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Brazil
Attacking Brazil's Poverty

A Poverty Report with a Focus on Urban Poverty Reduction Policies
(In Two Volumes) Volume I: Summary Report

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CURRENCY EQUIVALENTS

Currency Unit - Real (R$)
December 1996: R$1.04/US$
December 1998: R$1.21/US$
December 2000: R$1.95/US$

WEIGHTS AND MEASURES

The Metric System is used throughout the report.

FISCAL YEAR

January 1 to December 31

ABBREVIATIONS

BPC	Disability and Elderly Pension (*Beneficio de Prestação Continuada*)
FAT	Worker Support Fund (*Fundo de Amparo ao Trabalhador*)
FGTS	Severance Fund (*Fundo de Garantia por Tempo de Serviço*)
GDP	Gross Domestic Product
IBGE	Brazilian Institute of Statistics and Geography (*Instituto Brasileiro de Geografia e Estatística*)
IPEA	Institute for Applied Economic Research (*Instituto de Pesquisa Econômica Aplicada*)
LAC	Latin America and the Caribbean Region
LSMS	Living Standard Measurement Survey
NGO	Non-Governmental Organization
PAT	Workers Food Program (*Programa de Alimentação do Trabalhador*)
PIS/PASEP	Labor Funds for Private and Government Sector Workers (*Programas de Integração Social e de Formação do Patrimônio do Servidor Público*)
PLANFOR	Labor Ministry Training Programs (*Programa Nacional de Qualificação do Trabalhador*)
PME	Monthly Employment Survey (*Pesquisa Mensal de Emprego*)
PNAD	National Household Survey (*Pesquisa Nacional por Amostra de Domicílios*)
PPV	Living Standard Measurement Survey (*Pesquisa sobre Padrões da Vida*)
PREM	Poverty Reduction and Economic Management Network
SUS	Unified Health System (*Sistema Único de Saúde*)
VT	Employer Provided Transportation Pass (*Vale Transporte*)

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Attacking Brazil's Poverty

A Poverty Report with a Focus on Urban Poverty Reduction Policies

Summary Report

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FOREWORD

This report was produced under the supervision of Gobind T. Nankani, Director, Suman Bery, Lead Economist, and Norman Hicks, Sector Manager Poverty, by a World Bank team led by Joachim von Amsberg, and comprised of Francisco Ferreira, Peter Lanjouw, Kimberly Nead, Marcelo Neri, Judy Baker, Ricardo Paes de Barros, and Zhi Liu. Additional background papers were prepared by: Sonia Rocha, Martin Ravallion, Maria da Piedade Morais, Claudio Hamilton, Diana Meirelles da Motta, Silvio Caccia Bava, Paulo Sérgio Pinheiro, Rubem César Fernandez, Ana Clara Torres Ribeiro, Grazia di Grazia, and Rosane Mendonça. Julia Conter, Leo Feler, and Carolina Sanchez assisted with the production of the report. The peer reviewers for this task were Jeffrey Hammer, Jesko Hentschel and Josef Leitman.

This report was produced in close collaboration with various institutions and individuals in Brazil. In particular, the extensive collaboration with the *Instituto de Pesquisa Econômica Aplicada* (IPEA) is gratefully acknowledged. The working papers prepared for this report were presented and discussed at various seminars. Many useful comments were received and are appreciated. The team wishes to thank all individuals in the Government, the World Bank, and elsewhere, who have contributed with their time, thoughts, and comments to this report. While the report has been discussed with many institutions and individuals of the Brazilian Government, the views expressed in the report are exclusively those of the World Bank and not necessarily those of the Brazilian Government.

Most of this report is based on work undertaken in 1998, based on data from the PPV 1996/7 and the PNAD 1996. It reflects information available at that time. Only selective updates have been made in a few cases to reflect more recent data or policy developments.

The Summary Report (Volume I) and the Full Report (Volume II) are based on several background papers prepared for this task, which are listed at the end of the report. In the text, no specific references are made to these documents. The Summary Report contains the most important findings and policy recommendations without providing the analytical support that is contained in the Full Report and the background papers. The background papers have been prepared under the responsibility of their respective authors and are not official World Bank documents. They are available from the following website: **http://www.worldbank.org/br**.

Attacking Brazil's Poverty

A Poverty Report with a Focus on Urban Poverty Reduction Policies

1. Introduction

1. ***The first central message of this report is that Brazil has over the last years achieved great progress in its social policies and indicators***, especially in health and education. Brazil has achieved considerable progress in the reduction of income poverty. Overall, recent and ongoing policy reforms are on the right track, and the perspectives for Brazil's poor for a better life in the future have considerably improved.

2. ***The second central message is that poverty remains unacceptable high for a country with Brazil's average income levels. The worst remaining income poverty is mostly concentrated in the Northeast region, and in the smaller urban and rural areas.*** At the same time, the poor in large urban and metropolitan areas suffer from additional deprivation related to crowding, poor health, violence and crime and require continued attention.

3. ***The third central message is that, with decisive action, Brazil can achieve ambitious targets for further improvements in social indicators, including the objective of reducing the rate of extreme income poverty by 50% by the year 2015.*** This report proposes a strategy for reaching this goal that includes renewed broad-based and inclusive growth as well as further reforms of social spending and social policies. This strategy requires continued actions and commitment at all levels of Government.

4. ***Poverty is a complex and multidimensional phenomenon.*** A broad definition of poverty as unacceptable deprivation in human well-being underlies this report. This definition of poverty includes insufficient income and consumption, unsatisfied basic needs such as basic education, health, nutrition, and housing, insecurity and risk, as well as voicelessness and powerlessness. For the quantitative analysis, however, this report uses a much narrower definition of poverty as insufficient income or insufficient consumption. While the relationship between income levels and other household characteristics is analyzed, a more comprehensive approach for quantitative analysis of other forms of deprivation or social exclusion is not attempted. Also, issues pertaining more broadly to the inequality of income, assets, and opportunity are not treated in this report.[1]

5. ***Recognizing the rich literature on poverty in Brazil, this report attempts a few specific contributions.*** First, it presents a new 1996 poverty profile with a breakdown by city size, incorporation of the imputed value of owned housing, and regional price deflators. Second, it provides analysis of the incidence of selected public social spending based on the 1996/7 *Pesquisa sobre Padrões da Vida* (PPV). Third, it selectively synthesizes other work on poverty in Brazil in order to present an overview of cross-sectoral comparisons of the effectiveness of policy interventions. Fourth, it provides suggestions and selective inputs for the development of a national poverty reduction strategy. The report updates a previous World Bank poverty assessment and builds on earlier work toward an urban poverty strategy for Brazil.[2] The report is directed at policy makers at all levels (federal, state, and municipal) as well as policy analysts.

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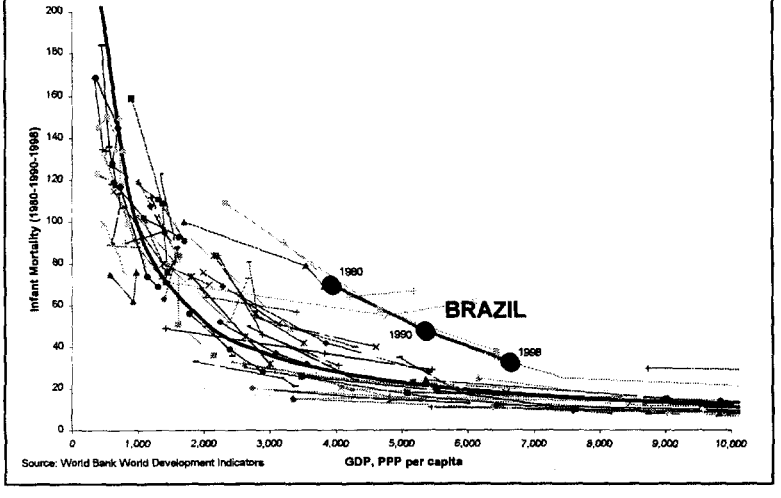
[1] The recent Voices of the Poor study for Brazil contains a fuller account of the non-income dimensions of poverty in Brazil. Some of the findings are summarized in Volume II of this report; see World Bank. Consultations with the Poor: Brazil – National Synthesis Report. Poverty Reduction and Economic Management Network. Washington, D.C.: The World Bank, 1999. See also http://www.worldbank.org/poverty/voices/.

[2] World Bank. A Poverty Assessment. Report no. 14323-BR. Washington, D.C.: The World Bank, 1995a; World Bank. Brazil: Toward an Urban Poverty Strategy. Washington, D.C.: The World Bank, 1995b. (unpublished).

Figure 1: Improvements in Infant Mortality

Each line in this figure represents one country showing average income and the rate of infant mortality at three points in time (1980, 1990, 1998). The international regression line shows the level of infant mortality expected at the respective average income level. Brazil has not only greatly improved this indicator but also approached the international regression line.



6. ***The present report excludes discussion and analysis of policies specifically directed at the reduction of rural poverty, such as rural development and land reform.*** Given their importance, specific rural poverty issues are discussed in a separate World Bank report currently under preparation. The present report excludes specific rural poverty policy issues simply to maintain the scope of the document manageable. No judgement whatsoever on the relative importance of urban versus rural poverty policies is implied by the exclusion of rural policy issues from this report. Moreover, it is not suggested that urban areas are homogenous as a group vis-à-vis rural areas. In fact, analysis in this report shows that small urban areas are quite different from large cities and have similarities with rural areas. Migration links rural and urban poverty and has to be considered in the design of poverty reduction policies.

2. Poverty Trends and Profiles

7. ***Over time, Brazil has made great advances in improving its social indicators.*** Twenty years ago, many of Brazil's health and education indicators were far worse than one would expect at Brazil's average income level. These indicators have not only improved continuously and substantially, they have also approached or even surpassed levels that would be expected at Brazil's average income levels today. Figure 1 and Figure 2 show this progress very clearly, using the examples of the infant mortality rate and the rate of non-enrollment in primary schools, respectively.

Figure 2: Improvements in Primary School Enrollment

Each line in this figure represents one country showing average income and the rate of non-enrollment in primary school at three points in time (1980, 1990, 1998). The international regression line shows the level of non-enrollment expected at respective average income level. Brazil has not only greatly improved this indicator but also surpassed the international regression line.

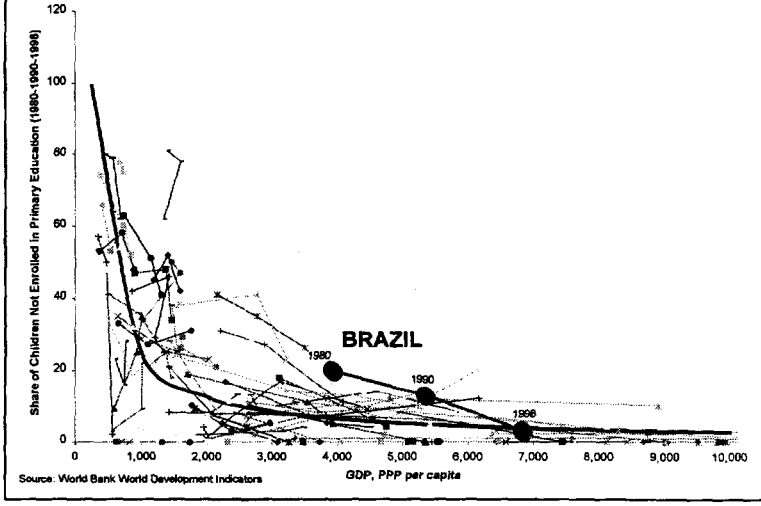
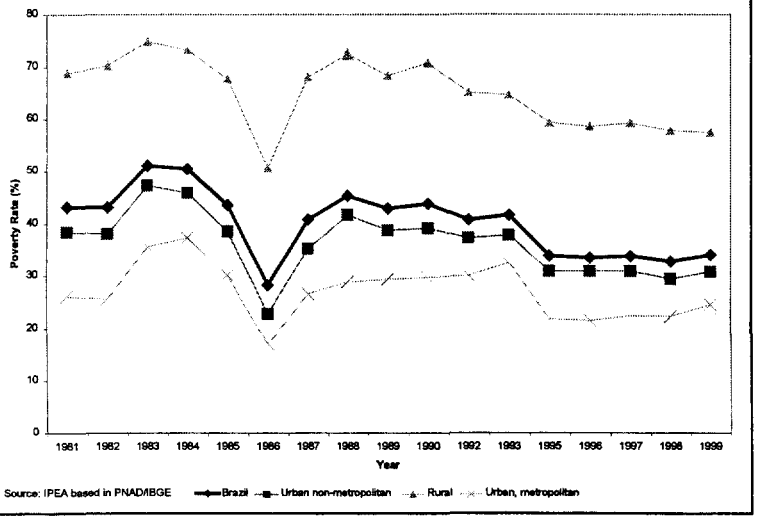


Figure 3: Poverty Rates 1981-1999

The rate of extreme poverty is highest in the North and Northeast and in rural areas. The rate of extreme poverty is also very high in small and medium sized urban areas. However, PNAD data is likely to overestimate rural poverty.



8. ***Fluctuating with macroeconomic events, income poverty has also been declining overall; however, a core of indigent individuals remain stuck in poverty.*** Abstracting from the impact of an unsustainable stabilization effort around 1986, Figure 3 shows a declining trend of income poverty since 1983, with a marked and lasting reduction in poverty levels achieved with stabilization in 1994. Overall, economic stabilization and growth have contributed significantly to the reduction of poverty in Brazil and will continue to do so. However, a significant number of extremely poor with low education levels remain at the bottom of the income distribution, largely untouched by economic development. These poor—maybe the bottom 10-15% of Brazil's income distribution—are often unable to benefit from economic opportunities, pointing to the need for a basic social safety net for this core of indigent individuals.

9. ***To analyze the nature of the remaining poverty problem, the following poverty profile defines a poor person as one living in a household with per capita income less than the equivalent of R$65 per month at São Paulo Metropolitan Area prices.*** Income is adjusted for regional price differences and for the imputed rent of owned or unpaid housing. Income is measured by the national household survey undertaken in 1996 (PNAD 1996). Comparative analysis is also based on income and consumption data from the PNAD 1993, PNAD 1998, and the 1997 LSMS household survey (PPV). The poverty line of R$65 is determined by the cost of a basic food basket (extreme poverty line). This report focuses on the extreme poverty line of R$65 in order to produce a sharp profile of the poor (the higher the poverty line used, the more closely the profile of the poor resembles the profile of the overall population).

10. ***At the chosen extreme poverty line, Brazil has a poverty headcount ratio (poverty rate) of 22.6%.*** This means 34.9 million Brazilians live in households with a per-capita income below the poverty line. A little more than half of these poor (52.5%) live in urban areas. Of the urban poor, 39% live in urban areas with a population less than 20,000; 23% live in urban areas with a population between 20,000 and 100,000;

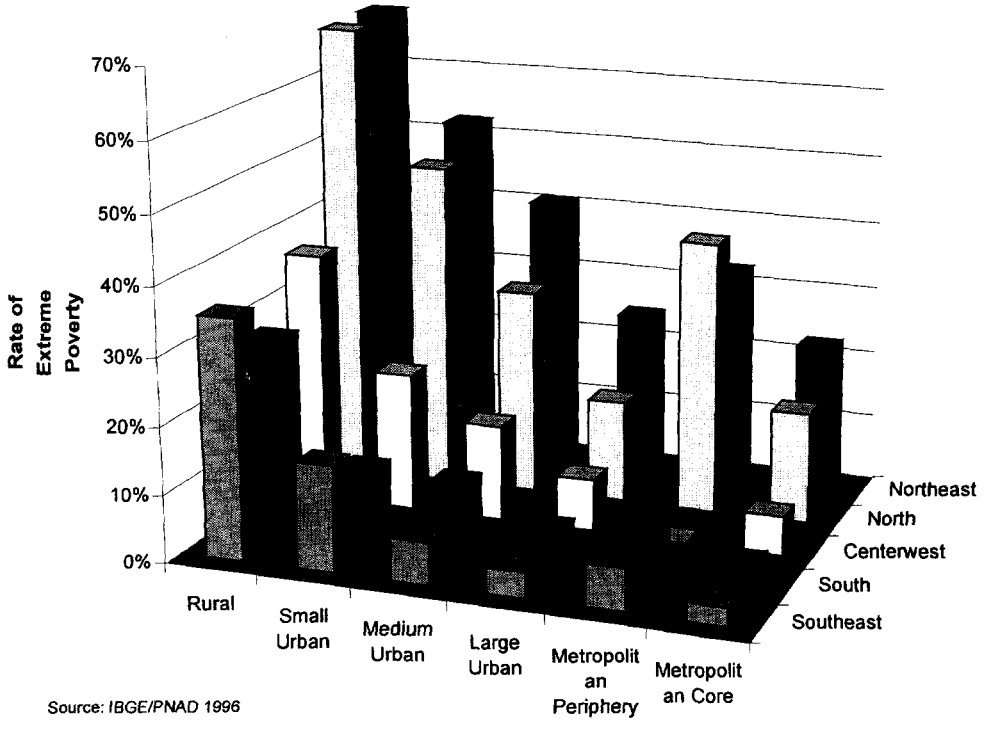
Table 1: Distribution of Poor by Region and Area

Share of total poverty	Northeast	Centerwest	North	Southeast	South	Total
Metropolitan Core	3.6%	0.2%	0.4%	1.3%	0.3%	5.8%
Metropolitan Periphery	2.4%	0.0%	0.1%	2.4%	0.5%	5.4%
Large Urban	4.8%	0.7%	1.1%	1.3%	0.6%	8.5%
Medium Urban	6.6%	0.7%	1.7%	1.9%	1.3%	12.2%
Small Urban	12.5%	1.2%	2.4%	3.1%	1.2%	20.5%
Rural	32.7%	2.1%	0.7%	7.7%	4.3%	47.5%
Total	62.7%	5.0%	6.4%	17.7%	8.1%	100.0%

"Poor Areas" (defined as per capita earnings less than R$160 per month) are shaded in gray.

Figure 5: Extreme Poverty Rate by Region and Type of Area

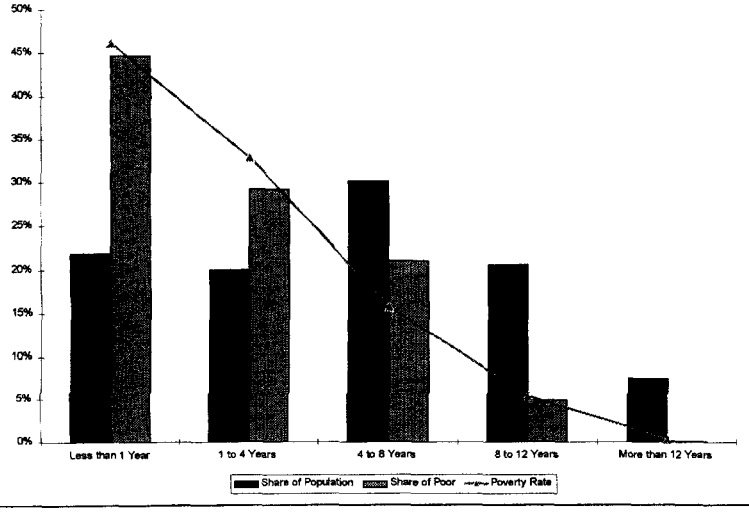
The rate of extreme poverty is highest in the North and Northeast and in rural areas. The rate of extreme poverty is also very high in small and medium sized urban areas. However, PNAD data is likely to overestimate rural poverty.



16% live in urban areas with more than 100,000 inhabitants; and finally 21% live in the metropolitan areas. In terms of geographical distribution, 63% of the poor live in the Northeast, 18% in the Southeast, 8% in the South, 6% in the North and 5% in the Centerwest. Figure 5 shows the extreme poverty rate in different regions and areas. Table 1 shows the distribution of Brazil's poor between regions and areas.

Figure 4: Poverty and Level of Education

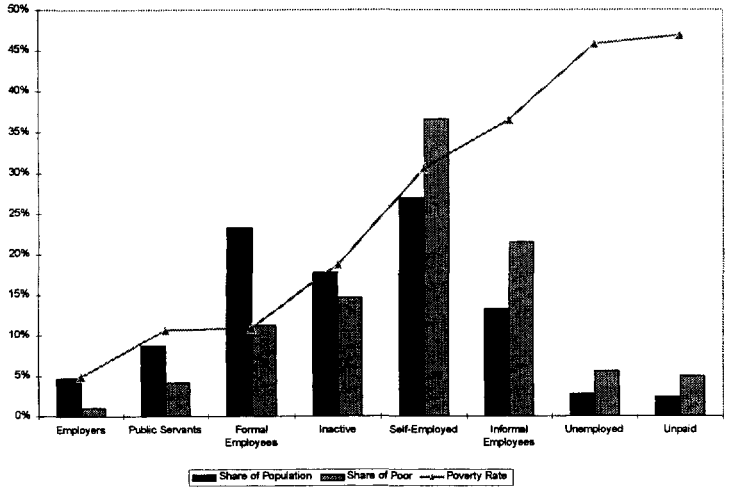
The poverty rate decreases with increasing number of years of education. The highest share of the poor (45%) have had less than one year of education. There are virtually no individuals who are poor and have more than 12 years of education.



11. ***Overall, there is a strong concentration of the poor in the Northeast and in the rural and the small and medium sized urban areas, both in terms of absolute numbers and in terms of poverty rates.*** Both in absolute terms (number of

Figure 6: Poverty and Employment Status

The unpaid, unemployed, informally employed, and self-employed experience the highest incidence of poverty. The largest shares of the poor are either self-employed or informally employed.



poor) as well as in relative terms (poverty rate), poverty is the worst in rural areas; within urban areas, poverty is more severe in small and medium sized urban areas; and poverty is least severe in the center of the metropolitan areas. From 1993 to 1998, poverty declined less in the Northeast, in the rural areas, and in the small and medium sized urban areas. Consequently, poverty became more concentrated in these areas. This profile presents a stark contrast to the dominant perception of poverty in the *favelas* of the mega-cities of São Paulo and Rio de Janeiro, where poverty is most visible. In fact, the poor of the metropolitan areas (core and periphery) of São Paulo, Rio de Janeiro, and Belo Horizonte together constitute only 3.7% of Brazil's poor or 7% of Brazil's urban poor. This finding suggests a stronger policy focus on the poor in small and medium sized cities.

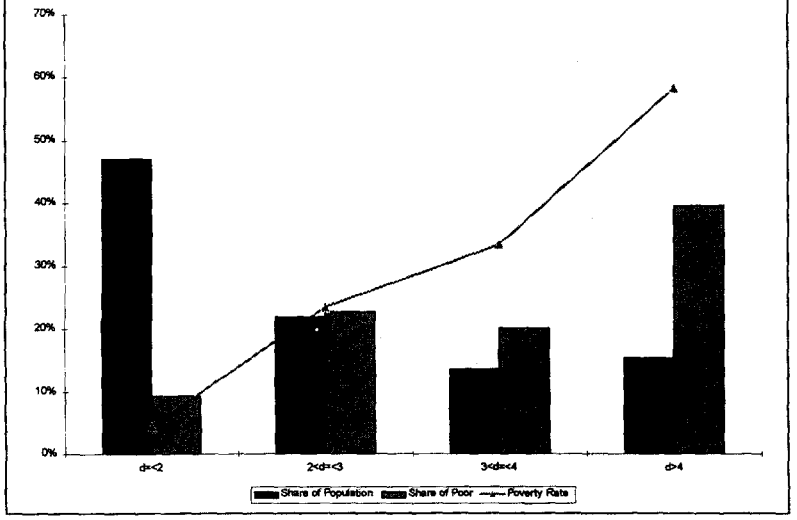
12. ***While not as severe in income terms, large-city poverty may be significantly worse due to other forms of deprivation linked to crowding.*** There are indications that welfare outcomes (determined, for example by health status indicators) in the bigger cities might be worse than income measures of poverty indicate. Controlling for poverty rates, education, and access to safe water, infant mortality rises significantly with city size, most likely related to crowding and pollution at the local level. Also, crime and violence are more severe in the larger cities. In larger cities, crime and violence are sometimes identified as the most significant barrier obstructing the escape from poverty. These observations suggest that an increased focus on income poverty in smaller and medium-sized cities should not divert attention away from the persisting poverty problems of the larger cities, where a focus in particular on the non-income dimensions of poverty would be justified.

13. ***Income poverty is closely associated with other forms of deprivation.*** The poor have less access to public services, such as water, sanitation, and garbage collection. Even though country-wide electrification rates are high, a quarter of the poor still live without access to electricity. 52% of the poor have no canalized water, 68% have no garbage collection, and 78% have neither sewage connection nor septic tanks. Health indicators, such as infant mortality, are significantly worse for the poor. Finally, crime and violence in urban areas typically affect the poorest most severely. Interestingly, residence in a *favela* is not significantly related to income poverty.

14. ***Most poor do not work in the formal labor market.*** A large share of the poor work in the informal sector (22% are informal employees and 37% are self-employed) or are inactive (15%). Only 15% of the poor are working in the formal sector (private or public); only 5% are unemployed (Figure 6). This means that social policies tied to formal employment or unemployment have only very limited reach among the poor.

Figure 7: Poverty and Dependency Ratio

The poverty rate increases with increasing number of dependents. The largest share of the poor has more than four dependents. The smallest share has two, one, or zero dependents.



15. ***The three factors most closely associated with poverty as likely underlying causes are location in a poor area, low schooling, and large household size:***

(a) Location (region and area) is the strongest explanatory variable (in a statistical sense) for poverty. Even households with the same characteristics are more likely to be poor in poorer than in richer areas. A poverty rate of nearly 50% in the Northeast suggests a more explicit approach toward regional equality and regional targeting in social policies and funding allocations.

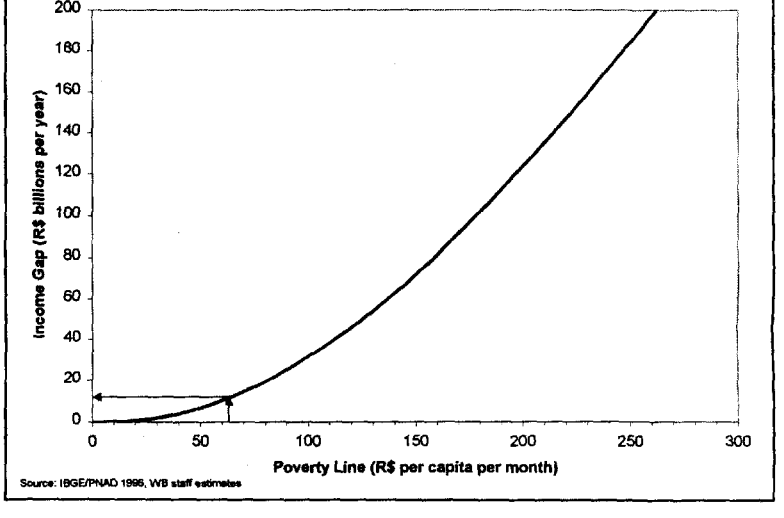
(b) Poverty is closely associated with low levels of education (see Figure 4): 73% of poor households are headed by individuals with four or less years of schooling. Educational inequality, rather than labor market segmentation or discrimination, explains most labor income inequality in Brazil. Low education levels lead to low incomes, which in turn, lead to low school attendance of children, perpetuating poverty.

(c) Household size is strongly correlated with poverty (see Figure 7). Poverty rates increase with the dependency ratio (share of income earners over non-income earners in the household). As observed all over the world, increased income and improved health indicators would typically reduce dependency ratios and thus further increase perspectives for poverty reduction.

16. ***Brazil's very high income inequality implies that the income gap of Brazil's poor is relatively small compared to macro-***

Figure 8: Theoretical Amount Needed to Eradicate Income Poverty

The theoretical amount needed to eradicate income poverty is the sum of the difference between the income of every Brazilian below a predetermined poverty line and that poverty line. Using the poverty line of R$65 per capita per month, this amount is about R$12 billion annually.



economic aggregates. In other words, theoretically and in aggregate, Brazil has the resources necessary for solving its poverty problems. The income gap of Brazil's poor was R$12 billion in 1996. Abstracting from the problems of targeting, administration, and incentives, this is the amount theoretically needed to bring every poor Brazilian up to the extreme poverty line for one year. This income gap constitutes 1.6% of the 1996 GDP of R$750 billion or less than 5% of the income of the wealthiest 10% of Brazilians. This amount is small in comparison with total social spending in Brazil. For alternative poverty lines, Figure 8 shows, on the vertical axis, the annual amount of perfectly targeted transfers theoretically necessary to bring every Brazilian up to the poverty line displayed on the horizontal axis.

3. Poverty Reduction Scenarios

17. ***The Government intends to reduce the rate of extreme poverty by 50% by 2015, which provides a useful benchmark for assessing the relative importance of different policies.*** Order-of-magnitude simulations show how this objective could be obtained by a combination of educational improvements, increased growth, and other measures (other structural social policies, such as land reform, rural and urban services, and transfer programs). Based on different mixtures of growth, educational improvements, and transfer programs, four poverty reduction scenarios are simulated. The first scenario is based on the immediate eradication of poverty. The next two scenarios are based on a more realistic reduction of poverty over time. Finally, the last scenario assesses the impact of scenario of slow growth and no progress on social policies (see Figure 9 and Table 2):

(a) Given prevailing fiscal constraints, the Immediate Poverty Eradication Scenario is clearly not viable nor sustainable. This strategy would require annual transfers of R$27 billion to reach the poor. This is much more than the aggregate income gap of R$12 billion since uniform transfers to all poor are assumed rather than unrealistic transfers equaling the individual income gap. Assuming that 40% of public spending actually reaches the poor, this would imply fiscal costs of R$67.5 billion. Over time, growth and other elements of structural poverty reduction would replace part of the transfer payments.

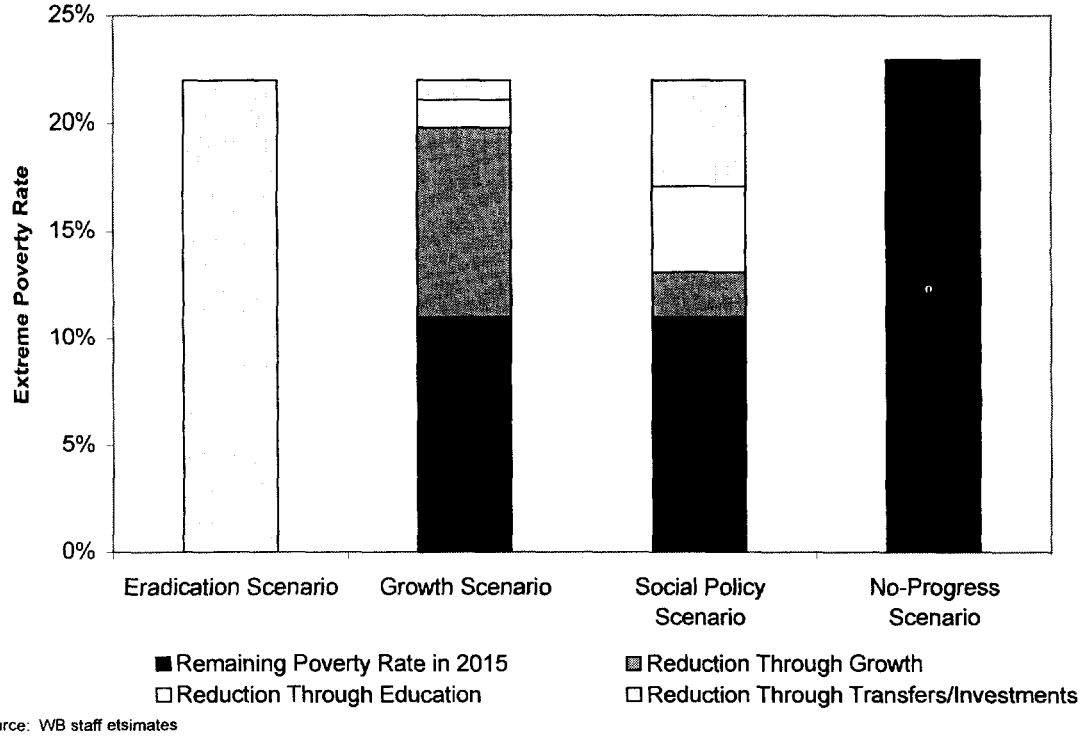
(b) The Growth Scenario is based on an optimistic 6% annual growth rate per year until 2015, complemented by educational improvements leading to one additional year in the average education of the workforce, and additional transfers of R$1.5 billion reaching the poor (at a budgetary cost of R$3.8 billion annually). This scenario would lead to a halving of the rate of extreme poverty to 11% by

Table 2: Poverty Reduction Scenarios 2015

	Immediate Eradication of Poverty	2015 / 50% Goal through Growth	2015 / 50% Goal through Social Spending	No Progress
GDP Growth per Year	N/A	6.0%	2.0%	1.0%
Additional Average Years of Education	N/A	1	2	0
Additional Annual Transfers Reaching the Poor	R$27 billion	R$1.5 billion	R$5.4 billion	R$0
Annual Budget Cost of Transfers (40% Effectiveness)	R$67.5 billion	R$3.8 billion	R$13.5 billion	R$0
Poverty Rate Now	0%	22%	22%	22%
Poverty Rate 2015	0%	11%	11%	23%

Figure 9: Toward the 2015 Poverty Reduction Goal - Alternative Scenarios

This figure shows four scenarios for the 2015 poverty reduction goal. The hypothetical immediate eradication scenario would bring the extreme poverty rate to zero through transfers and investments at an estimated cost of R$67 billion annually. The growth scenario would rely on 6% annual growth, one additional year of education, and transfers at an estimated cost of R$4 billion annually in order to cut the poverty rate to 11%. The social policy scenario would rely on 2% annual growth, two additional years of education, and tranfers at an estimated cost of R$14 billion annually in order to cut the poverty rate to 11% as well. The no-progress scenario with 1% annual growth would result in a poverty rate of 23% by 2015.



Source: WB staff etsimates

poverty to 11% by 2015 and demonstrates the large impact growth can have on poverty reduction.

(c) The Social Policy Scenario is based on slow growth of 2% per year until 2015 complemented by educational improvements leading to two additional years in the average education for the workforce, and additional transfers of R$5.4 billion reaching the poor (at a budgetary cost of R$13.5 billion annually). This would imply a near doubling of transfers reaching the poor today. This scenario would also reduce poverty to 11% by 2015 but shows that a major effort on improved (and increased) social spending would be required to reach this objective with slow growth.

(d) In an undesirable No-Progress Scenario, with growth at only 1% per year and social spending maintained at the current per capita level, poverty rates would worsen slightly (to 23%) implying a significant increase in the poor population (from 35 to 43 million).

18. ***A 50% reduction in the extreme poverty rate by 2015 is attainable with decisive Government action.*** In a scenario of high 6% annual growth, continuing educational improvements, and modest increases in tar-

geted transfers, the rate of extreme poverty rate would fall from 22% to 11% by 2015. Alternatively, the same target could be achieved with low growth of 2%, large continuing improvements in educational achievements, and a doubling of transfer payments reaching the poor.

19. ***Taking together recent structural reforms to underpin improved macroeconomic performance, the social policy reforms undertaken in recent years and ongoing and the increased public and political attention to poverty problems, the prospects for Brazil's poor have clearly improved.*** Structural reforms of the economy have laid the groundwork for economic stability. Such economic stability will protect the poor from income fluctuations that, in the past, were often related to failed macroeconomic stabilization attempts. The impact of renewed growth on poverty reduction will be gradual but important. The major drive for improved education will yield significant poverty reduction results in the medium term. The impact of improvements in other structural social policy areas, including health, land reform, urban upgrading, professional training, and labor market is difficult to quantify but qualitatively important and expected to continue. The poverty reducing impact of transfer programs has been large in recent years and is also expected to continue, especially if measures for better targeting are successfully implemented.

4. Poverty Reduction Policies

20. ***A large number of Government policies and programs at all levels are in place to fight poverty and major efforts have recently been made to increase their effectiveness. Poverty in Brazil would be much worse without many of the ongoing policies and programs.*** The wealth of experiences involving poverty reduction policies in all sectors and at all levels provide great learning opportunities. The existing experience and the many ongoing efforts also suggest humility when it comes to proposing simplistic solutions to Brazil's poverty problems. At the same time, this report attempts to show that there are many steps that federal, state, and municipal governments can take to further improve public policies and increase their impact on poverty reduction without greatly expanding social spending overall.

21. ***The obstacles to further poverty reduction are multiple. Public policies to reduce poverty, thus, need to be composed of multiple strategies.*** Several obstacles to a more rapid and significant reduction of poverty remain. These obstacles include: (i) limited opportunities as the result of low growth in the past and the relatively small poverty-reducing effect of growth in a situation of high income inequality; (ii) low educational attainments; (iii) poor health; (iv) lack of physical assets and services for the poor; (v) gaps in the social safety net and resulting insecurity and vulnerability; (vi) problems related to the quality and targeting of social spending; and (vii) limits to the effective voice and participation of the poor in the decision making processes of relevance to them. There is no single or simple solution to poverty in Brazil, and the different obstacles to poverty reduction must be addressed simultaneously through policy reforms in different areas.

22. ***This report shows that Brazil can achieve the objective of reducing the rate of extreme income poverty by 50% by the year 2015 and proposes a strategy for reaching this goal.*** Similar to the strategy proposed in the World Bank 2000/1 World Development Report for poverty reduction at the international level, the proposed strategy includes:

(a) Opportunity: Renewed and accelerated economic growth. Economic growth based on economic and fiscal stability would create economic opportunities for the poor.

(b) Capacity: Strengthened assets of the poor. The assets of the poor would be

strengthened through better education, health, physical and urban services, and physical capital. Greater assets would give the poor the capacity to make better use of economic opportunities.

(c) Security: Increased protection for the poor. Security for the poor would be increased through effective social insurance mechanisms and a basic social safety net. More effective social insurance mechanisms and a basic social safety net would help the poor manage the risks of adverse shocks either at the economy-wide or individual level.

(d) Empowerment: More participation of the poor. Greater empowerment involves participation and access to social institutions and decision making processes. Moreover, greater empowerment requires regulatory reforms to overcome the de-facto exclusion of the poor from certain formal markets.

23. ***In each of these four areas, the reforms recommended in this report are guided by five principles***:

(a) Market distortions need to be removed and regulations need to be reformed to make markets work better for the poor.

(b) Social spending should be better targeted at the poor using different approaches that are appropriate for different kinds of programs.

(c) Social spending should be allocated to those programs that provide the highest benefits to the poor per amount of public spending.

(d) Social programs should be oriented toward the demand of the poor and permit maximum choices for the beneficiaries.

(e) The internal efficiency of programs should be increased.

24. ***Improved analysis, evaluation, and coordination of overall social policy and spending is essential to direct the decisive effort necessary to reach the ambitious poverty reduction targets of the Government.*** While this report provides indicative analysis of the allocation and targeting of social spending, further and continuous efforts for evaluation and analysis by the Government itself are necessary and should feed into the ongoing decision making processes.

Opportunity through Growth

25. ***Both international and Brazil-specific studies confirm the strong relationship between growth and poverty reduction.*** Even though the effect of growth on poverty reduction in Brazil has been less than the international average (due to high income inequality and Brazil's particular patterns of growth), Brazil's problem has rather been the absence of sustained high per-capita income growth. Accelerated and sustained growth that generates employment opportunities for the poor will have to be a key contributor to the sustained reduction of poverty in the future.

26. ***While growth may not be arithmetically necessary to end extreme poverty in Brasil, growth is still critical for economic opportunities and sustainable poverty reduction perspectives.*** Given the small size of the aggregate income gap of the poor, Brazil may not seem to require growth to end poverty. However, the cost of eliminating poverty through income transfers are much higher than theoretical calculations suggest if the real life constraints of targeting and adverse incentives are taken into account. Also, the political viability of large-scale income redistribution remains dubious. Growth will bring about a sustainable reduction in poverty that does not depend on continuing transfer payments. Also, growth creates economic opportunities and prospects for the poor beyond surpassing the poverty line. Moreover, growth generates additional benefits for millions of Brazilians who are above the poverty line but still urgently seek improvements in their living

conditions. In contrast to income transfers, growth makes the alleviation of poverty much more politically palatable.

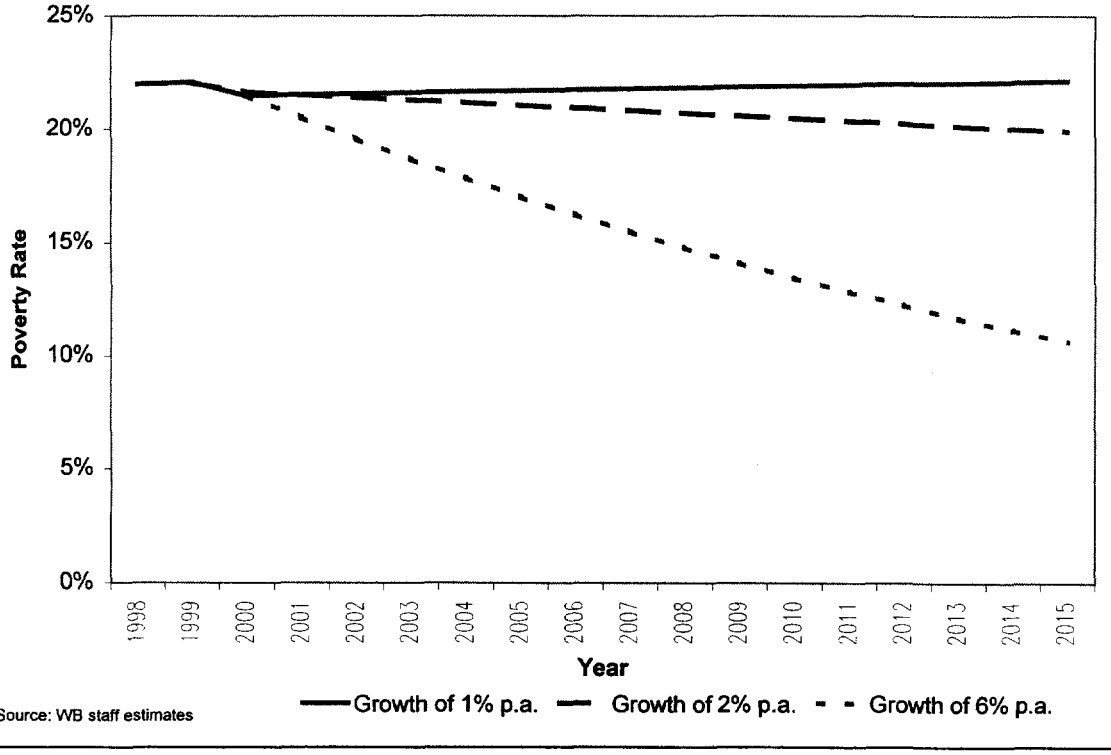
27. ***Growth and directly targeted interventions have to be seen as complementary and not substituting policies.*** Growth will take time to reduce poverty and will not reach all the poor. However, growth can, over time, reduce the need for transfer payments, or allow them to be directed at relatively less impoverished populations.

28. ***Simulations show the potential for significant poverty reduction with high growth rates; they also show the increase in poverty that would occur with economic stagnation.*** The simulations are based on Brazil's actual income distribution. Distributionally-neutral economic growth would have to equal the population growth rate of 1.2% (constant per-capita GDP) to keep the extreme poverty rate constant at 22%. In the absence of any redistributional policies, growth of almost 8% per year would be required to halve the poverty rate by 2015, and growth of 2% and 6% would cut the poverty rate in 2015 to 19% and 13% respectively. 2.5% annual growth is required to keep the absolute number of poor constant. Growth of 2% and 6% would bring the absolute number of poor from 35 million to 40 million and 25 million, respectively, in 2015. Figure 10 shows the simulated evolution of the extreme poverty rate over time with different growth rates.

29. ***Growth policies should continue to include efficient public investment and improvements in the economic environment for private investment.*** The impressive stabilization policy of the Government has laid the foundation for sustained growth, which until now remained elusive. The Govern-

Figure 10: Growth and Poverty Reduction Over Time

This figure shows the changes in the poverty rate based on growth of 1%, 2%, and 6% per year. Growth of 1% per year would not be sufficient to keep the poverty rate constant. Growth of 2% and 6% per year would cut the poverty rate to 19% and 13%, respectively, by the year 2015.



Source: WB staff estimates

ment should continue to promote sustainable and high-quality fiscal adjustment as a means of ensuring macroeconomic stability and declining cost of capital. Macroeconomic stability and less expensive capital will encourage investment and sustainable growth, ultimately leading to poverty reduction. Given the linkages between fiscal adjustment, growth, and poverty reduction, it is important to emphasize the ongoing fiscal adjustment effort as an essential prerequisite for more effective poverty reduction. Especially to the extent that high quality social spending remains protected from fiscal retrenchment, the possible negative short-term effects of adjustment are likely to be outweighed by the long-term benefits of stability, growth, and subsequent poverty reduction resulting from fiscal adjustment.

30. ***Educational improvements, asset transfers to the poor, financial market reforms, and labor market reforms are expected to contribute to more broad-based growth and possibly to the reduction of inequality.*** Recent Government initiatives to support and strengthen small and medium enterprises are also important for supporting employment-intensive and poverty-reducing growth as long as they are driven by efficiency criteria. Public investments and credit programs to foster labor-intensive growth should be subject to rigorous economic analysis. FAT credit funding allocations should be reviewed and reformed to ensure more effective social targeting of programs and efficient investments.

31. ***The effective working of labor markets is critical for translating growth into broad-based employment opportunities and poverty reduction.*** The Government is appropriately pursuing important reforms of labor regulation, whose importance is highlighted by the significant increase in open unemployment rates during recent years. Issues under active consideration include further regulatory reforms, changes to the labor court system, and other policies to improve the functioning of labor markets. These reforms occur in the context of high employment costs and a labor market that is legally highly regulated but de-facto not excessively rigid. Nevertheless, labor courts, unions, and an uncertain regulatory environment impose costs on companies that are difficult to predict. This uncertainty regarding employment costs causes capital substitution in all firms. In addition, by virtue of their size, larger companies are able to manage and predict these costs more successfully than more employment-intensive, medium-sized companies (or small firms, to the extent that they are subject to effective regulation).

32. ***Informality in the labor market is chosen when the costs of formality (the rigidity of mandated benefits, payroll taxes, and others) exceed the benefits of formality (unemployment insurance, pensions, other social programs, and better career perspectives), or when the employer is informal (typically related to high overall taxation or rigid regulation).*** While informal employees are clearly concentrated in low-quality jobs, there is no indication that informality itself causes low-quality employment. More likely, informal jobs are of lower quality because the current structure of formal employment contracts is less appropriate for the requirements of low-end jobs. Informality fills the space between inactivity and formal employment, thus creating a cushion in case of formal sector employment loss. Informality can also serve as a path for social ascent.

33. ***While informality is a solution for many, it also reveals a problem (the high cost of formality) and has a cost (in particular social exclusion, less access to social insurance and government social programs, less access to credit, and, for the self-employed, less access to other markets).*** A strategy to deal with informality should be directed at addressing the underlying problems by reducing the cost of and thus increasing access to formality. At the same time, policies for those who prefer to remain informal should be directed at reducing the costs of informality. As a result, the distinction between an expanding but less regulated formal sector and a shrinking but

less excluded informal sector would gradually diminish. Policies to address informality would include the following:

(a) Tax reform and simplification aimed at reducing the number of informal businesses. Informal businesses typically employ informally; thus, reducing the number of informal businesses should also reduce the number of informal employees.

(b) Less rigid regulation with regard to mandated benefits and the structure of the employment relationship (structure of benefits, payments at dismissal, temporary contracts, etc.), permitting a larger range of choices to the contracting parties.

(c) A closer tie between social insurance benefits (pensions and unemployment insurance) and contributions.

(d) Selective access to social insurance mechanisms also for the informal sector.

Capacity by Strengthening the Assets of the Poor

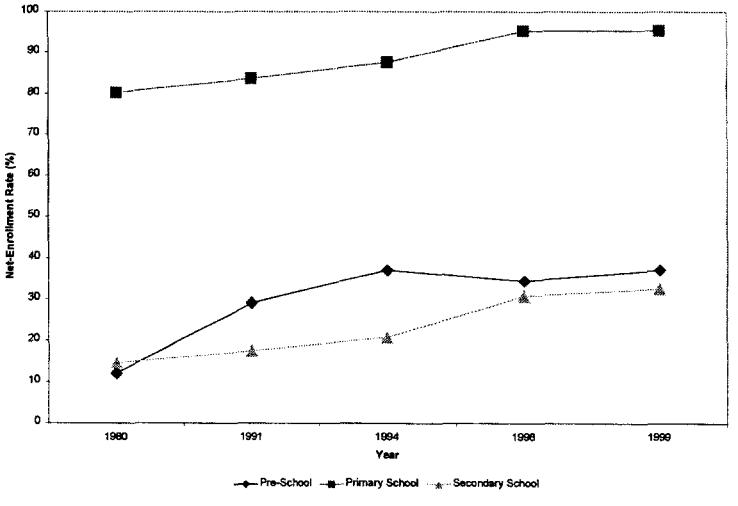
34. ***Efficient social investments create the ladders of opportunities out of poverty and allow a permanent escape from poverty.*** High priority social investments include:

(a) Education and Basic Health. Education and basic health help strengthen the human capital of the poor and increase their income. Major progress has been achieved recently on health and education, in particular through new financing mechanisms, including per-capita federal transfers and spending floors.

(b) Urban Services and Housing. Urban services and housing are important assets for the poor. Access to these services is important, however, they are not particularly suitable as vehicles for resource transfers to the poor. Subsidization has in the past often contributed to flawed targeting.

Figure 11: Improvements in School Enrollment 1980-1999

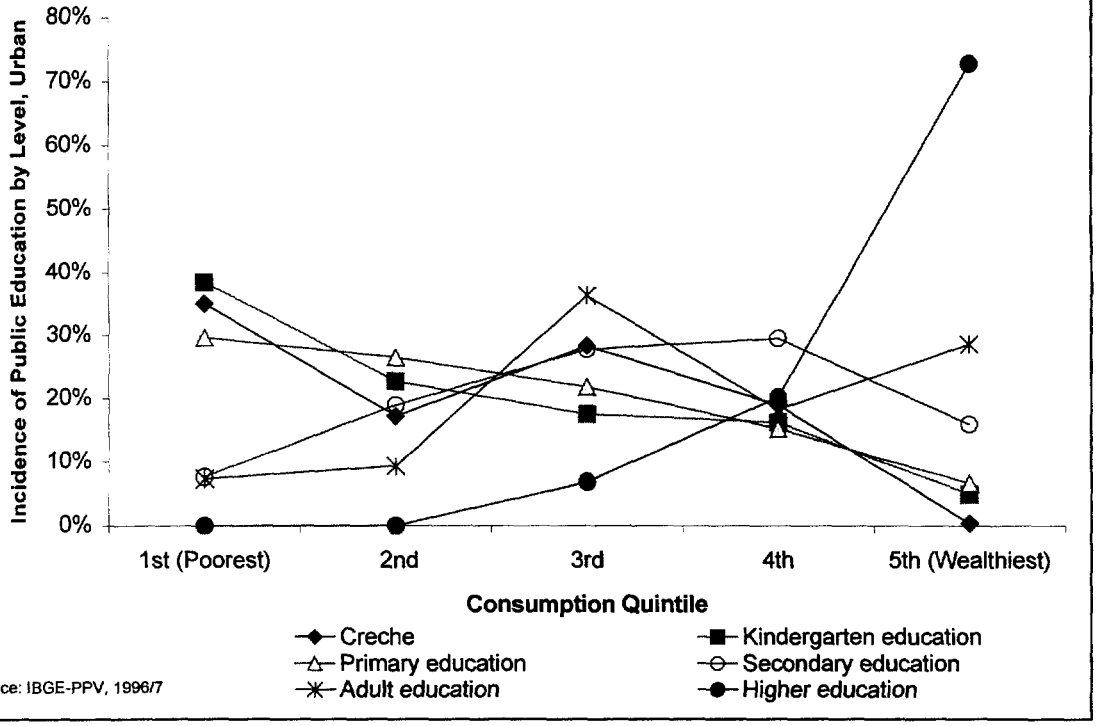
This figure shows the great recent advances in school enrollment. Net enrollment at the primary level is almost complete, and secondary school enrollment is increasing rapidly, as more students complete primary education.



(c) Microcredit Programs. Microcredit programs and other initiatives to enable access to productive physical capital are promising areas for new policies. In the case of credit, access to capital is typically more important for the poor than price. Credit programs should be designed to be commercially viable and financially sustainable.

Figure 12: Incidence by Education Level (1996/7)

This figure shows the incidence of public spending by level of education. Public crèche, kindergarten, and primary education are clearly progressive with more students enrolled from the poorer than from the wealthier population groups. Consistent with low completion rates of primary education by the poor, the incidence of public secondary education is lowest for the poorest quintile. Of all students enrolled in public secondary education, less than 10% come from the poorest quintile and less than 30% are from the poorest 40% of the population. The incidence of public higher education is concentrated in the fourth and fifth quintiles. The IBGE-PPV survey did not include one individual from the two poorest quintiles that was enrolled in public higher education.



Source: IBGE-PPV, 1996/7

35. ***Over the last few years, the Government has given major emphasis to improved education and implemented major reforms in this sector.*** As a result, Brazil has achieved very significant improvements in public education. These improvements include a massive expansion of basic, especially primary, education and a reduction in the regional differences of education enrollment rates. Recent advances to improve educational quality by supporting educational spending and reforms in the poorer regions have been significant and are likely to produce further positive results. These sector reforms constitute great progress in the right direction. Their strong positive impact on short-term educational indicators, such as enrollment rates and school attainments, is already visible (see Figure 11). More importantly, they will make an important contribution to poverty reduction with the lags inherent in any education sector reform.

36. ***Data from the 1996/7 PPV shows that Primary and pre-primary education is highly progressive.*** Adult and secondary education benefits mostly middle-income groups, and public higher education is almost exclusively used by higher-income groups. Figure 12 shows the incidence of public education by level.

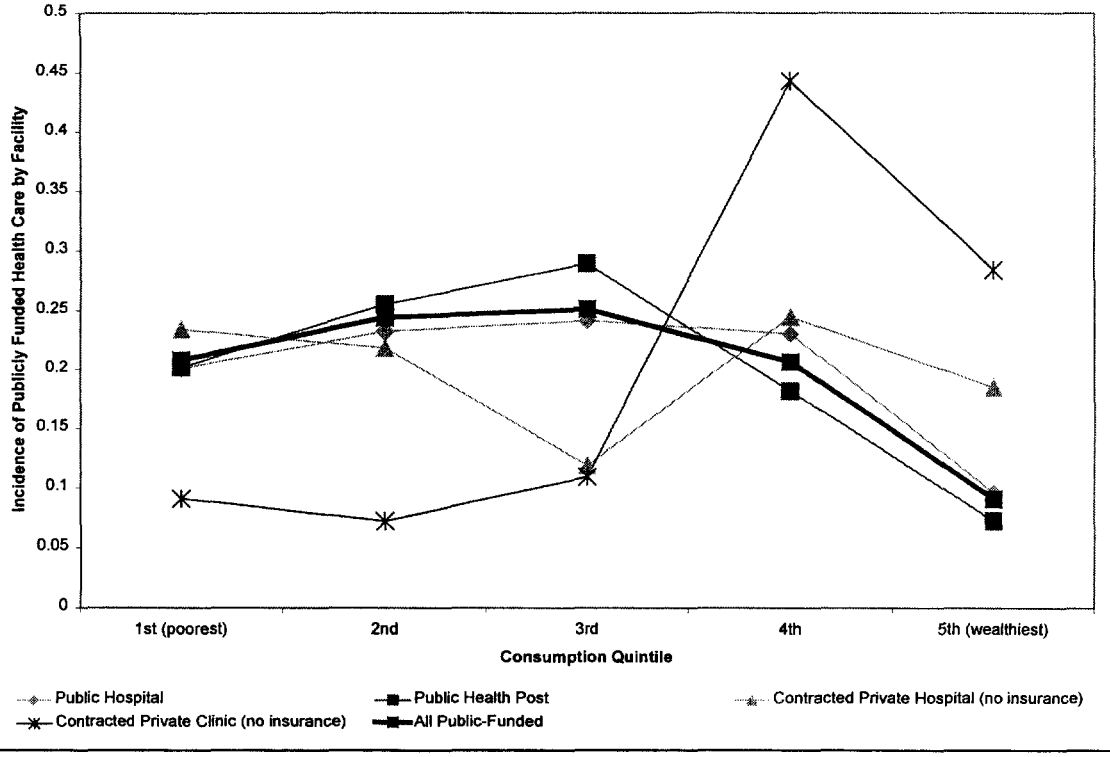
37. ***Despite the drastic recent advances in the education sector, low educational outcomes and attainment among the poor remain the single most important obstacle to reducing poverty and inequality in Brazil.*** The low quality of public schooling in poor areas is the main obstacle to improving the educational performance of the poor. Low education levels lead to low income, which in turn, perpetuates poverty. The inferior quality of education in poor areas is related to traditional spending inequalities and is being addressed by the Government's reform program. Further improvements in educational outcomes, in line with the current educational reform strategies of the Government, have to be at the core of any strategy to increase the economic opportunities of the poor. Several policies that are essential for improving education of the poor are ongoing and should be further pursued:

(a) New educational investments and reforms concentrate on early childhood and primary education in poor areas and communities. These include initiatives that promote the participation of parents in school governance, technical assistance and training for schools that focus on improving learning outcomes, and testing and reporting programs that increase local accountability.

(b) Professional training programs should be rigorously evaluated and, if appropriate, expanded through targeted programs such as PLANFOR. Adult basic education, such as the *Alfabetização Solidaria* program, needs to be strengthened.

Figure 13: Incidence of Health Facility Usage (1996/7)

Approximately 25% of the patients in public hospitals and clinics are from the poorest quintile. Less than 10% of the patients of SUS-financed private clinics appear to be from the poorest 20% of the population. Averaging over all publicly-financed facilities, the poorest 20% of the population comprises more than 20% of the patients overall.



(c) Funding for public universities should be re-targeted by introducing cost recovery mechanisms, accompanied by the expansion of bursary systems for the poor.

38. ***Major reforms of the public health care system are ongoing to strengthen the universal delivery of basic health care to all, including the poor.*** Recent initiatives to focus more on basic, female, and family health services are of great strategic importance and promise positive results. Further public health care system reforms directed at the needs of the poor—toward more efficient and equitable funding mechanisms and incentives for effective service provision at lower government levels—are underway. This effort is all the more important as the poor rely almost exclusively on public health care and cannot typically afford to pay for private health services.

39. ***Public health facilities are used mostly by poor and middle-income families, yet, some private but publicly-funded facilities appear to be used predominantly by the better-off.*** Figure 13 shows the incidence of use of different publicly-funded health facilities in 1996/7—before some of the recent reforms have taken place. The apparently regressive spending on private clinics contracted by SUS requires further analysis. If the reported findings are confirmed, and there are access barriers to the poor for using such facilities, these should be removed, and spending in this segment of the health sector should be reassessed. The Government is moving in this direction through a pilot initiative to charge private insurers for SUS services provided to their clients. Control over who benefits from publicly financed health care will also be facilitated by the pilot-introduction of a SUS identity card.

40. ***Limited access to physical assets and urban services for the poor is another important obstacle for poverty reduction.*** Lack of affordable housing and gaps in urban services limit the quality of life and restrict the economic opportunities of the urban poor. Improvements in housing and basic physical services for the poor can significantly improve living conditions and contribute to income earning opportunities. Improvements in basic services result in more time and better access to paid work and education. Improvements in housing facilitate the use of the house and the neighborhood for economic activities and improve employment prospects.

41. ***In many areas, coverage of the poor with urban services has improved. However, the rapid growth of many urban areas coupled with financially unsustainable subsidy policies have implied a persistent access gap for urban services for the poor.*** Water and sanitation services are typically the highest priorities. However, access to effective public transport is also important. Several policies can be implemented to improve the provision of urban services for the poor:

(a) Urban upgrading projects should integrate the relevant sectors and incorporate genuine beneficiary participation in the design and selection of priorities. Consideration should be given to projects that transfer resources directly to community associations for implementation of their own priority activities.

(b) Phased with improvements in overall urban cost-recovery policies, subsidies for urban upgrading projects should be phased out in favor of full cost recovery. Only the most basic services (water standpipes, for example) in narrowly targeted programs could remain exempt form a general full cost recovery policy.

(c) Tariffs for water and sanitation and other network services should be reformed. Subsidized social tariffs, when necessary, should be tied to a means test rather than consumption levels. Any necessary subsidies should be provided for access rather than usage charges. Cross-subsidy mechanisms need to be designed such

that they offer the provider with strong incentives to serve the poor.

(d) The privatization of infrastructure services should be pursued to increase sector investment and efficiency. Clear incentives and requirements to serve the poor and effective regulatory oversight need to be an integral part of every privatization.

(e) Access and affordability of public transport for the poor should be improved through: (i) fare and schedule integration; (ii) improved all-weather access to poor communities; (iii) facilitation of non-motorized access to public transport; (iv) regularization of the informal transport market where appropriate and efficient; and (v) diversification of the public transport vehicle fleet. The conversion of *Vale Transporte* into a regular cash component of the salary should be evaluated.

(f) Fiscal reforms need to improve incentives for revenue collection and service provision to the poor at the municipal level. Viable municipalities need to build capacity in order to support the management of urban services. Regional area development approaches might be more appropriate in the area of non-viable micro-municipalities.

42. ***The poor often occupy shelter without formal property title in informal neighborhoods without access to many public services.*** Excessive housing and land use regulations artificially reduce the supply and increase the cost of formal housing. As a result, the poor are often excluded from formal housing, limiting their opportunities to grow out of poverty. Except for a few states in the South, there is no formal low-income housing policy backed by adequate financial resources. A systematic policy for the informal housing market should be developed. This policy should include regulatory reforms aimed at making formal housing solutions (owned and rental) available to the poor and regularizing the present informal housing situation of many of the poor.

43. ***Past housing financing was very regressive with most financial contracts extended to households above the poverty line.*** Poorly targeted but subsidized housing loan programs (in particular *Carta de Credito*) should be discontinued in their current form. Instead, financial sector and regulatory reforms should be pursued to facilitate the production of unsubsidized housing for the non-poor. More unsubsidized housing options for the non-poor will reduce the crowding-out of the poor in housing markets and free resources for programs targeted to the poor.

Security through Social Protection

44. ***A basic, efficient and well-targeted social safety net can be important to insure against the risk of poverty. A social safety net can also guarantee a basic level of consumption for those not able to benefit from the opportunities created by growth and social investments.*** Growth will continue to exclude some individuals at the very bottom of the income distribution who depend on a social safety net. Also, overall poverty reduction can proceed more rapidly if growth and social investments are complemented by social safety net mechanisms. While well-designed safety net programs can cheaply and quickly lift a large number of poor out of poverty, they are more limited in creating upside opportunities. Social safety net programs require continuous budget outlays, and, if not carefully designed, they create the danger of poverty traps and undesirable incentives.

45. ***Brazil's social policies include several programs that constitute elements of a social safety net.*** Other than the social insurance programs discussed before, these programs include minimum pension programs and social assistance programs directed at specific vulnerable population groups. Workfare programs are used in particular in the rural Northeast during drought periods.

Governments at different levels have also been experimenting with transfer payments linked to children's school attendance. The Federal Government is now massively expanding these *Bolsa Escola* programs. Overall, social transfer programs are of significant scale and scope and include the spending of nearly R$20 billion a year according to some estimates (including mostly special pension regimes). An analysis of the sources of income of poor households in Brazil reveals that these transfer programs have made a very significant contribution to poverty reduction over recent years, in particular in rural areas. Shortcomings include targeting problems of some cash transfer programs. Gaps in the social safety net remain for income and employment loss in the informal sector. Also, current social policies fail to provide general income support for the poorest who do not fall into specific covered categories.

46. ***Brazil can afford a gradual expansion of its social safety net based on targeting improvements for expenditures on existing programs.*** Given fiscal constraints and possible adverse incentive effects, the Government is understandably reluctant to create broad new safety net programs, broader workfare programs, or generalized minimum income support. Remaining gaps of the safety net, for example for workers outside of the formal sector, would therefore be filled gradually through refinements and improvements in existing programs. At the same time, ongoing experiments would be carefully evaluated to design well-targeted and efficiently implemented additional elements of the social safety net. These refinements to the social safety net would further increase income security and reduce the number of poor. Several measures can improve the social safety net:

(a) For income transfer programs, a rigorous quasi-means testing mechanism and a recipients register should be created.

(b) Food and nutrition programs that are not anchored in the education or health system should be reevaluated and possibly replaced with cash transfer programs. Subsidies implicit in untargeted food stamp programs (PAT) should be eliminated.

(c) The gradual expansion of minimum income programs, means-tested and linked to structural improvements, such as school attendance of children (*Bolsa Escola*), should continue.

(d) Alternative approaches for improving the social protection of informal sector workers without creating incentives against formality should be evaluated and tested.

47. Social security (Brazil's pension system), unemployment insurance, and severance fund (FGTS) constitute important social insurance mechanisms; however, they are not targeted at the poor.

(a) Since general pensions (in particular public sector pensions) are not targeted at the poor, they should be self-financing and should not rely on a very large transfer from the budget. Resources could then be reallocated to programs targeted at the poor. Comprehensive pension reforms are ongoing and should be further pursued by the Government.[3]

(b) Reflecting the fact that most formal employees (eligible for unemployment insurance) are not poor, unemployment insurance benefits are heavily concentrated in the population group just above the poverty line. Since unemployment insurance is funded through a special contribution from employers (PIS/PASEP), its inferior social targeting is not problematic *per-se*. More problematic is the overlap of unemployment insurance benefits with benefits from the severance fund (FGTS). The large combined benefits

[3] For an account of the complex issues of pension reform see World Bank, 2000, Brazil: Critical Issues in Social Security, Report. No. 19641-BR.

in case of dismissal from a formal sector job are likely to contribute to inefficiently high worker turnover and other labor market distortions. Reforms should thus aim at integrating the unemployment insurance program with the severance fund, forming a single system funded from contributions.

(c) Professional training programs should be carefully evaluated. The Government already pursues their better coordinated with labor market intermediation and unemployment insurance to increase their effectiveness.

(d) The *Abono Salarial* (an annual salary complement paid for lower income formal sector workers from FAT) fails to serve an insurance function, and is not targeted toward the poor. Given the need to prioritize spending, this program should be replaced in favor of more poverty-targeted social spending programs.

Empowerment through Effective Participation

48. ***Empowerment of the poor as a poverty reduction strategy plays an increasing role in the international thinking on development.*** An in-depth analysis of the issues relating to empowerment of the poor in the context of Brazil is left for future work. At the same time, it is important to recognize the potential importance of the related issues. Empowerment of the poor as a strategy for poverty reduction arises from the analysis of institutional, social and political processes that bring about policies that are more or less favorable for the poor. Empowerment includes, among others: (a) public administration accountable, accessible and responsive to all, including the poor; (b) access for the poor to formal market institutions; (c) the breaking down of social exclusion and barriers for specific disadvantaged groups; and (d) effective participation of the poor in the definition and implementation of public policies.

49. ***In Brazil, mechanisms for the exclusion of the poor are typically subtle and implicit, and are not typically based on open discrimination.*** Access to formal institutions, such as formal labor contracts, formal land ownership, and formal urban services, is critical for improving the living conditions of the poor. However, access to these formal institutions is often not available to most of the poor due to high regulatory standards and costs. Improving access to formal institutions is a critical strategy for fostering social inclusion. Developing an active and explicit policy toward informal labor and housing markets is consequently of high priority.

50. ***The empowerment of the poor and their representation and participation in decision making are important dimensions of poverty reduction.*** First, participation can improve the quality of a given program or project. Participation is instrumental to revealing the demand of the poor. Participatory processes to select priorities are thus fundamental for social policies that meet the demand of beneficiaries. Participation can significantly lower the cost of policies in different areas. In-kind contributions from beneficiaries, participation of NGOs, supervision of contractors, and procurement by community associations can all have a significant cost-saving effect. Second, genuine participation can foster the development of social capital, which in turn can enable the poor themselves to improve their well-being beyond the specific intervention. Brazil has experience with a broad range of models of beneficiary participation ranging from limited attempts at superficial consultation on substantially pre-determined projects to full implementation of projects by community associations or other local groups such as school councils. The latter model has been used in Bank-funded rural poverty reduction projects and school improvement projects. These initiatives could provide a framework for urban projects and policies as well.

Analysis, Evaluation, and Coordination of Social Spending and Policies

51. ***The recent Plano Pluriannual (PPA) and the Projeto Alvorada of the Federal Government represent major progress with respect to the planning and implementation of social policies.*** The PPA creates the framework for systematic and objective-oriented planning of Federal Government spending. If well implemented, the emerging evaluation framework of the PPA could prove essential for the improvement of the quality of social spending in Brasil. The *Projecto Alvorada* focuses government efforts and spending on a few selected priority social programs and their targeting on poor states, micro-regions and households. This program is a promising to attempt improve the prioritization, poverty-targeting, and coordination of social policies.

52. ***National policy coordination, the development of an evaluation culture, and improvements in data and analysis are required to continuously improve the quality and targeting of social spending.*** Currently, efforts to fight poverty are still dispersed between different sectoral agencies at various government levels, each pursuing their own agendas. These agendas only partly coincide with a national poverty reduction strategy. Several steps can be taken to coordinate national policy and establish a culture of program evaluation and analysis:

(a) The development and implementation of a national poverty reduction plan could serve as a vehicle for coordinating the activities of different entities and orienting systematic and cost-effective action. With coordinated action and the implementation of a national poverty reduction plan, Brazil would be one step closer to the strategic goal of reducing the extreme poverty rate by 50% by 2015 and a possible set of broader social indicator targets. The national poverty reduction plan would combine technical analysis with a participatory process for the determination of priorities and actions.

(b) Rigorous analysis and evaluation is a critical condition for the better targeting and effectiveness of social programs. Analysis and evaluation procedures need to be strengthened and built into any social program. There should be a central office (at the federal level, for example in the Ministry of Budget and Planning) that defines criteria for impact evaluation and compares the findings across different programs.

(c) It would be useful if the Government defined an official poverty line that would permit more systematic tracking of poverty indicators, together with a small number of additional social indicator targets.

(d) IBGE should review and revise its system of household surveys to improve their usefulness for the evaluation of efficiency and targeting of social policies. The lessons and experiences from the PPV should be incorporated in this review.

(e) Additional poverty research and analysis should focus on: (a) more work on poverty dynamics; (b) more detailed analysis of the relationship between the pattern of growth and poverty reduction; (c) analysis of the two-way relationship between poverty-reduction interventions and the formation of social capital; and (d) a rigorous process of classifying Brazil's poor into groups with relatively similar characteristics, permitting better targeting of social programs to these groups.

53. ***The following paragraphs indicate the type of comparative analysis of social spending that should be undertaken on a continuous basis.*** This analysis is based on many simplifying assumption and should not be misused for simplistic conclusions. However, further more detailed efforts along the same lines would greatly contribute to informing the public debate on social policies and improving the quality of social spending.

54. ***The following indicative analysis shows that most social spending is not targeted to the poorest.*** Table 3 summarizes the main items of consolidated social spending in Brazil in 1995. The overview shows social spending of approximately R$132 billion, of which R$68 billion refer to social security and public service benefits. Of total social spending, R$18 billion or 14% accrue to the first quintile of the income distribution (roughly corresponding to the poor as defined in this report). These benefits to the

Table 3: Summary of Consolidated Social Spending, 1995 with Updates

	Total Budget Spending (R$bn/a)	Effective Targeting to bottom 20%*	Total benefits to poor (R$bn/a)	Budget Spending per Total benefit to Poor
Benchmarks				
General Investment		3%		33.3
Uniform Transfer Payment		20%		6.3
Education				
Creche	1.1	24%	0.45	4.2
Kindergarten		42%		2.4
Basic Education	11.6	26%	3.00	3.8
Secondary Education	1.7	7%	0.13	13.5
University Education	5.1	0%	0.00	
Adult Education/Training	0.4	5%	0.02	22.2
Health Care				
Universal Public Health Care	21.8	21%	4.58	4.8
Urban Investments				
Water Connection	1.4	12%	0.16	8.3
Sewer Connection		4%		25.0
Urban Public Transport	2.6	9%	0.24	11.1
Housing (Carta de Credito)	7.2	*2%*	0.14	50.0
Favela Upgrading		34%		2.9
Other Social Investments				
Microcredit Programs		*20%*		5.0
Land Reform	2.0	*70%*	1.40	1.4
Pension and Related Programs				
Pensions	67.6	*7%*	4.50	15.0
BPC (LOAS)	1.2	*70%*	0.76	1.6
Social Assistance Services				
Old Age Services	0.0	*50%*	0.01	2.5
Disabled Services	0.1	*50%*	0.02	2.5
Child Services	0.2	42%	0.07	3.0
Subnational Social Assistance Programs	1.9	*70%*	1.06	1.8
Other Transfer Programs				
Child Labor Eradication	0.1	*80%*	0.04	1.6
Minimum Income Programs (subnational)	0.0	*70%*	0.01	1.8
Nutrition Programs				
Food Baskets (PRODEA)	0.2	*80%*	0.10	1.6
School Lunches	0.7	25%	0.14	5.0
Maternal Nutrition (Milk Programs)	0.1	29%	0.03	4.3
Labor Programs				
Unemployment Insurance	3.0	13%	0.32	9.5
Severance Payments (FGTS)**		*13%*		9.6
Abono Salarial	0.6	*13%*	0.06	9.6
Others				
Drought Workfare (in drought years)	1.2	*70%*	0.76	1.6
Summary/Total	131.8	14%	18.00	

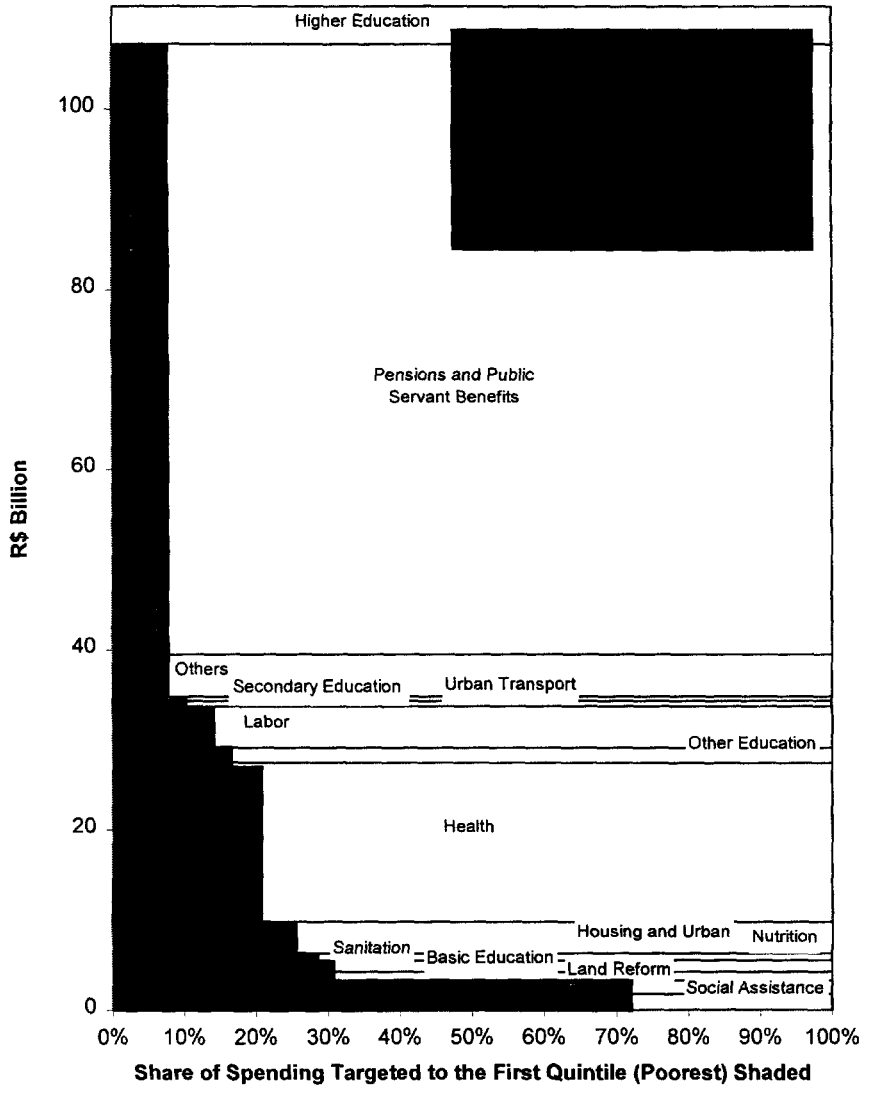
*Targeting numbers in *italics* are staff estimates, not based on household surveys

** No budgetary spending

Sources: IPEA, Fernandes et.al., World Bank staff estimates, includes updates to reflect more recent program changes.

Figure 14: Structure and Targeting of Federal Social Spending, 1997

This figure describes the structure and targeting of *federal* social spending. The box represents total federal social spending of R$111 billion in 1997. The horizontal axis (areas shaded in black) describes how much of this social spending is targeted to the poor. The vertical axis gives the specific amount spent on a social program. For example, the amount spent on pensions and public servant benefits is approximately R$68 billion of which 8% was received by the poorest quintile. All the shaded areas within the box show the share of public social spending that was targeted to the poor. The box in the top right right corner illustrates the size of the aggrgate income gap of the poor compared to social spending.



poor can be divided into cash (R$6.5 billion) and in-kind benefits (R$11.5 billion). Benefits include those accruing immediately (transfer programs) or over the lifetime of beneficiaries (education).

55. ***Excluding social security and related items, social spending amounts to R$64 billion, of which about R$13.5 billion (or 21%) accrue to the first quintile.*** Figure 14 shows the structure and targeting of federal social spending in 1997 (compared to con-

solidated social spending in 1995 shown in Table 3). The chart excludes state and municipal spending, which is significant especially for education and health. The entire box in the figure represents the size of federal social spending (R$111 billion). Each horizontal slice represents a different category of spending, ordered by the targeting ratio (share of spending accruing to the bottom quintile). For each slice, the shaded area shows the share of spending in that particular category that accrues to the bottom quintile of the population. The total shaded area in the chart therefore represents the share of total federal social spending that accrues to the bottom quintile.

56. ***Most programs lack either broad reach among the poor, good targeting to the poor, or both.*** This report employs different methodologies to compare the effectiveness of social programs in different sectors. Figure 15 graphically compares programs along three dimensions: each bubble represents one area of social spending; the size of each bubble is proportional to annual spending per beneficiary household (annualized in the case of investment programs) showing the relative importance of the program to beneficiaries; the horizontal position of the bubble shows the level of targeting of the program to the bottom quintile; the vertical position of the bubble shows the reach (coverage) of the program among the bottom quintile. Programs in the lower left corner are poorly targeted and do not reach many of the poor. The largest of these are pensions, unemployment insurance, sewage provision, and secondary education. Programs in the bottom right corner are those well-targeted but only reaching a small share of the poor (typically social assistance programs). Programs near the top left corner are universal programs, especially water and public health. Public pre-primary and primary education is better targeted but reach differs by level. For reference, the impact of distributionally-neutral, annual growth of 4% is shown in the top left corner.

57. ***The analysis summarized in Figure 15 suggests a trade-off between targeting and reach among the poor in existing programs.*** The more complete the reach to the poor, the more difficult it is to control leakage. This is the challenge faced in upscaling small and well-targeted social development programs. The challenge is to either reallocate funds from programs with inadequate reach and targeting to programs closer to the top right corner, or to redesign existing programs such that they move toward the top right corner, representing better targeting and wider reach among the poor.

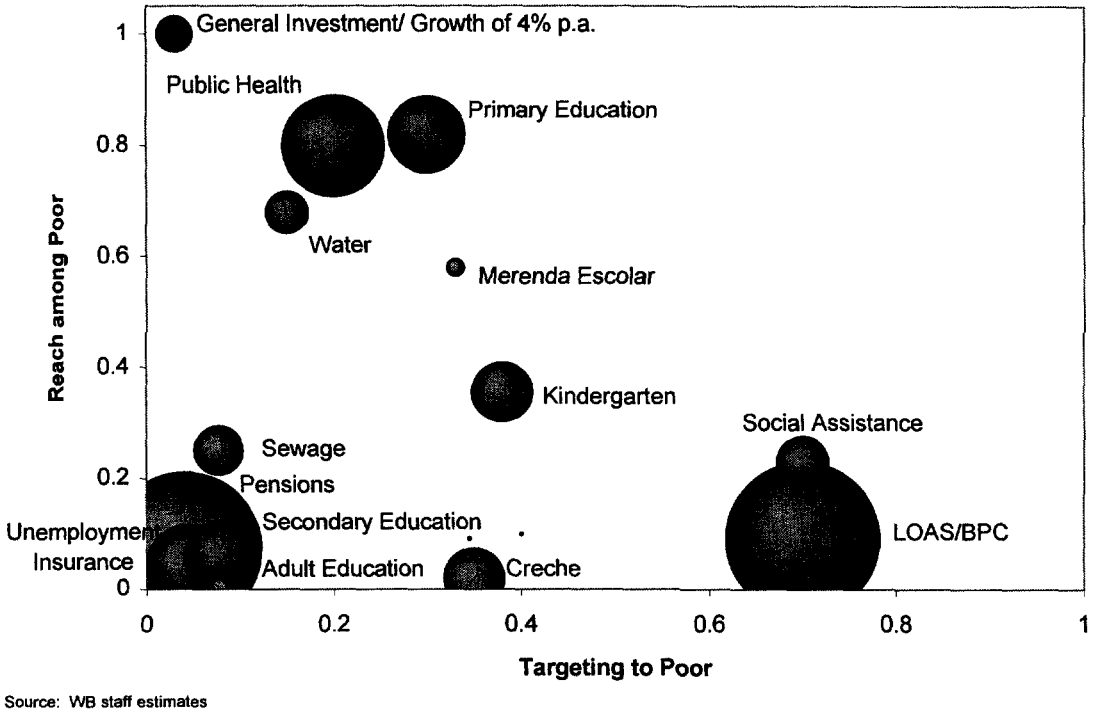
58. ***Through some social programs that are not well targeted, it costs R$25 or more of budget spending to bring benefits of R$1 to the poor.*** It is instructive that several large programs, which are considered part of overall social spending, are less cost-effective in bringing benefits to the poor (as cash income or in the form of other benefits) than a hypothetical program that would transfer a uniform amount to every Brazilian. Programs that are not targeted or adversely targeted (for example in the area of urban investments, secondary, adult, and higher education, social security, and unemployment insurance) should not rely for their justification on the objective of effective poverty reduction. Of course, these programs may be worthwhile for other reasons not captured in the poverty analysis.

59. ***Further social spending reform is necessary to increase targeting, allocation between programs, internal efficiency, and demand orientation.*** Given fiscal constraints and the importance of fiscal equilibrium for the long-term prospects of the poor, it would be difficult to increase the level of targeted social spending until social security and other fiscal reforms begin to free up resources. In the meantime, improvements in the targeting, allocation, and efficiency of social spending are critical.

(a) Better targeting requires different approaches for different programs. For universal programs, such as education, health, and urban services, the targeting of public spending can be improved without abandoning universal-

Figure 15: Targeting and Reach of Social Programs

Each bubble in the figure represents an area of social spending. The size of each bubble represents the estimated spending per beneficiary household and, thus, the relative impportance of the program for beneficiaries. The horizontal position of the bubble represents a program's targeting to the poor (share of spending to the bottom 20% of the population) while the vertical position represents reach among the poor (share of the bottom 20% of the popualtion who are program beneficiaries). For example, public kindergarten education is roughly at 0.4 along both the horizontal and vertical axis, indicating that the program is approximately 40% targeted to the poor and accessible to approximately 40% of the poor. In other words, the poor comprise 40% of all kindergarten students and 40% of children from the poorest quintile of the appropriate age are covered by public kindergarten education.



Source: WB staff estimates

ity. True universalization of services from which mostly the poor are excluded is, in fact, synonymous with targeting the poor for service expansion. First, public spending should focus on spending items that disproportionally benefit the poor (such as schools, health facilities, and water supply in poor areas, or education initiatives targeted at reducing repetition rates in school). Second, some Government services could require cost recovery for the non-poor. For insurance programs, such as pensions and unemployment insurance, contributions and benefits should be set such that public funds are only used for transfers targeted to the poor. Income transfers and related programs should be strictly tied to a means-testing procedure. In particular, public spending for income transfer programs should be focused on the very poorest.

(b) There needs to be rigorous comparison of the efficiency and effectiveness of social programs. Demand and willingness to pay serve as the basic guidelines to estimate program benefits. Investments and current transfers should be compared on the basis of cost-benefit and transfer effectiveness analyses. Redistributive objectives should not be used to justify bad in-

vestments. Social investments should pass an efficiency test demonstrating that they are more cost-effective than income transfer programs in bringing monetary or non-monetary benefits to the poor.

(c) The design of social programs should correspond to the demand of the beneficiary population and include genuine beneficiary participation. In general, this implies that service provision should be at the level of willingness to pay. Cash and voucher programs are preferable to in-kind service provision, unless the latter is justified by better targeting or externalities. In some cases, a switch from in-kind to voucher financing can be an effective means to increase transparency, consumer choice, competition, and internal efficiency. Beneficiary participation in program design, implementation, monitoring, and evaluation is essential.

(d) While not analyzed in detail in this report, the reviewed material suggests a very substantial scope for further improving the internal efficiency of social spending. Reform of public sector management as well as an increased role of the private sector in providing social services could increase the physical output or social impact for given budget resources.

60. ***An increasing share of social policy is implemented at the state and municipal level, especially in education, health, and social assistance.*** Thus, any social spending reform must include reforms at the state and municipal level. Social spending reform at the state and municipal level revolves around three objectives. First, reforms should improve incentives for providing service to the poor. This could include conditional fiscal transfers. Second, the responsibilities of the different levels of government should be clarified where they are not. Lastly, reforms must attempt to strengthen the capacity of states and municipalities to deal with poverty-related issues.

61. ***Given the large intra-regional and inter-regional inequalities, Brazil requires explicit federalist social policies.*** Nationally funded policies should use uniform targeting criteria (such as a national poverty line adjusted for regional price differences) that would imply a strong spending bias in favor of poorer regions. Subnational governments in richer regions should be encouraged to apply more ambitious criteria for incremental spending from their own resources.

62. ***Social spending reforms are complicated by rigidities in the form of Constitutional and legal entitlements as well as earmarked funding sources.*** Vocal constituencies are attached to most programs from which funds might be reallocated toward better targeted programs. Progress on social spending reform is therefore a gradual process and should be assessed against realistic benchmarks. Social spending reform should involve implicit public or quasi-public spending, including credit programs administered by public banks and subsidies implicit in public services and utilities.

Policy Reform Summary

63. ***The most important elements of the poverty reduction strategy proposed in this report are sustained growth build on fiscal adjustment, continuation of the massive ongoing reforms to improve quantity and quality of education, and a deeper effort to improve the quality and targeting of social spending overall.*** Table 4 summarizes the policy areas that compose the proposed elements of a poverty reduction strategy (the first column), the types of policy and spending reforms to be pursued (the second row), the principles for policy reform (the third row) and the elements of a reform program (shaded cells).

Table 4: Policy Reform Summary

		Functioning of Markets Regulatory Reform	Cost Effectiveness and Targeting of Social Spending Social Spending Reform			
	Role of Area	Making markets work for the poor and allowing access to formality	Targeting	Efficient Allocation Between Programs	Demand Orientation and Beneficiary Choice	Internal Efficiency
Principles and Messages		**Growth and regulatory reforms to improve opportunities and access for the poor to formal markets should be vigorously pursued.**	**The transfers (subsidies) of social programs should be targeted to those below a chosen poverty line, which should be uniform for all programs (local governments in rich areas could adopt a higher poverty line). Per-capita transfers should always be higher for those below the poverty line.**	**Reallocate resources between programs according to transfer effectiveness. Social investment programs should only be undertaken if their benefits (including the saved administration costs of transfer programs) exceed their costs.**	**Provide social services according to demand and encourage active beneficiary participation in design. Transfers of cash are preferable over vouchers, which are preferable over in-kind transfers unless there are justifications in terms of better targeting, public goods, or well-grounded paternalistic motives.**	**Improve internal efficiency of program implementation (least cost for physical output and impact).**
Opportunity: **Growth**	• **Creates income opportunities for the chronically poor.**	• Pursue economic growth, including sustainable, high-quality fiscal adjustment as a prerequisite. • Further develop an informal labor market policy, including labor regulation reforms. • Remove distortions against labor intensive growth. • Study the low growth elasticity of poverty reduction in Brazil.		• Review and phase out inefficient credit programs for employment generation.		
Capacity: **Education** **Health** **Urban Services** **Physical Assets (Credit)**	• **Strengthen the assets and capacity of the poor to make use of opportunities.** • **Human capital and most basic urban services are suitable for resource transfers; other services and credit should be provided at efficient prices.**	• Develop policy for informal housing market, including regulatory reform and regularization of land tenure. • Develop a private, unsubsidized housing finance marked for the non-poor. • Develop credit policy for market; including support for viable microcredit. • Pursue privatization of urban services with clear incentives and oversight to serve the poor. • Increase municipal incentives and capacity for service to the poor. • Promote modal, fare, and schedule integration in urban transport systems.	• Focus education and health investments in poor areas. • Introduce cost recovery and expand bursary system for higher education. • Reassess the apparent regressive use of SUS-funded private health facilities. • Implement reform of social tariffs and increase cost recovery for urban services. • Introduce conditions for service provision to the poor in fiscal transfers to states and municipalities.	• Further strengthen investments in basic education and health in poor areas. • Evaluate and possibly expand well targeted professional training and adult education programs. • Discontinue subsidized and poorly-targeted housing programs (*Carta de Credito*).	• Evaluate conversion of *Vale Transporte* into a component of cash salary.	• Implement public sector management reforms. • Where appropriate, introduce competition and increased efficiency through possible voucher-type systems. • Strengthen genuine participation in urban projects, including projects with resource transfers to poor. • Increase the local integration of policies in education, health, urban services, and others.

		Functioning of Markets Regulatory Reform	Cost Effectiveness and Targeting of Social Spending Social Spending Reform			
	Role of Area	**Making markets work for the poor and allowing access to formality**	**Targeting**	**Efficient Allocation Between Programs**	**Demand Orientation and Beneficiary Choice**	**Internal Efficiency**
Security: **Social Insurance** **Social Assistance**	• **Social insurance protects from transient poverty (no subsidies).** • **Social assistance protects from structural poverty and can reduce chronic poverty.**	• Encourage development of private un-subsidized social insurance mechanisms for non-poor.	• Introduce quasi-means testing system for transfer programs. • Create register of social assistance beneficiaries.	• Phase out *Abono Salarial*. • Reduce public funding for insurance programs, in particular public sector social security. • Reform unemployment insurance and FGTS jointly and provide basic protection for the informal sector. • Expand *Bolsa Escola* type programs. • Phase out worker food stamp program.	• Replace food and nutrition programs (not anchored in the health or education system) with means-tested cash transfers.	• Implement public sector management reforms.
Empowerment: **Participation**	• **Permits demand oriented services.** • **Reduces costs.** • **Helps overcome social exclusion and build social capital.**		• Targeting through local councils and community associations in poor neighborhoods.		• Genuine participation in program design to determine beneficiary demand.	• Cost-savings through beneficiary participation and community procurement.
Planning, Analysis, and Evaluation		• Develop National Poverty Reduction Plan, based on technical analysis and a participatory process. • Define an office poverty line and social indicator targets in order to improve tracking and accountability. • Create evaluation culture for all social policies and central office for evaluation in the Budget Ministry. • Reform system of household surveys to improve capacity to evaluate public policies. • Support priority poverty research and analysis in selected areas.				

5. List of Background Papers

The following background papers for this report are the responsibility of the respective authors and are not official World Bank documents; they are available on the following website: http://www.worldbank.org/br.

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