Progress, gaps and challenges in poverty eradication: the case of Latin America and the Caribbean

Simone Cecchini
Director, Latin American and Caribbean Demographic Centre (CELADE) – Population Division, ECLAC
May 2023

Introduction

Latin America and the Caribbean is a region rich in natural and human resources. However, it is characterized by large inequalities between countries and, above all, within countries. Unlike the developed world, the region does not have a consolidated middle class. Around half of its workers are informal, with very low incomes, and limited or no access to social protection mechanisms against the risks of unemployment, illness and old age. Close to a third of the population lives in absolute poverty and more than one in ten Latin Americans lives in extreme poverty.

Currently, the effects of the COVID-19 pandemic and the war in Ukraine are drawing a perfect storm of low growth, unemployment, high inflation, increased poverty, hunger, inequality, social unrest and political polarization; furthermore, the region is experiencing a steep increase of irregular migratory flows. In 2023, economic growth of just 1.2% is expected in the region, marking the end of a 10-year period over which growth in the region will have averaged only 0.8%. These trends are putting many Sustainable Development Goals (SDGs) targets off-track and at risk of not being met by 2030. In particular, forecasts suggest that the targets under SDG 1 will not be reached (ECLAC, 2023).

Longer-term economic and demographic trends underlie this situation. The economies of Latin America and the Caribbean continue to be poorly diversified and are based to a large extent on the export of raw materials, which means that extractivism and the overexploitation of natural resources continue to be the main drivers of economic growth in many countries of the region. This entails both harmful effects on the environment and negative externalities in terms of climate change, as well as violations of the human and territorial rights of indigenous peoples.

Over the years, many countries have benefited from the demographic dividend, the drop in the demographic dependency ratio which at the regional level began in 1967 and entails that with fewer dependents —children and the older persons— for each working age person, households can improve their per capita income. In 2013, of the 665 million persons living in Latin America and the Caribbean, a majority belongs to the 20-39 years age group. However, because of rapid population ageing, the demographic dividend will last only until 2029, when the sum of the population under 15 and over 65 will be growing faster than the working-age population (people aged 15 to 64) (Cecchini and Uthoff, 2008; ECLAC, 2022a).

In the face of a very complex scenario, combating poverty requires a transformation of the development model and structural changes, such as increasing productivity, transforming economic and productive systems to create more and better jobs, turning education systems into true drivers of social mobility and growth, ending gender gaps and advancing towards universal social protection systems in the framework of solid welfare states. Bold, innovative and transformative actions are urgently required (ECLAC, 2022b).

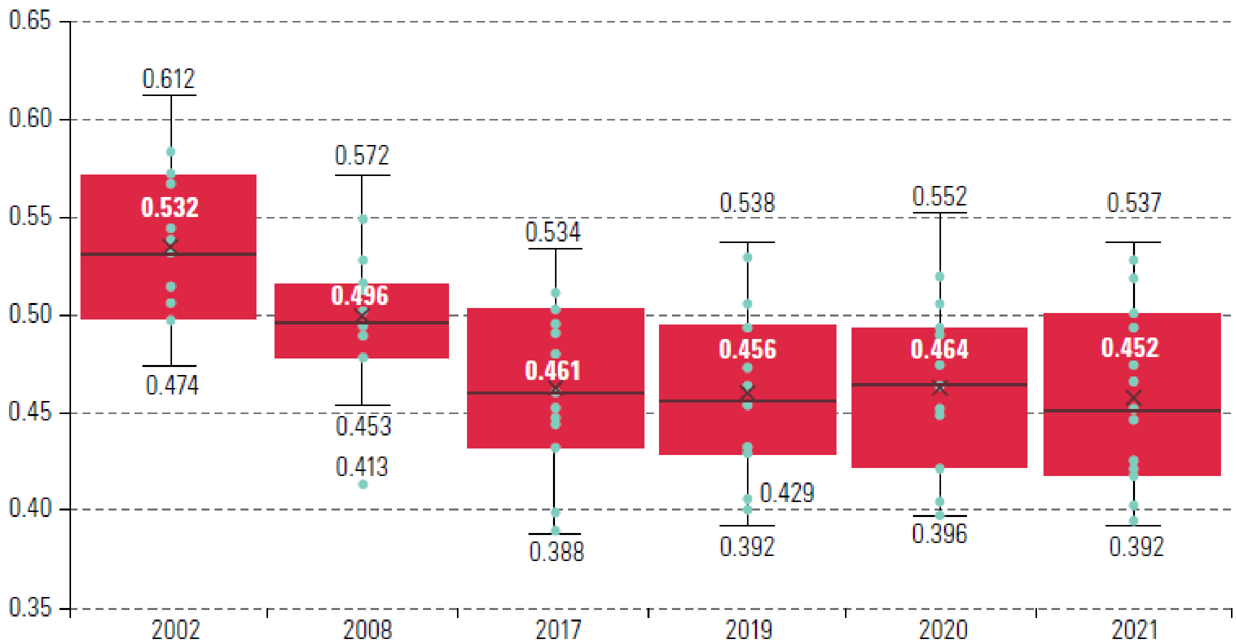
Structural inequalities

The current scenario in Latin America and the Caribbean has as a backdrop the multiple inequalities that have characterized its productive and social structure throughout history. In fact, it can be argued that the challenges in eradicating poverty are directly related to the inequality, informality, vulnerability, and lack of protection suffered structurally by large strata of its population.

The region has some of the highest levels of income inequality in the world, with a Gini coefficient of income distribution of 0.452 in 2021. The Gini coefficient diminished rapidly in the 2000s, but the decline then slowed in the early 2010s, with a situation of relative stability since 2017, except the increase in 2020 due to the pandemic (see figure 1) (ECLAC, 2022c).

Figure 1. Latin America (15 countries): Gini index of inequality, 2002–2021

(Values from 0 to 1, where 0 = no inequality and 1 = maximum inequality)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Household Survey Data Bank (BADEHOG).

Note: Incomes equal to 0 were taken into account in calculating the Gini index. The data are for the year shown or the closest earlier year available. The horizontal line within each box shows the median of the data, X marks the mean and the circles represent country values. The upper and lower edges of each box represent the Gini index values for the top 25% and the bottom 25% of the countries ranked by this indicator.

Beyond income, socioeconomic gaps are also very large in relation to property and productive and financial assets. In Chile, for example, according to the 2017 Household Financial Survey, the richest 1% of households had an average net wealth of three million dollars (totaling 26.5% of the country's net wealth), the richest 10% owned an average of 760,000 dollars (amounting to 66.5% of the country's net wealth), while the poorest 50% of households had an average of 5,000 dollars (amounting to only 2.1% of the net wealth of the country) (ECLAC, 2018 and 2022d).

Economic inequalities intertwine and are enhanced by gender, ethnic, racial and territorial inequalities and those related to the different stages of the life cycle, as well as by dimensions such as disability and migratory status. These social inequalities are manifested in different areas of development, such as the labour market, social protection and care, education, health and nutrition, basic services, information and communication technologies (ICT), citizen security, participation and decision-making (ECLAC, 2018).

Poverty in rural areas, among women of working age, indigenous peoples, and the Afro-descendant population, as well as girls, boys and adolescents is higher compared to the rest of the population. In 2021, rural poverty in Latin America stood at 44.1%, compared to 29.5% in urban areas, and female poverty in the 20 to 59 years age range exceeded male poverty by an average of 3.4 percentage points. In almost all the countries of the region, the poverty rates for indigenous peoples are higher than the rest of the population, exceeding 40% in Colombia, Ecuador, Mexico and Panama. Similarly, the Afrodescendent population is characterized by higher poverty rates than the non-Indigenous, non-Afrodescendent population. Similarly, children and adolescents are the age group most exposed to monetary poverty: almost 45% of Latin Americans under the age of 18 live in poverty, a share that exceeds the average for the region's total population by 13 percentage points (ECLAC, 2022c).

ECLAC (2016) refers to this confluence of multiple and simultaneous forms of discrimination and exclusion with the concept of the "matrix of social inequality", whose two roots —the economic and the sociocultural— are linked and reinforced through exclusive institutions —rules of the game and formal and informal rules of behavior— (ECLAC, 2018). On the one hand, the inequality matrix originates from the structural heterogeneity of the productive systems of the region. This is reproduced in the labor market —characterized by a high prevalence of informal employment and very large wage inequalities— and from there it is transmitted to the whole of society. In the region, about a fifth of the labor force is employed in the high-productivity strata, made up of large companies that fully participate in the global economy, make intensive use of new technologies, have formal labor relations, and contribute to nearly two thirds of regional GDP. This contrasts with the fact that around half of the region's workers are employed in the informal sector, either as low-skilled self-employed workers, contributing family workers, employees in domestic service or in very small low-productivity companies, with little technical progress and which contribute only one tenth of the regional GDP[1] (ECLAC, 2017; Infante, 2011). On the other hand, the historical roots of inequality go back to the conquest and colonization, when the assets and territories of indigenous peoples —who were subjected to forced labor— were expropriated, people of African descent were enslaved, and women were in a position of dependence (ECLAC, 2018). Historical inequalities have been transmitted and reproduced over time, as can be seen in the case of the very unequal distribution of land or wealth. Indigenous peoples, the Afro-descendant population and those belonging to lower-income social strata have worse access to essential areas of well-being, such as education, health, basic services and housing and, together with women, continue to suffer greater levels of poverty, job insecurity and violence. There are multiple areas where structural and institutional factors come together to perpetuate or recreate inequality, such as "taxation, the appropriation of income from natural resources or financialization, the blocking of political and policy regulations by *de facto* powers, territorial segregation and the provision of infrastructure, segmentation in the quality of urban life, the costs that populations pay for environmental degradation and climate change, rigidities in intergenerational social mobility, or the segregation of capacities and access to well-being according to ascriptive factors or considerations of origin" (ECLAC, 2018, p. 28).

In summary, in Latin America and the Caribbean, the State has often been captured and public policies coopted for the benefit of the elites, and inequalities are naturalized instead of promoting their reduction. This is related to the difficulty of finding common and shared roots, values and visions in society, and to the polarization of the political debate.

Poverty trends and impact of non-contributory social protection

In the 2002-2014 period, the region managed to reduce poverty, inequality and informality, as well as expand the coverage of social protection. These advances resulted from a virtuous combination of economic growth with the creation and formalization of employment within a political context in which governments gave high priority to inclusive public policies aimed at expanding social protection.

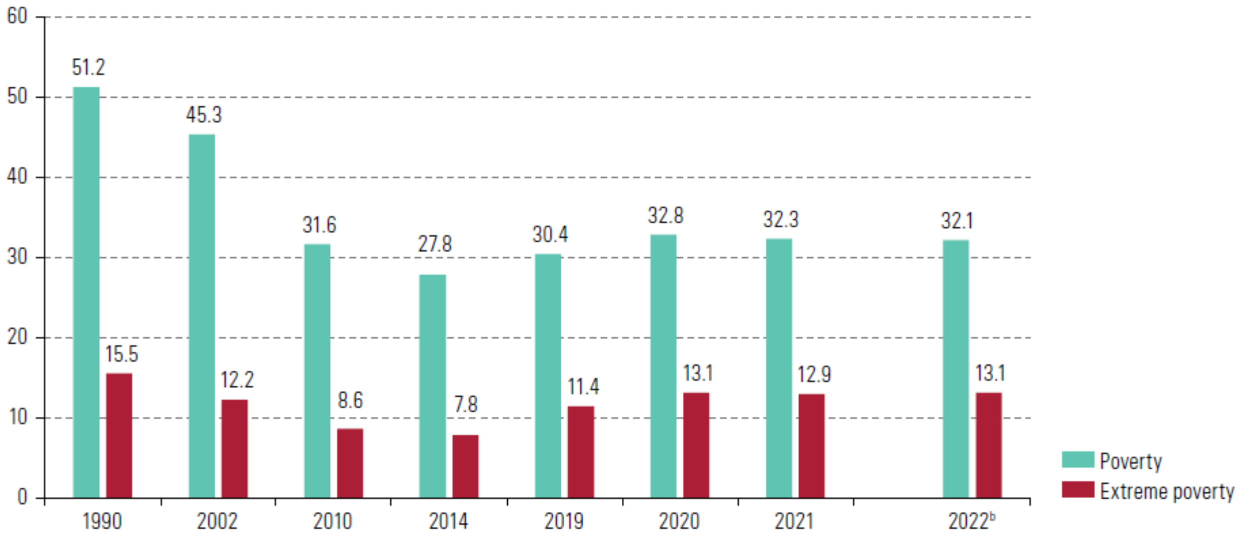
[1] In turn, around three out of every ten workers are employed in the medium productivity sector, made up of small and medium-sized companies with few ties to high-productivity sectors, contributing only to around a fifth of regional GDP.

Successively, poverty began to increase and, due to the impacts of the pandemic on economies and labor markets, both poverty and extreme poverty have reached levels not seen for at least a decade.

In 20 Latin American countries, in 2021 it is estimated that the number of people in a situation of extreme poverty have increased by 16 million compared to 2019, reaching 86 million (13.8% of the population) and people in a situation of poverty would have increased by 20 million, reaching 201 million (32.1% of the population) (see figure 2) (ECLAC, 2022c).

Figure 2. Latin America (18 countries):[a] poverty and extreme poverty rates, 1990–2021 and projections for 2022

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Household Survey Data Bank (BADEHOG).
[a] Weighted average for the following countries: Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay. [b] Projections.

The increase in poverty and extreme poverty was particularly marked in 2020 and could have been worse had it not been for the quick implementation —although not exempt from flaws and limitations— of emergency social protection measures by the governments of the region, such as such as monetary and in-kind transfers directed to protect basic needs and support households' consumption levels in the face of the sanitary, social, and economic crisis.

These measures reached around half of the regional population, exceeding the coverage of previous non-contributory social protection programmes, and managed to incorporate middle-class sectors, self-employed and informal workers, who in many cases were excluded both from non-contributory and contributory social protection transfers. The greatest effort was made during 2020, when emergency transfers represented an expense of 89.7 billion dollars and covered 50.2% of the population. In the first ten months of 2021, with the end of the confinements and the reactivation of the economies, spending fell to 45.3 billion dollars and coverage to 47.2% of the population. Between January and August 2022 spending fell to less than 6.2 billion dollars (ECLAC, 2022c).

Without these measures, in 2020 extreme poverty would have been around 1.8 percentage points higher and poverty would have been 2.9 points percentage points higher, on average, in seven countries analyzed by the ECLAC (2022c). This finding is not far to what found about the impact of more permanent non-contributory social protection programmes such as conditional cash transfers and social pensions: for the 2015-2017 period, Cecchini, Villatoro and Mancero (2021) found that in 15 countries of the region on average these programmes —covering 28% of the population— reduced extreme poverty by 1.7 percentage points and poverty by 2.0 percentage points, which in relative terms is equivalent to relative decreases of 25.9% and 11.8%, respectively.

The rapid expansion of non-contributory transfers was made possible thanks to innovations —such as the scaling up of social registries, information systems, and electronic payment methods— which in turn were based on the increase in state capacities in social protection management and administration brought about by previously existing programmes such as conditional cash transfers (Cecchini, 2022; ECLAC, 2022c).

Demographic trends: drawing the future of the region

To understand the societies and economies of the region and promote public policies for poverty eradication, it is necessary to take into account long-term demographic trends —such as urbanization and aging—, as well as the growth of intraregional migration. These trends contribute to designing the future of the region, whose urban and aging character is inexorable, and where the phenomenon of intraregional migration also seems destined to continue increasing.

Although the process of migration from rural to urban areas is no longer as strong as in the past, Latin America and the Caribbean is currently the most urbanized developing region in the world. As a consequence, even if the incidence of poverty is higher in rural areas, most of the poor live in urban areas. In 2020, 81% of the population lived in urban areas and 35% of the population lived in cities of 1 million inhabitants or more. Likewise, the region has five megacities with 10 million inhabitants or more: Buenos Aires, Mexico City, Lima, Rio de Janeiro and São Paulo (ECLAC, 2022e; United Nations, 2019). It is in the big cities where much of the economic, political and cultural power is concentrated, which contributes to territorial inequalities.[2]

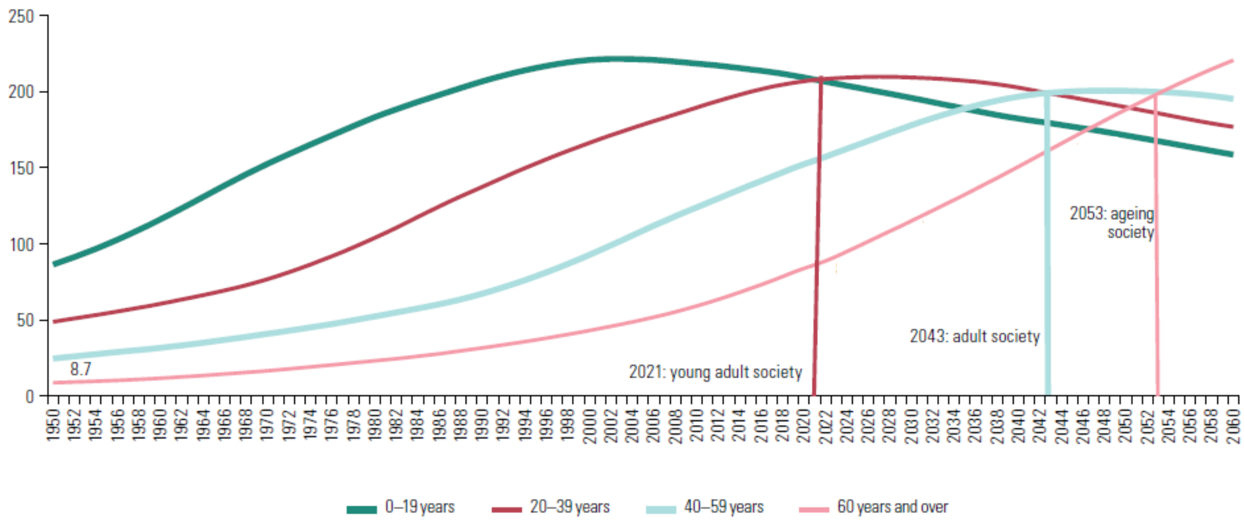
Latin America and the Caribbean is also going through a period of profound demographic change, which derives from the significant decrease in fertility and mortality levels over the last 70 years. In 1950, women had an average of 5.8 children, while in 2023 they have only 1.8 children, a figure that is below the replacement level of 2.1 children per woman. Likewise, hand in hand with urbanization, the improvement of living conditions, the increase in educational levels and advances in health, life expectancy has had an enormous increase: while in 1950 life expectancy at birth for both sexes in the region was only 48.6 years, in 2023 it reached 75.8 years, even though there was a setback because of the COVID-19 pandemic. However, the average hides strong differences between countries, ranging from a life expectancy at birth of 65 years in Haiti to a life expectancy of 81 years in Chile. There are also strong differences within countries, between territories and people of different socioeconomic levels.

Although currently Latin America and the Caribbean is a “young adult” society —where the 209 million people aged 20-39 constitute the most populous age group—, due to the decline in fertility and the increase in life expectancy, the region is on the way to an aging society, in which the oldest age groups will predominate (see figure 3). People aged 60 and over in 2023 represented 13.8% of the regional population (92 million people), but they will reach a quarter of the population in 2050 (192 million). In addition, one must consider aging among the elderly, as very old people have needs and capacities very

[2] For example, in the case of Panama, in 2017 the province of Panama, home to the capital, concentrated more than 63% of national GDP and had a GDP per capita of 13,500 dollars, almost ten times higher than the GDP per capita of the poorest province (Darién) (Cecchini, Holz and Rodríguez, 2020).

different from other age groups. The group of very old people (80 years and over) —which currently represents 1.8% of the total population (12 million)— will increase very rapidly and is projected to reach 37 million people in 2050 (5.0% of the total population) (ECLAC, 2022f; United Nations, 2022).

Figure 3. Latin America (50 countries and territories): population by major age group, 1950–2060
(Millions of people)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, World Population Prospects 2022, New York, 2022.

Furthermore, in Latin America and the Caribbean practically all countries are part of migratory cycles, be it as countries of origin, destination, return or transit. In 2020, the region's population living in a country other than the country of their birth was close to 43 million, which represents around 15% of the 281 million migrants worldwide (United Nations, 2020). Most of the migrant population, 25.5 million (59.5% of the total), resided in the United States of America and Canada. Within the region (mainly in South America), there were 11.3 million emigrants, equivalent to 26.3% of the total (ECLAC, 2022e). Although the United States of America continues to be the main destination for regional emigration, several countries have become important recipients —especially of the estimated 6.1 million Venezuelan migrants in the region—, such as Colombia, Peru, Chile and Ecuador. In the 2015-2020 period, the migrant population within the region has grown at a higher rate (+83.2%) than that of extra-regional movements (+5.2%) (United Nations, 2020).

Migration cycles in the region are explained by both expulsion factors —such as the structural lack of decent work opportunities, environmental disasters and the effects of climate change, and violence of all kinds—, as well as attraction factors, based on greater employment opportunities, better wages and family reunification. Migration flows are increasingly occurring irregularly, and in fact during the border closures due to the pandemic, migration did not stop (ECLAC, 2022e).[3]

Conclusions

Economic growth over last ten years in Latin America and the Caribbean has been about half the growth the region experienced in the "lost decade" of the 1980s. As a result of the debt crisis of the 1980s, it took

[3] The International Organization for Migration (IOM, 2021) has warned about the increase in the migratory flow in the Darién Gap, one of the most dangerous migratory routes in the world, through which in 2021 more than 125,000 people crossed, a 25% of which were boys and girls.

14 years to return to the pre-crisis level of GDP per capita. The social recovery was even slower, as it took 25 years to return to the levels of poverty that existed before the crisis. This happened because the adjustment modalities to the crisis were regressive, with cuts in social spending, privatizations and deregulation of the labor markets, and because there were hyperinflationary processes and marked destruction of employment.

In order not to repeat the mistakes of the past and in light of the series of cascading crises that are affecting Latin America and the Caribbean, it is necessary to transform the productive structure, develop the welfare state and achieve universal social protection, contributing to reduce social inequalities and overcome poverty. The pandemic has shown how important public policies are to protect a broad set of the population, be it through vaccination or emergency cash transfers. It also made visible the enormous contribution that women make to the societies and economies of the region through their paid and unpaid work. Women are overrepresented in sectors related to care and the first line of response to the pandemic and provide care for the sick, children and older persons (ECLAC, 2022d). In the face of persistent gender inequalities and population aging, the need to move towards a care society, in which care tasks are redistributed more equitably between men and women, with the support of the State, is thus more current than ever (ECLAC, 2022c). Another lesson learned in times of pandemic is the urgency of building an inclusive digital society and to universalize connectivity, allowing the poor to access effective connectivity (ECLAC, 2022a).

However, the insufficient levels of taxation and social investment make it difficult to adequately promote universal public policies. Both the tax burden and social spending in the region are still far from the levels of developed countries and do not have the same redistributive effects. In 2019, tax revenues in Latin America represented on average 22.9% of GDP, compared to 33.8% of GDP in OECD countries. Likewise, in 2019, public spending on social protection in the region was 11.4% of GDP, while in OECD countries it reached 19.7% of GDP (OECD et al., 2021). In terms of redistributive effects, around 2011, the Gini coefficient in Latin America dropped just 3 points after direct fiscal action, while the incidence of tax and social policies in OECD countries was of the order of 17 points of the Gini coefficient (Hanni, Martner and Podestá, 2015).

In order to count with adequate public resources that allow to give financial sustainability to the welfare state, inclusive growth and sustained productivity growth are needed, together with a broad and participatory social dialogue that integrates historically excluded social groups to achieve social and fiscal pacts (ECLAC, 2022c). The green transition and productive and digital transformation are essential elements of the transformation of the region's development model into one that is more productive, inclusive and sustainable (OECD et al., 2022). Although specifics have to be defined in each national context, ECLAC (2022b, p. 13) proposes "affording special attention to sectors that have strong potential to galvanize and transform the productive structure: the energy transition, e-mobility, the circular economy, the bioeconomy, the health-care manufacturing industry, digital transformation, the care economy, sustainable tourism, the micro- small, and medium-sized enterprise (MSME) sector, and the social and solidarity economy".

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