.3	37.5	75.1	29.7	51.9
Ecuador	1990	November	S/.	18 465	36 930	...	...	854.8	21.6	43.2	...	...
	1994	November	S/.	69 364	138 729	...	...	2 301.2	30.1	60.3	...	...
	1997	October	S/.	142 233	284 465	...	...	4 194.6	33.9	67.8	...	...
	1999	October	S/.	301 716	603 432	...	...	15 656.8	19.3	38.5	...	...
El Salvador	1995	January-December	¢	254	508	158	315	8.8	29.0	58.1	18.0	35.9
	1997	January-December	¢	290	580	187	374	8.8	33.1	66.2	21.4	42.8
	1999	January-December	¢	293	586	189	378	8.8	33.5	66.9	21.6	43.2
Guatemala	1989	April	Q	64	127	50	88	2.7	23.6	47.1	18.7	32.7
	1998	Dec.97 - Dec.98	Q	260	520	197	344	6.4	40.7	81.5	30.8	54.0
Honduras	1990	August	L	115	229	81	141	4.3	26.5	52.9	18.6	32.6
	1994	September	L	257	513	181	316	9.0	28.6	57.1	20.1	35.2
	1997	August	L	481	963	339	593	13.1	36.8	73.6	25.9	45.3
	1999	August	L	561	1 122	395	691	14.3	39.3	78.6	27.7	48.4
Mexico	1989	Third quarter	\$	86 400	172 800	68 810	120 418	2 510.0	34.4	68.8	27.4	48.0
	1994	Third quarter	MNS\$	213	425	151	265	3.3	63.6	127.2	45.3	79.3
	1996	Third quarter	MNS\$	405	810	300	525	7.6	53.6	107.2	39.7	69.5
	1998	Third quarter	MNS\$	537	1 074	385	674	9.5	56.8	113.6	40.7	71.3
	2000	Third quarter	MNS\$	665	1 330	475	831	9.4	71.0	142.1	50.7	88.8
Nicaragua	1993	21 Feb. - 12 June	C\$	167	334	129	225	4.6	36.6	73.3	28.2	49.4
	1997	October	C\$	247	493	...	...	9.8	25.3	50.5	...	...
	1998	15 April - 31 Aug.	C\$	275	550	212	370	10.4	26.3	52.7	20.3	35.5
Panama	1991	August	B	35	70	27	47	1.0	35.0	70.1	27.1	47.5
	1994	August	B	40	80	31	54	1.0	40.1	80.2	31.0	54.3
	1997	August	B	41	81	31	55	1.0	40.6	81.3	31.4	55.0
	1999	July	B	41	81	31	55	1.0	40.7	81.4	31.5	55.1
Paraguay	1990 ^d	June, July, August	₵	43 242	86 484	...	...	1 207.8	35.8	71.6	...	...
	1994	August - September	₵	87 894	175 789	...	...	1 916.3	45.9	91.7	...	...
	1996	July - November	₵	108 572	217 143	...	...	2 081.2	52.2	104.3	...	...
	1999	July - December	₵	138 915	277 831	106 608	186 565	3 311.4	42.0	83.9	32.2	56.3
Peru	1997	Fourth quarter	N\$	103	192	83	128	2.7	42.1	84.3	31.6	55.3
	1999	Fourth quarter	N\$	109	213	89	141	3.5	31.2	61.2	25.5	40.5
Dominican Republic	1997	April	RDS\$	601	1 203	451	789	14.3	42.1	84.3	31.6	55.3
Uruguay	1990	Second half	Nu\$	41 972	83 944	...	...	1 358.0	30.9	61.8	...	...
	1994	Second half	\$	281	563	...	...	5.4	52.1	104.1	...	...
	1997	Year	\$	528	1 056	...	...	9.4	55.9	111.9	...	...
	1999	Year	\$	640	1 280	...	...	11.3	56.4	112.9	...	...
Venezuela	1990	Second half	Bs	1 924	3 848	1 503	2 630	49.4	38.9	77.9	30.4	53.2
	1994	Second half	Bs	8 025	16 050	6 356	11 124	171.3	46.9	93.7	37.1	65.0
	1997 ^e	Second half	Bs	31 711	62 316	...	...	488.6	64.9	127.5	...	...
	1999 ^f	Second half	Bs	49 368	97 622	...	...	626.3	78.8	155.9	...	...

Source: ECLAC, on the basis of special tabulations of data from household surveys conducted in the respective countries.

^a Local currencies:

Argentina: (A) Austral; (\$) Peso Bolivia: (Bs) Boliviano Brazil: (Cr\$) Cruzeiro; (R\$) Real Chile: (Ch\$) Peso
Colombia: (Col\$) Peso Costa Rica: (¢) Colón Ecuador: (S/.) Sucre El Salvador: (¢) Colón
Guatemala: (Q) Quetzal Honduras: (L) Lempira Mexico: (\$) Peso; (MNS) Nuevo Peso
Nicaragua: (C\$) Córdoba Panama: (B) Balboa Paraguay: (₵) Guaraní Peru: (N\$) Peso
Dominican Rep.: (RD\$) Peso Uruguay: (Nu\$) Nuevo Peso; (\$) Peso Venezuela: (Bs) Bolívar

^b International Monetary Fund "rf" series.

^c Greater Buenos Aires.

^d Asunción.

° Nationwide total.