

POVERTY, SOCIAL SECTOR DEVELOPMENT AND THE ROLE OF THE WORLD BANK

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ABSTRACT

This paper summarizes recent trends in poverty in Latin America, and the relationship between poverty and social sector development. It notes that World Bank lending for social sector development in the region has increased substantially in the past five years, and will continue to expand. Social sector lending projects of the Bank attempt to both increase the quality of human resource development, and focus the delivery of services to the poor, in order to both eliminate the worst manifestations of poverty, and to increase the human capital and earnings capacities of the poor.

EXTRACTO

Este trabajo resume las tendencias recientes relativas a la pobreza en América Latina y las relaciones entre la pobreza y el desarrollo del sector social. Pone de manifiesto que los préstamos del Banco Mundial para el desarrollo del sector social en la región han aumentado de manera substantiva en los últimos cinco años y que continuarán haciéndolo. Los préstamos para solventar proyectos en el sector social efectuados por el Banco buscan aumentar la calidad del desarrollo del recurso humano tanto como poner el acento en la entrega de servicios a los necesitados con el propósito de eliminar las peores manifestaciones de la pobreza y de aumentar el capital humano a la vez que las capacidades de generación de ingresos de los pobres.

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Poverty Trends and Issues

With an average per capita income of over \$2180 (1990), Latin America and the Caribbean is the richest region in the third world. However, it is also a region with the widest disparities in the distribution of income. The poorest 20 percent of the population receives only 4 percent of total GDP. Estimates of poverty vary widely, and are notoriously inexact, but a recent World Bank study suggests that the percentage of people living in poverty increased from 27 percent to 32 percent of the total during the period 1980-1989.¹ The economic events of the eighties also appear to have led to a worsening of income distribution. While trend data for income distribution is scarce, income inequality appears to have worsened in those countries where per capita incomes declined (e.g. Argentina, Brazil, Panama, Venezuela), but improved in countries where per capita income increased (e.g. Colombia, Costa Rica, Uruguay).² Worsening income distribution during a recession implies that the income of the rich does not fall as fast as the income of the poor. In other words, the rich are better able to protect themselves in times of economic contraction.

The worsening of the poverty situation during the decade of the eighties was a result not only of falling per capita incomes, but also high inflation, falling real wages and higher unemployment. The need to control budget deficits and pay rising debt service, combined with an unwillingness to raise taxes sufficiently to pay for these costs, resulted in a reduction in expenditures for all types of government services, including those in the social sectors. These sectors found their spending levels reduced in real terms, although they were often more "protected" against cuts than some other sectors, such as infrastructure.³

In general, the problems of the social sectors in Latin America predate the debt crisis and the subsequent adjustment decade of the eighties. In many countries, governments were prone to promise extensive social programs without

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¹ See G. Psacharopoulos et. al.(1992). Poverty is defined as a per person income of less than \$60 per month in 1985 purchasing power parity (PPP) dollars.

² See Psacharopoulos, (1985) p. viii. Some of this data is based on urban household only.

³ See Hicks (1991).

adequate attention to the means of finance. Thus, some of the poorest countries initiated programs of free comprehensive health care, and free education from pre-school through university, without any effort at even partial cost recovery, even from those who could afford it. Nutrition programs often consisted of providing basic foodstuffs at heavily subsidized prices, with no regard to targeting these subsidies to the truly needy, or those nutritionally at the greatest risk. Social security programs promised early retirement at rates of remuneration higher than those found in developed countries, but without sufficient wage taxes to make them self-financing. These programs came under particular pressure as the age structure of the population changed during the eighties, to one which is less young than previously, and therefore with a higher ratio of retiree to worker. Social security deficits were a major cause of inflationary pressures in several countries.

TABLE 1
SOCIAL INDICATORS, 1970-90

	1970	1980	1990
Illiterate population as percent of pop 15 +	29.0	23.0	15.3
Enrollment ratios ages 6-11	71.0	82.3	87.3
Gross enrollment ratios, secondary level	31.6	47.4	54.9
Population/Physician	2053	1315	1083
Percent population with access to safe water	53.7	70.1	79.8*
Infant mortality rate	84.9	63.0	48.2
Life expectancy at birth	60.1	64.3	67.5

Source: IEC, ECLAC, PAHO
*1988 Data

The gradual expansion of services and employment in the social sectors became critical during the eighties, when budget reductions and austerity were in order. Most governments had a difficult time in accepting the need to reduce public employment, either in the social sectors or anywhere else. The result is that expenditure reductions fell first on capital spending, and second on non-wage recurrent costs, including maintenance and operational expenditures. As a result,

even though enrollments continued to expand (see below), the quality of social services often declined. Schools were left without textbooks or other teaching materials, buildings deteriorated, and real wages of teachers declined, making recruitment in rural areas particularly difficult. In the health sector, hospitals were without drugs and other supplies, essential equipment was not repaired, and the low wages paid to doctors encouraged or necessitated their working part-time, often illegally, as private practitioners, while being paid full-time by the government.

Somewhat paradoxically, the level of social development in Latin America has continued to improve despite these problems. Overall life expectancy increased by 5 percent between 1980 and 1990, infant mortality declined 23 percent, and school enrollments grew by 6 percent. However, many of these rates show a slower rate of progress during the eighties than in the preceding decade (see Table 1). These average figures indicate also nothing about distribution, and these indicators may have worsened for some sub-groups of the population. In addition, it is possible that enrollment ratios in education have risen while the quality of education has declined. Improvements in current social indicators may reflect the impact of past expenditures, and the impact of recent expenditure reductions may take some time to have an impact.

The Role of Governments

In the post-debt crisis era, the governments in most Latin American countries have been moving to redefine the role of the public sector. Privatization programs have reduced direct public sector production of goods and services, while the liberalization of price controls, import tariffs and trade restrictions have reduced the role of the public sector in guiding and protecting private sector production. Programs of reform within public sectors have reduced unnecessary employment, and decentralized services to local and provincial governments, which hopefully will be more responsive to local needs. In this process, however, there is a clear need for these slimmer public sectors to improve their performance with regards to the basic services that can only be done by governments. These include providing a stable money supply and price level, regulation of private sector monopolies, internal security, and most importantly, social sector services.

The role of the public sector should be to provide social services to those unable to pay, in order to eliminate the worst manifestations of poverty, and to equalize the distribution of income. Poor people have few assets. Their most productive and useful asset is their own ability to work productively. Investments in education and health augment the human capital of the poor, enabling them to raise their incomes and lead more productive and useful lives.

A recent World Bank study⁴ found that one of the most important factors explaining variations in income distribution among workers was their educational attainment. Many studies show that worker productivity and health status are positively related and healthier workers receive higher salaries.⁵ In addition, education and health are linked. Female education is directly linked to the quality of health within a family, and to the use of family planning methods and smaller family size.

In Latin America the poor receive only about 4 percent of GDP. Recent research shows that central governments spend about 23 percent of total GDP, and of this about 46 percent is spent on the social sectors (26 percent if social security spending is eliminated).⁶ Thus, a modest reallocation of public expenditures could significantly increase the disposable income of low income groups. For instance, if 50 percent of non-social security spending was aimed at the poor, their incomes would rise by 65 percent.

In order to remain affordable, public sector social programs should be designed to target the poor and avoid the general provision of social services to rich and poor alike. The key consideration in the design of targeted programs is to minimize the leakage to unintended beneficiaries and to minimize administrative costs. Thus, a major effort has to be made to find inexpensive means of targeting projects to the poor. In a region-wide study on the targeting of social programs⁷, Grosh (1992) shows that the costs of targeting are quite small relative to the size of total program expenditure, and relatively simple mechanisms can be used to improve targeting. For instance, programs can be targeted to poor municipalities, or utilize existing health and school programs to identify those in poverty or nutritionally at risk. Targeting can either reduce the budgetary cost of a poverty program, or can maximize the impact on the poor of a given program, given a fixed budget constraint. The administrative costs of targeting are low, although they vary widely between different Programs. On average Grosh (1992) found that expenditures for targeting were only about 1 percent of total program costs.

Education. About 25 percent of total education spending by governments in the region is for higher education, up from 16 percent in 1970. Much of this increase is a result of a twelve-fold increase in enrollments in higher education between 1960 and 1985, most of which was in public institutions.⁸ This spending is very inequitably distributed, with much of it going to families that could afford to cover some or all of the costs now being subsidized. A 1987 study showed that studies from families in the upper 40 percent of the income distribution received about 75 percent of higher education subsidies in the region,

⁴ See Pscharopoulos, (1992).

⁵ See World Bank (1983).

⁶ See Hicks (1992).

⁷ See Grosh (1992).

⁸ See Winkler (1990).

while those in the lower 40 percent received about 13 percent.⁹ Research indicates that the social rates of return to primary education are generally higher than those for secondary and higher education.¹⁰ Primary education is particularly important for giving basic literacy and job skills to the poor, and improving their ability to understand health, family planning and nutrition concepts. Given the chronic underfunding of primary education, and the shortages of supplies, textbooks and even teachers in many schools, a reallocation toward primary education would seem in order. In part, this can be accomplished by greater efforts at cost recovery from the non-poor. On average, LAC countries charge tuition at the higher education level of about 7 percent of total unit costs (with a range from 0 to 26 percent).¹¹ Higher tuition charges for most students, offset by programs of student loans for those unable to pay, could help save resources for higher priority needs in primary education.

Health. Major inequities exist in the access of poor people to primary health care. In both rural and urban areas, few poor people have routine access to modern health care facilities, and the few public facilities that are available are poorly equipped. While there are sufficient numbers of doctors in Latin America, there are acute shortages of nurses, health technicians and other medical support staff, and those that are available are often poorly trained. Medical professionals in the public sector particularly lack appropriate diagnostic instruments and medications. Pharmaceuticals are subject to few regulations and unsatisfactory quality control procedures. It is estimated that about 130 million people, about one-third of the population of the region, do not have routine access to health services.¹² In Brazil, for example, 78 percent of total public expenditures go to subsidize large, curative, high cost and mainly urban hospitals, and only 22 percent is used for primary health care. Social security systems generally benefit only those who are members, which tend to be the middle-class, and private insurance systems are normally too expensive for poor families.

Nutrition. Despite high levels of income, Latin America still experiences relatively high incidence of malnutrition. It is estimated that some 10 million preschool children, and an unknown number of older children and adults, are moderately or severely malnourished by standards of weight-for-age. While countries spend a relatively small amount of their GDP on nutrition programs, about one-fifth of one percent, this amounts to about \$1.6 billion.¹³ If adequately targeted, these expenditures should be sufficient to eradicate malnutrition, however, in many cases the programs are concentrated in regions or countries where malnutrition, is not a major problem, and large numbers of beneficiaries who are not nutritionally at-risk, such as school children are receiving benefits. In recent years, many countries have taken steps to eliminate

⁹ See Petrei (1987).

¹⁰ See G. Psacharopoulos (1985).

¹¹ See Carlson (1992).

¹² See Eschverri (1991).

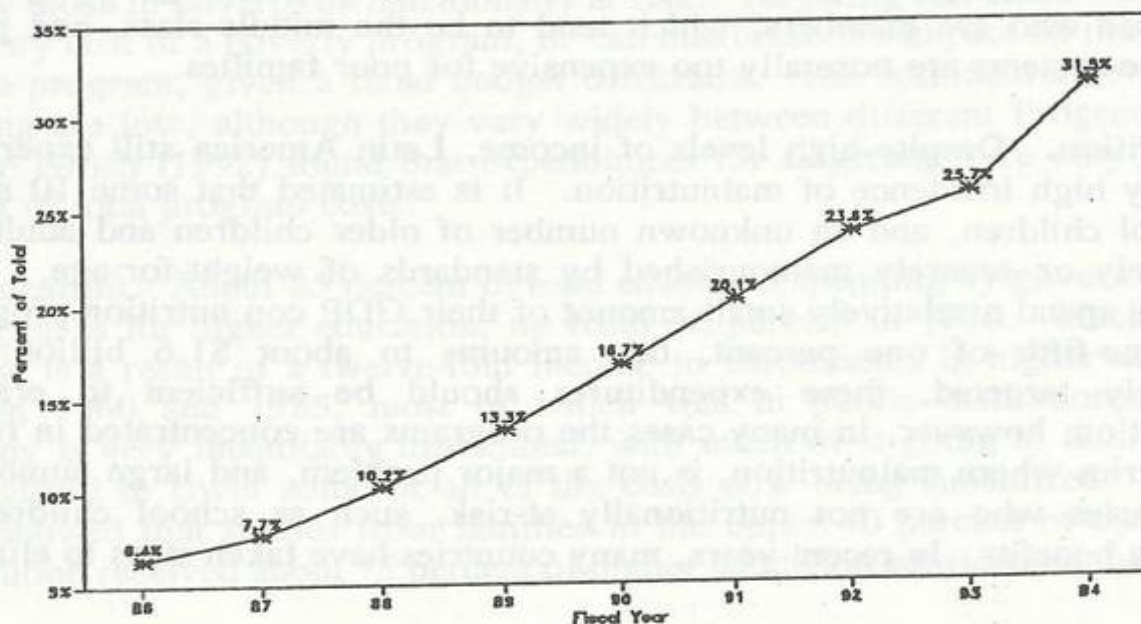
¹³ See Musgrove (1991).

expensive food subsidy programs, that were available to all, regardless of income level, and replacing them with more targeted interventions, directed at those experiencing serious malnutrition, such as pregnant and lactating women, and young children.

The World Bank and the Social Sectors

In the past several years, the World Bank has gradually shifted its lending in Latin America and the Caribbean to focus much more on poverty and social sector development. In fiscal years 1985-87, only six percent of its lending was for the social sectors; in fiscal years 1990-92, this lending had grown to 20 percent of the total, and is expected to exceed 30 percent during fiscal years 1993-95 (See Chart).¹⁴ The key aspect of social sector lending is to support key interventions that aim to improve directly the quality of life of the poor by providing improved primary health care, basic education, improved nutrition, and basic water and sanitation services to those below a threshold income or consumption level. In addition, social sector projects frequently deal with broader policy issues affecting the sector, which are important for maintaining a favorable environment for the project. A recent study of 31 social sector projects¹⁵ showed that 16 included agreements with their respective governments concerning budgetary allocations for the social sectors, 13 called for policy studies and action plans, and nine contained agreements included personnel management, overall sector policy objectives and service delivery targets.

SOCIAL SECTOR LENDING, LAC REGION
Percent of Total, FY86 - FY94
(3 Year Moving Average)



¹⁴ This includes lending for education, health and nutrition, water supply and sanitation, and housing. World Bank fiscal years end on June 30.

¹⁵ Kathleen Sierra, presentation before the LAC Human Resource Retreat, Rosslyn Va., January 21, 1993.

Bank projects in the social sectors take on a variety of shapes and attributes. For instance, the Child Care and Nutrition Project in Colombia (started in 1990) aims at strengthening the country's existing community day-care program and ensuring sustainability. This program provides training and housing improvements for women who provide day-care services in their homes for poor working mothers. Participating children receive improved nutrition and care, as well as preschool learning activities. The program is targeted to the poorest urban neighborhoods, and permits participating mothers to seek employment outside of the home. Specifically, the Bank loan will finance supplies, equipment, and housing improvements for the program, as well as training and technical assistance.

In Mexico, the Bank assisted Basic Health Care Project (1991) aims to strengthen and extend basic health-care services to 13 million poor people in forty-seven health jurisdictions. Besides providing for equipment, furniture, and basic medical supplies, the project also supports institutional improvements to strengthen management capability to enhance the efficiency and effectiveness of the health-care system and strengthen the implementation of sectoral reforms to decentralize budgetary, management, and operational responsibilities from the federal level to the states. In education, the Bank's Primary Education Project (\$250 million, 1991) concentrates upgrading the primary education system in four of the poorest states in Mexico which have high repetition and dropout rates, and lowest overall education attainment. The project will provide educational materials, including bilingual books in rural areas, enhanced training for underqualified teachers, rehabilitation of school buildings, as well as improvements in management, supervision, monitoring and evaluation.

In Brazil, children in poor urban communities have high school-dropout and repetition rates because of poor facilities, poor health and nutrition, and lack of supportive home environments. The Sao Paulo Innovations and Basic Education project, approved in fiscal 1991, is designed to address these problems. Planned reforms include a new curricular approach, school construction in poor neighborhoods, a longer school day, teacher training, expanded meal programs, a preschool support fund, reform of the school health program, and educational TV directed toward poor children.

In an effort to cushion the effect of the 1986 devaluation, Jamaica implemented a program of general food subsidies. Because of the poor targeting of such subsidies, the poorest 20 percent of the population were receiving only 14 percent of the benefits. Supported by the Bank's Social Sector Development Project (1990), the Government has reformed the system from one of general food subsidies to a targeted food stamp program and expanded school feeding programs. The food stamp program covers all pregnant or lactating mothers and children under 5, as well as poor families under threshold income levels. About

12 percent of the population is being reached with this program, and the level of benefits received by the poorest 20 percent has more than doubled.

Social Investment Funds

A major vehicle for targeting assistance to the poor has been Bank help in financing social funds, that provide financing for small-scale, employment-creating projects in infrastructure. As well as poverty alleviating projects in the social sectors. So far, the Bank has assisted the establishment of such funds in several countries, and provided financial support for those in Bolivia, Guatemala, Guyana, Honduras and Nicaragua.

The Emergency Social Fund (ESF) in Bolivia was one of the first of these to be established. The ESF, begun in 1986, was designed to provide finance for income and employment-generating projects, as well as social-assistance activities. This and similar projects were selected so as to reach those suffering most from the effects of economic crisis and the economic adjustment process, including the unemployed and the rural poor. The main objective of the ESF was to quickly provide employment. It has been followed by the establishment of a similar program, the Social Investment Fund, which, while providing a more permanent vehicle for funding small-scale projects in the social sectors, is better integrated into the country's overall public-investment program and is more closely coordinated with line ministries. Over the past five years, the Bank has supported these funds with three IDA credits.

In Honduras, the Social Investment Fund (FHIS) project was approved in February, 1991, to support the financing of local subprojects and credit, a pilot program to allow the poor and malnourished to buy food, and improved service delivery by social ministries. The FHIS subprojects have been targeted based on a poverty map using population and poverty criteria. Sixty percent of FHIS resources went to poorer communities, and resources that went to middle-income communities was targeted to the poorer populations in those communities. FHIS subprojects reached areas where there had previously been little or no government effort. Credit subprojects using NGOs¹⁶ have succeeded in making credit available to urban and rural micro-entrepreneurs who do not have access to commercial banks. The NGOs share in subproject evaluation, assume the full credit risk, charge market rates, and contribute in the subproject financing, which improves collection efficiency and ensures the viability of the revolving fund. The pilot food coupon program demonstrated the advantage of starting on a small scale to prepare for the eventual expansion of a new form of nutrition intervention. The pilot performance shows that the coupons are used primarily to buy food and school supplies, are widely exchanged in the private market, and are well targeted to the poor through the use of primary schools and primary

¹⁶ Non-Government Organizations

health care units. In addition, the program raised the demand for preventive health services and increased enrollment in primary schools.

In Guyana, the Social Impact Amelioration Program (SIMAP) was established to address some of the short-term adverse effects of Guyana's adjustment program. It channels resources to support small-scale health, nutrition, and infrastructure projects at the local level, utilizing NGOs and local governments as executing agencies. The project is also financing the construction and rehabilitation of day care centers, small drainage and water supply systems, and the provision of equipment for solid waste collection. As of March, 1992, it had committed \$237 million in support of 128 projects. SIMAP is being supported by a \$10 million IDA credit (FY92), as well as assistance from the IDB, USAID, and other bilateral and private donors. The IDA credit will finance sub-project components, as well as institutional development assistance to SIMAP and longer term project preparation assistance for defining a medium-term policy and strategy for the health and sanitation sectors.

Adjustment Lending

A large part of the work of the Bank in adjustment programs is aimed at reforming public finances, in a way that can reduce public sector deficits and inflation, and at the same time release resources that can be redirected to more poverty focused programs. The scope for public fiscal reforms is broad, and includes improvements in tax administration, elimination of subsidies to public enterprises and credit, reducing public sector employment, foregoing unnecessary "prestige" projects, or eliminating programs not justified on the basis of equity or efficiency grounds. Thus, many adjustment programs call for a reduction in overall spending and the fiscal deficit, but an increase in allocations for the social sectors. In addition, the Bank has been working with governments to establish safety nets of various types including social investment funds, which help offset the effects of adjustment on the poor.

In Mexico, the Agricultural Sector Adjustment Loans I and II support a number of reforms in the agricultural sector, including rationalization of public investment and privatization of parastatals. Untargeted subsidies, in the form of controls on food prices, are being eliminated, and the present system of targeted subsidies is being improved to eliminate leakages to the non-poor and expand coverage in rural areas. In addition, the government is increasingly using the health system to identify eligible beneficiaries for its food and nutrition programs. AGSAL II also supports a nutrition/health pilot project for the poorest groups.

In the case of Venezuela, important progress in developing targeted programs was supported as part of the structural Adjustment Loan, approved in 1989. This included the phasing out of pricing distortions for food products arising from a multiple exchange-rate system, high tariffs, price controls and import restrictions. The program included the introduction or expansion of direct transfer programs,

including direct cash grants to poor households with children in primary school. The loan also provided technical assistance for the establishment of a pilot program of health and nutritional assistance to vulnerable groups. Food distribution for the nutritional component was effected through private-sector contractors. These programs were expanded and extended through the Bank's follow-up Social Development Project.

The El Salvador Structural Adjustment Loan also includes programs aimed at the most nutritionally vulnerable groups, including toddlers at the weaning stage. The Government plans to introduce three pilot programs during 1991-92: The distribution of nutritionally fortified cookies to primary school children, the distribution of weaning food, and the distribution of food coupons. If successful, these programs would be extended in a phased sequence to municipalities targeted for their high incidence of malnutrition. In Guatemala, the recent Economic Modernization Loan (November, 1992) supports a fairly comprehensive reform of public finances, trade and the financial sector. It also contains provisions, however, for 15 percent real increase in health care and education expenditures in the 1993 budget. In addition, a revised public expenditure program will be developed with a focus on expansion of primary education, preventive and primary health care, and nutrition programs in the rural areas. In conjunction with the loan, the Government will establish a Social Emergency fund to fund social sector projects in rural areas.

Conclusion

While much has been done, much more is needed. A reorientation in World Bank lending is not enough; it must be accompanied by changes in policies within member countries. The Bank will continue its dialogue with member governments on these issues, with emphasis on an approach that will:

Strengthen the capacity of public institutions;

Improve the management of public expenditure and service delivery;

Maximize the use of private providers for delivering services;

Reallocate public expenditure from effective subsidization of upper income groups to programs that benefit lower income groups;

Continue to emphasize the basics, such as primary education, basic health care and nutrition;

Target interventions to the most vulnerable groups in the population, particularly women and children in poor areas; and

Ensure that recurrent costs are financed so that projects are sustainable.

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