

BRAZIL'S STORY:

Social protection in
Brazil: Impacts on
poverty, inequality
and growth

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Development Progress



Social protection in Brazil:

Impacts on poverty, inequality and growth

Key messages

1. Brazil's high inequality rate has been reducing since 1990, with positive impacts on income poverty. Social assistance has contributed to this scenario. Both pensions and transfers have increased access to education and health for poor households, although to date the evidence on impacts here is less promising.
2. Important factors in this progress include: the Federal Constitution of 1988, which incorporated universality of coverage and selectivity to reach the most vulnerable and an emphasis on social assistance; political concern with regard to poverty and inequality; and institutional reform and strong capacity to coordinate programming.
3. There is a need for a broader social policy package to ensure positive impacts on poverty and inequality, as well as wide coverage and accurate targeting. High pension transfers linked to the minimum wage can ensure an increase in the real values of transfers.

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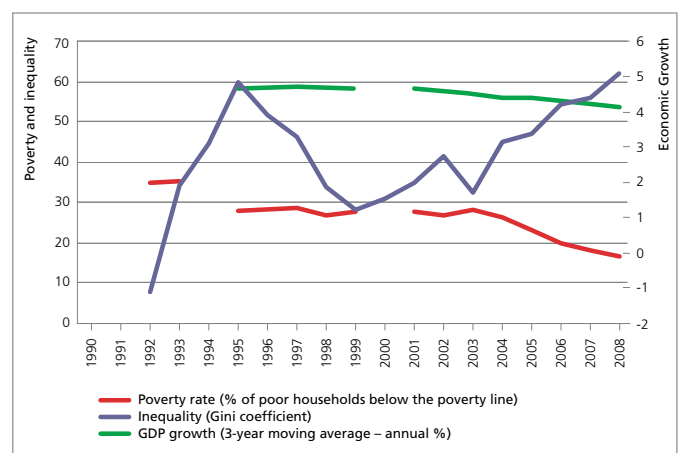
Summary

Brazil is one of the richest countries in the world, with a per capita gross domestic product (GDP) of \$10,427 in 2009.¹ Growth rates increased from 1.9% to 5.1% per year from 1998 to 2008.² Yet the country also has one of the highest rates of inequality in the world (the Gini coefficient is 54.2), and poverty levels are also high. Over 20% of the population – 40 million people – live under the poverty line and 7% of the population – 13 million people – are extremely poor.³

Over the past two decades, however, levels of inequality and poverty have been declining steadily (Figure 1). Between the early 1990s and 2008, the Gini coefficient fell by 5.2 points and the percentage of households living below the poverty line halved.⁴ During this same period, notable legislative and programmatic changes were made in the economic and social policy sphere, including increasing the minimum wage and public expenditure on health, education and other social services.

At the same time, Brazil has invested significantly in social protection, and the country now has one of the best-developed systems among middle-income countries, covering approximately 25% of the population. Changes in the past two decades include adapting eligibility criteria and programme design to extend non-contributory pensions – such as the Benefício de Prestação Continuada, a means-tested disability and old-age pension, and the Previdência Rural, an old-age pension for rural informal sector workers. Meanwhile, cash transfers have been reformed, consolidated and expanded in the form of Bolsa Família, a conditional cash transfer (CCT) targeted at extremely poor households and poor parents with children living at home, which now reaches 12.5 million families. Such changes have contributed to recent reductions in inequality and poverty. The overall cost of non-contributory cash transfers in Brazil is approximately 2.5% of GDP.⁵

Figure 1: Trends in poverty, inequality and economic growth in Brazil, 1990-2009^{6,7}



What has been achieved?

Reduced inequality

Despite continued high levels, inequality rates have been reducing since 1990.⁸ Brazil's Gini coefficient fell significantly, from 59.4 to 54.2, between 1993 and 2008, with social assistance as a contributing factor. While there are some different figures quoted by different sources with regard to the overall impact of cash transfers, 30% of the reduction in inequality between 2001 and 2004 has been attributed exclusively to government transfers (e.g. pensions), and approximately 12-14% to Bolsa Família.⁹ Bolsa Família has also been found to be responsible for 21% of the total fall in the Gini coefficient between 1995 and 2004.¹⁰ Although the transfers represent only 0.5% of total Brazilian household income, they have been found to be the second most important factor in reducing inequality.¹¹

6 Poverty and inequality data: SEDLAC; GDP growth data: WDI Database (gaps in trend reflect unavailable survey data from the source for 1991, 1994 and 2000).

7 No data are available between 1999 and 2001 on poverty and inequality.

8 In contrast with the latest Brazilian national survey (PNAD), which shows a decrease in both poverty and inequality in recent years, the latest survey (CASEN) of Chile shows an increase in poverty between 2006 and 2009 from 13.7% to 15.1% and unchanged inequality.

9 Paes de Barros (2006), in ILO (2009); Santos, L. (2010) *Bolsa Família Programme: Economic and Social Impacts under the Perspective of the Capabilities*. Brazil: BIEN 2010.

10 Soares, S., Osório, R.G., Soares, F.V., Medeiros, M. and Zepeda, E. (2007) *Conditional Cash Transfers in Brazil, Chile and Mexico: Impacts upon Inequality*. Brasília: IPC. Bolsa Família was created in 2003 to merge and organise various federal conditional cash transfers. Soares et al. consider that any family receiving a federal conditional cash transfer, regardless of the programme, was receiving Bolsa Família.

11 Soares, R.V., Ribas, R.P. and Osorio, R.G. (2007) *Evaluating the Impact of Brazil's Bolsa Família: Cash Transfers Programmes in Comparative Perspective*. Evaluation Note 1. Brasília: IPC.

1 Measured in Purchasing Power Parity (PPP), which takes into account local living standards

2 With the exception of 2003, when Brazil experienced a dip in its growth rate, although it recovered quickly (Figure 1).

3 IPEA (2010). Number of poor people is defined as the number of people with a monthly per capita household income of less than half the minimum wage; number of extremely poor people is defined as the number of people with a monthly per capita household income of less than one-quarter of the minimum wage. See Beghin, N. (2008) 'Notes on Inequality and Poverty in Brazil: Current Situation and Challenges.' Oxford: Oxfam.

4 www.ipeadata.gov.br (accessed November 2010).

5 ILO (2009) *Bolsa Família in Brazil: Context, Concept and Impacts*. Geneva: ILO.



Positive impacts on poverty

The decrease in income inequality has had a positive impact on income poverty reduction.¹² Indeed, in a context of moderate growth between 2001 and 2004, Brazil enjoyed a reduction in poverty from 33.3% to 31.5% and in extreme poverty from 14.3% to 12.0%.¹³ Between 2001 and 2005, social pensions contributed 26% of the total reduction in extreme poverty. Bolsa Família had a lesser impact but still contributed 12% of the total reduction.¹⁴

Growth

There are signs of positive impacts of social transfers on incomes at the household level but little robust evidence to indicate a direct relationship between social transfers and aggregate growth. However, global studies have shown that high levels of inequality and poverty can undermine economic growth through several channels, including weak social cohesion (and crime related to this); fiscal instability; biased social spending; elite domination; insecure property rights and legal rights; etc.¹⁵ Therefore, by reducing inequality and poverty, social assistance programmes may contribute indirectly to growth.

Improvements in education and health

Evidence suggests that both pensions and Bolsa Família transfers have also increased access to education and health services for poor households. Studies show that the Previdência Rural has increased school registration and school attendance and Bolsa Família has had a positive impact on the latter.¹⁶ Pensions have helped the elderly poor access health care and buy medication.¹⁷

However, the evidence on education and health outcomes is less promising. Bolsa Família children have been found to be more likely to fail to advance in school, as a result of the programme enrolling more underachieving students in school.¹⁸ Similarly, while some studies have found positive health effects in isolated communities, others have found no impact of Bolsa Família on children's nutritional status.¹⁹

What has driven change?

Governance and the Constitution

One of the most important factors shaping social policy in Brazil was the adoption of the Federal Constitution in 1988. This laid a legal foundation for the state to provide health and education as a basic right of all citizens, as well as guaranteeing social assistance to the poor.²⁰ The Constitution incorporated two new features important to the social policy system: universality of coverage and selectivity to reach the most vulnerable; and an emphasis on social assistance within a predominantly insurance-based system.²¹

The two pension schemes, the Benefício de Prestação Continuada and Previdência Rural, are embedded in the Constitution. Any individual who meets the eligibility criteria can receive the benefit and demand it judicially. Bolsa Família, however, was created through an initial presidential provisional measure at the same time the Brazilian Congress passed the Basic Income Law in 2004. Selection of beneficiaries is therefore dependent on budgetary allocations to the programme, as well as coordination between municipalities and the federal government.²² More recently, Bolsa Família increased the coverage of eligible beneficiary households.

12 IPEA (2006), in Santos (2010).

13 IPEA data.

14 Paes de Barros (2006), in ILO (2009).

15 Santos (2010) states that one of the most important factors obstructing faster growth in Brazil is high inequality. It follows, therefore, that recent reductions in inequality should foster higher growth rates. Birdsall, N. (2007) 'The Macroeconomic Foundations of Inclusive Middle-Class Growth.' 2020 Focus Brief on the World's Poor and Hungry People. Washington, DC: IFPRI and van der Hoeven, R. (2008) 'Income Inequality Revisited: Can One Bring Sense Back into Economic Policy?' Inaugural Address: ISS Public Lecture Series. The Hague.

16 ILO (2009); Medeiros, M., Britto, T. and Soares, R.V. (2008) 'Targeted Cash Transfer Programmes in Brazil: Benefício de Prestação Continuada and the Bolsa Família.' Working Paper 46. Brasília: IPC.

17 Llyod-Sherlock, P. and Saboia, J. (2010) 'Changing Patterns of Economic and Subjective Wellbeing among Older People in Brazil.' New Dynamics of Ageing. Working Paper 1.

18 Oliveira et al. (2007), in Soares, R.V. and Silva, E. (2010) 'Conditional Cash Transfers Programmes and Gender Vulnerabilities? – Case Studies for Brazil, Chile and Colombia Conditional Cash Transfer Programmes.' Working Paper 69. Brasília: IPC.

19 Soares and Silva (2010).

20 Bastagli, F. (2008) 'The Design, Implementation and Impact of Conditional Cash Transfers Targeted on the Poor: An Evaluation of Brazil's Bolsa Família.' PhD Thesis, LSE; Lindert, K., Linder, A., Hobbs, J. and de la Brière, B. (2009) 'The Nuts and Bolts of Brazil's Bolsa Família Program: Implementing Conditional Cash Transfers in a Decentralized Context.' SP Discussion Paper 0709. Washington, DC: World Bank.

21 Bastagli (2008).

22 Medeiros et al. (2008).

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Political perceptions of poverty and inequality

Brazil's politicians have framed national debates on poverty around inequality and have emphasised the need for redistribution. These perceptions have strongly influenced the type of social policies and programmes seen as appropriate to tackle poverty and inequality in the country.

The concept of CCTs first emerged in Brazil in the late 1980s, as a way to reduce high income inequality that was hampering progress towards poverty reduction and redistribution.²³ By 1999, 60 municipalities were implementing different CCTs with a common basic structure,²⁴ amid a growing consensus demonstrated by the municipal experience that school-age children should be required to attend school.²⁵ CCTs – as a broad policy category – appealed to politicians and policymakers across the political spectrum: politicians on the left supported them as reinforcing basic human rights; right-wing politicians saw the conditions as an enforceable contract.²⁶

Institutional reform and strong institutional capacity

President Lula da Silva's administration, brought to power in 2003, marked a change in the CCT landscape by consolidating existing programmes. Committed to reducing poverty and inequality, the administration established the Fome Zero programme in 2003, which included a major process of institutional reform. Bolsa Família was established as a single national cash transfer, bringing together four existing CCTs. The Citizen's Income Unit was created at the Ministry of Social Development to coordinate the programme.

The reform aimed to promote the efficient use of public resources, to improve targeting, to jointly promote education and health incentives, to strengthen monitoring and evaluation and to systematise complementarities between federal and sub-national social safety net programmes.²⁷

The single registry system, which enables beneficiaries to access additional programmes and services, has been identified as 'the single most important management tool' available to Bolsa Família.²⁸ It serves as a targeting

and monitoring instrument, to reduce both duplicate registrations and administrative costs, to monitor eligibility requirements, to improve efficiency and to ensure horizontal coordination between social policies. Indeed, Bolsa Família is the least expensive social protection programme: it costs only 0.4% of GDP, despite covering more beneficiaries than other social assistance programmes.

Institutional reform was possible because of an existing decentralised institutional framework, and was strengthened as a result of progressive investment in building institutional capacity and coordination across the country. The capacity to deliver timely and predictable transfers and to effectively target the poor with minimum leakages has been critical to programme success in reducing poverty and inequality.

Lessons learnt

Brazil still faces a number of challenges in social assistance and in its attempt to reduce extremely high levels of poverty and inequality. Despite this, the case holds a number of important lessons for other countries.

- Positive impacts of social assistance on poverty and inequality have been achieved as part of a broader social policy package, including investments in education and health alongside economic policies such as the minimum wage.
- Broad coverage and accurate targeting of Bolsa Família have contributed to the programme's effectiveness in contributing to reductions in inequality and poverty.
- High pension transfers linked to the minimum wage can ensure an increase in the real values of transfers.

23 Camargo and Ferreira (2001), in Bastagli (2008).

24 Targeting poor households with school-age children and requiring beneficiaries to send their children to school, but typically displaying different eligibility rules, coverage and threshold levels to reflect local resources (World Bank, 2001, in Bastagli, 2008).

25 The first documented CCT programme in Latin America was Bolsa Escola. This initiative was first implemented in early 1995 at the local level in the suburbs of Brasília and in the city of Campinas (São Paulo), then spreading to more than 100 municipalities and states. Bolsa Escola was taken under the aegis of the federal administration in 2001 and extended to the whole country (ILO, 2009).

26 Fiszbein, A. and Schady, N. (2009) Conditional Cash Transfers: Reducing Present and Future Poverty. Washington, DC: World Bank.

27 Lindert et al. (2007).

28 ILO (2009).



- Political economy can make a difference. A strong rights-based framework, concern from political parties to reduce poverty and inequality and a government capable of and willing to implement inequality-reducing policies have created an enabling environment for effective social assistance.
- Institutional reform in the social policy arena created a national ministry to provide oversight and institutional coordination and enabled the single registry system to integrate multiple services and programmes accessible by the poor.
- Investing in the capacity of institutions at all levels and providing institutional incentives have been key to improving social assistance delivery and targeting efficiency.

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