

A Slowdown in Social Gains

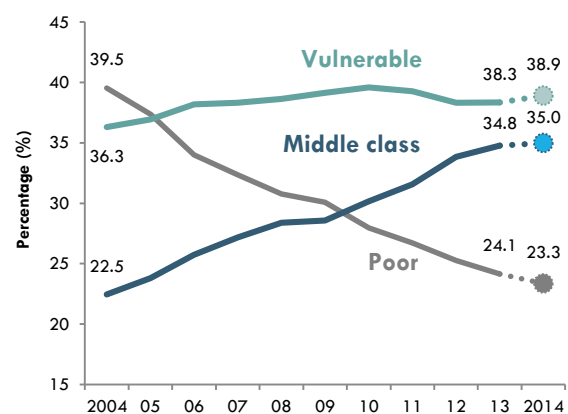
- The current economic slowdown resulted in social gains in Latin America and the Caribbean that were weaker in 2014 than in previous years. In particular, the growth of the middle class – which was one of the key successes during the years of the commodity boom – came almost to a halt.
- Despite the slowdown, the region was able to reduce poverty in 2014. Income growth was higher among poorer households, contributing to a slight decrease in inequality. However, the growth of the income of the bottom 40 percent of the population was lower than it had been in previous years.
- Since over the last decade poverty reduction has been driven mainly by economic growth, the weakening of economic conditions in 2015 and 2016 will make further reductions of poverty more challenging.
- As policy-makers face increasingly difficult trade-offs it is key to reignite growth and cushion the impact on the poor, ensuring that access to basic services and opportunities is not compromised.

Poverty reduction in the Latin America and the Caribbean region (LAC) continued in 2014 at a slower pace, in line with a worsening economic environment. Total poverty, defined as life on less than \$4 a day, fell by more than 16 percentage points between 2004 and 2014 to 23.3 percent (Figure 1).¹ Much of this gain, however, occurred in the earlier years. Between 2004 and 2012, LAC reduced poverty at a rate of 5.4 percent per year; between 2012 and 2014, this rate was 3.9 percent per year. This lower rate of poverty reduction is unsurprising given the weaker economic environment that the region has faced since 2012. Economic growth is critical for poverty reduction, as illustrated by the fact that since 2003 around 75 percent of all poverty reduction was explained by economic growth, as opposed to redistribution. As economic conditions continued to worsen in 2015 and 2016, further pressure on slowing down social gains in the region can be anticipated.

The growth in the size of the middle class slowed in recent years. The vulnerable, those not in poverty but not yet in the middle class, continue to be the largest group in the region at 38.9 percent in 2014.² This is worrisome as they are the most likely to fall into poverty in any given year. Despite the continuous movement of people out of poverty during the last

decade, middle class growth has slowed in recent years (to 1.7 percent annualized growth since 2012, down from 5.3 percent between 2004 and 2012), reaching 35 percent of LAC’s population in 2014. That is, even as more people have been able to escape poverty, mobility into the middle class has slowed, such that at current growth rates, the middle class would no longer be projected to become the largest group in the region in the near future.³

Figure 1. Poverty rate in LAC continued falling in 2014, though at a lower rate



Source: LAC Equity Lab tabulations using SEDLAC data (CEDLAS and the World Bank).

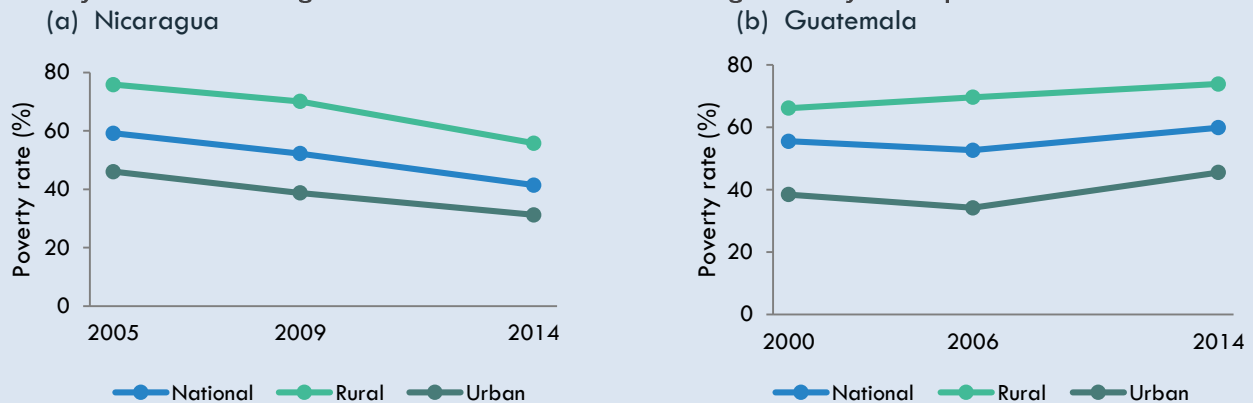
The economic slowdown has also been accompanied by a lower income growth for the bottom 40 percent of the population. Annual GDP per capita growth in the region declined from an

average of 3.2 percent between 2004 and 2008 to 1.5 percent in 2014, and an estimated -0.7 in 2015.⁴ These worsening macroeconomic conditions have translated into waning social gains, including

Box 1. Nicaragua and Guatemala reported new poverty numbers in 2014

Nicaragua and Guatemala do not collect poverty data as frequently as many of their neighbors in the LAC region, but both countries collected new surveys in 2014. After half a decade without poverty estimates, Nicaragua's 2014 survey revealed a sizeable reduction in poverty at \$4 per day from 52.5 percent in 2009 to 41.4 percent in 2014. The social gains were particularly strong in the rural areas. At the same time, the new poverty estimates for Guatemala show worsening conditions with a 7.2 percentage points increase (from 52.6 to 59.8 percent) in poverty between 2006 and 2014. The increase in poverty rates was higher in the urban areas, compared to the rural (11.3 and 4.2 percentage points, respectively).

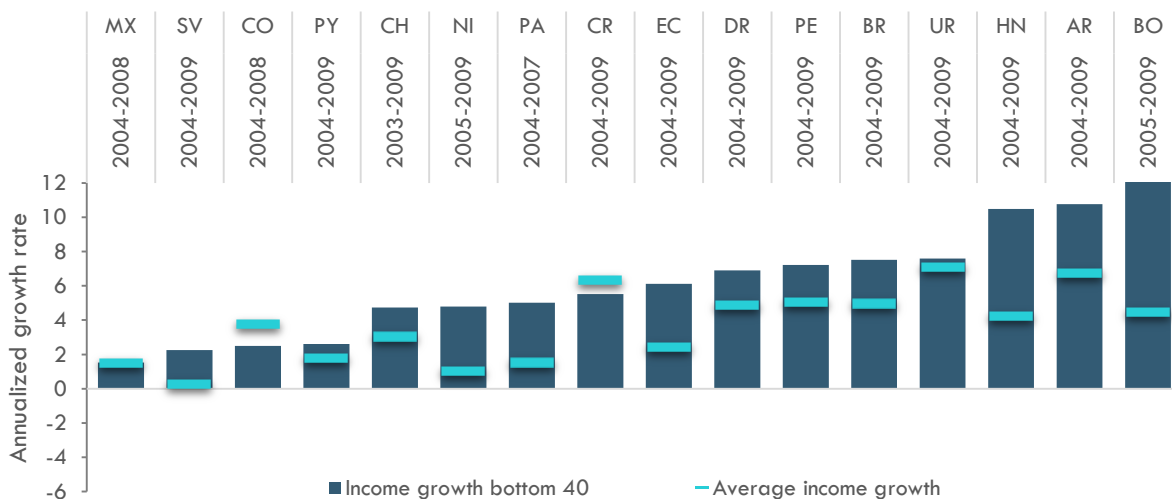
Poverty trends in Nicaragua and Guatemala have differed significantly in the past decade



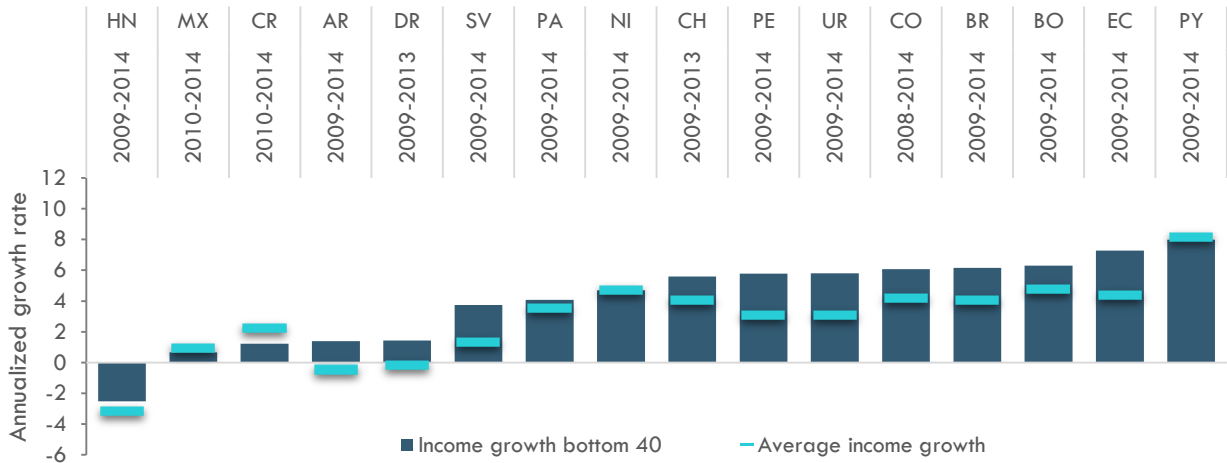
Source: LAC Equity Lab tabulations using SEDLAC data (CEDLAS and the World Bank). Note: The figure reports the poverty headcount rates at \$4 per day (2005 PPP).

Figure 2. Progress in shared prosperity has slowed in most LAC countries during the past five years

(a) Annualized growth rate of incomes for the bottom 40 percent and the overall population 2004-2009



(b) Annualized growth rate of incomes for the bottom 40 percent and the overall population 2009-2014



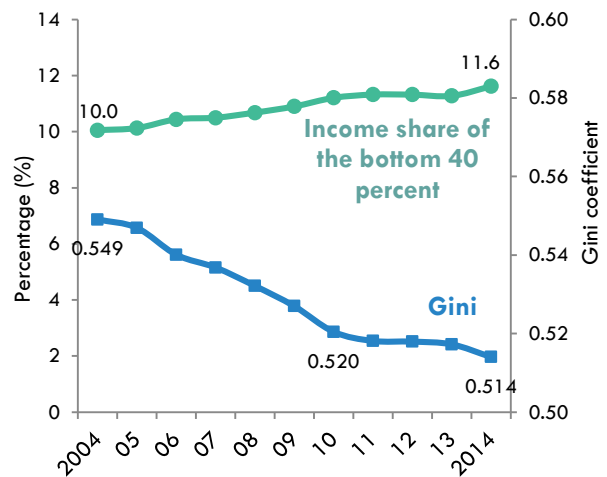
Source: LAC Equity Lab tabulations using SEDLAC data (CEDLAS and the World Bank). Note: The figure shows the annualized growth of incomes for the bottom 40 percent and the overall population between 2004-2009 and 2009-2014, or the nearest years in cases in which these surveys are not available for selected years.

slowing income growth in most countries. The World Bank’s measure of shared prosperity reports the income growth of people in the bottom 40 percent as an indicator to monitor whether growth is benefiting the less well-off in each country. From 2004 to 2009, real per capita income of the bottom 40 percent grew 6.1 percent on average across the region; since then, it has grown at 4.1 percent. Income growth in recent years has been particularly low in Central America and Mexico (Figure 2). Even so, the income growth of the bottom 40 percent in most countries continued to be higher than the average income growth rate, suggesting that although growth slowed, it has continued to be inclusive.

Inequality did not decline strongly. Inequality measured by the Gini coefficient experienced an annualized decrease of 0.9 percent in LAC between 2004 and 2010 (Figure 3), a significant drop in inequality in one of the most unequal regions in the world.⁵ However, the rate of reduction of income inequality has slowed since 2010, with the Gini coefficient falling from 0.520 in 2010 to 0.514 by 2014, equivalent to an annualized decrease of 0.3

percentage points. Despite these gains, income inequality remains high in the region: as of 2014, the poorest 40 percent of the population received only 11.6 percent of the region’s income.

Figure 3. Income inequality remains high in LAC in 2014



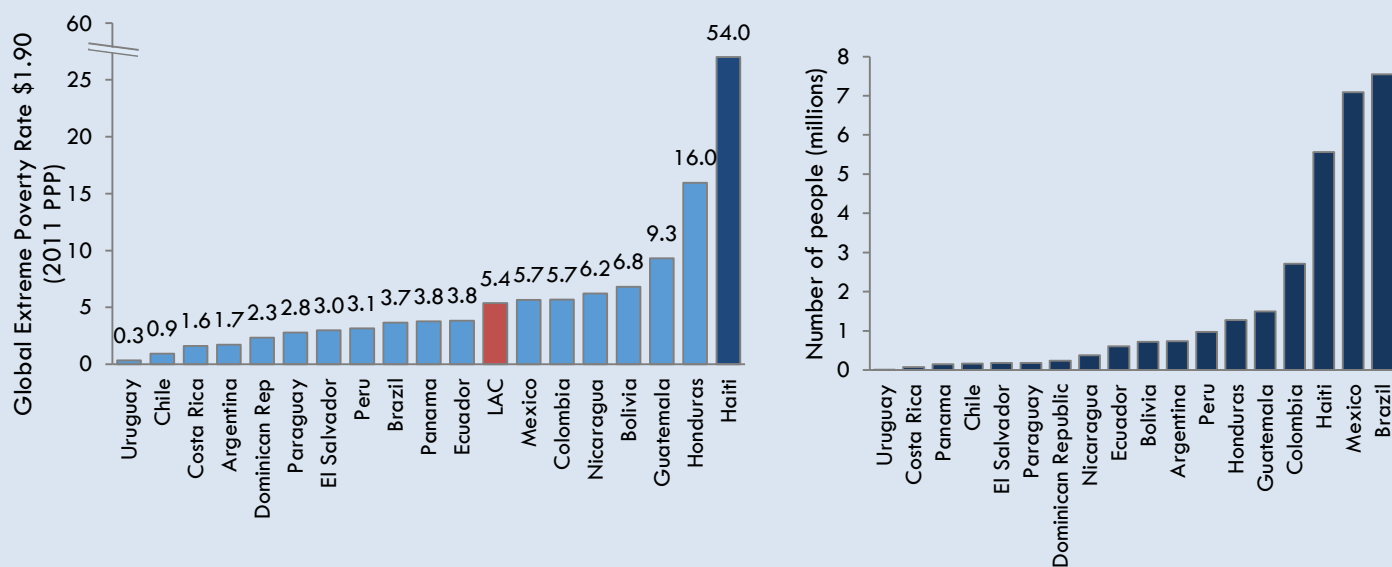
Source: LAC Equity Lab tabulations using SEDLAC data (CEDLAS and the World Bank). Note: Numbers are calculated using pooled data from LAC-17 (see annex 1 for details on the country coverage).

Box 2. Success in eradicating extreme poverty has varied across the region

In May 2014 the International Comparison Program (ICP) released new internationally comparable Power Purchasing Parity (PPP) values. The new ICP data allows for updated estimates of the cost of living across countries. As of October 2015, the basic World Bank indicator for measuring extreme poverty globally with these new PPP values is the percentage of people living on less than \$1.90 a day. Using this updated measure, an estimated 4.4 percent of LAC's population was living in extreme poverty in 2014. Seven of the 17 countries in the region with frequent poverty data have reduced extreme poverty to less than three percent; among these 17 countries, Honduras has the highest extreme poverty rate at 16 percent. At the extreme, a majority of the Haitian population (54 percent or 5.6 million people) lived in extreme poverty as of 2012. Together, these poverty rates imply over 30 million people living on less than \$1.90 per day in LAC.

Most countries in the region have low shares of the population living on less than \$1.90 per day...

...Yet, over 30 million people in LAC live on less than \$1.90 per day.



Source: LAC Equity Lab tabulations using SEDLAC data (CEDLAS and the World Bank). Note: Poverty rates are for 2014 except for Chile and Dominican Republic (2013) and for Haiti (2012). LAC poverty rate includes Haiti and therefore it is not comparable with regional aggregates presented in the rest of this document.

The economic downturn has slowed down income growth across the entire income distribution; even so, the income growth of the poorest 10 percent remained relatively high, driven by the growth in labor incomes. Figure 4 shows the average annual growth rate of per capita income between 2010 and 2014 for every decile of the income distribution.⁶ During this period, the income of the poorest 10 percent grew 5.7 percent per year on average, with labor income contributing more than half of this growth. While this is a significant growth rate, the bottom 10 percent lived on less than \$2.50 per day (Annex 2). For the rest of the bottom 40 percent, the news were not as good; for this group income growth

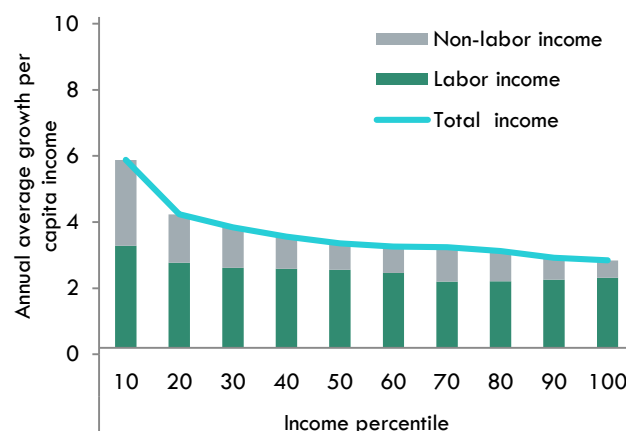
was about 4 percent per year, similar to the rates seen for the top 60 percent. Here too labor income growth was the primary driver, accounting for about two-thirds of income growth.

Households in poverty and in the bottom 40 percent have lower labor force participation and higher unemployment rates, particularly for women. In 2014, less than half of the women aged 18 to 65 in poor households and in the bottom 40 percent were in the labor force compared to two-thirds of those in the top 60 percent (Annex 3). Unemployment rates were also significantly higher for women in poor households (14.7 percent) than for men in poor households (9.7

percent) and women in the top 60 percent (5.3 percent). Given the importance of labor income to overall household income growth, these low rates of female participation and high rates of unemployment represent significant challenges to exiting poverty.

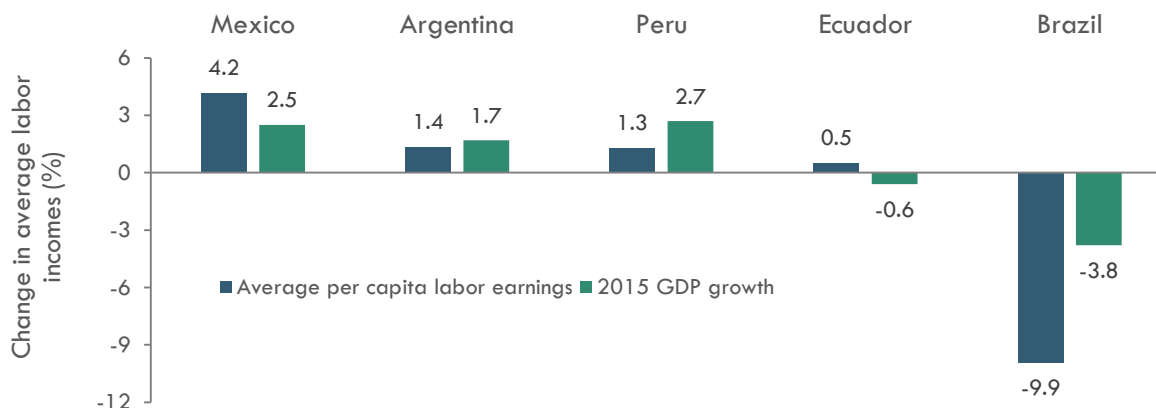
Labor market indicators suggest that urban poverty may have increased in Brazil in 2015. The 2015 labor force surveys (LFS) in the region show positive growth in per capita labor income in Peru, Mexico, Argentina and Ecuador, but not in Brazil, where it fell by 9.9 percent between 2014 and 2015 (Figure 5).⁷ This fall in labor income in Brazil reflects the country's GDP growth of -3.7 percent in 2015. Since labor is the primary income source for most households in the region, changes in labor income are the primary driver of changes in poverty. For 2015, the fall in average labor income suggest a more difficult environment for poverty reduction in Brazil.

Figure 4. Growth in labor income has remained crucial between 2010 and 2014



Source: LAC Equity Lab tabulations using SEDLAC data (World Bank and CEDLAS). Note: The growth incidence curves are calculated using pooled harmonized data from LAC-17. Non-labor income includes public monetary and in-kind transfers, contributory and non-contributory pensions, capital incomes (such as profits and benefits, rents, and interest and benefits), and private transfers and remittances.

Figure 5. The evolution of labor earnings in 2015 suggest a more difficult environment for poverty reduction in Brazil



Source: LAC Equity Lab tabulations using LABLAC and SEDLAC data (World Bank and CEDLAS); 2015 GDP growth refers to preliminary estimates from the World Bank's January 2015 Global Economic Prospects for Argentina, Ecuador, Mexico, and Peru. For Brazil, official growth rate is reported.

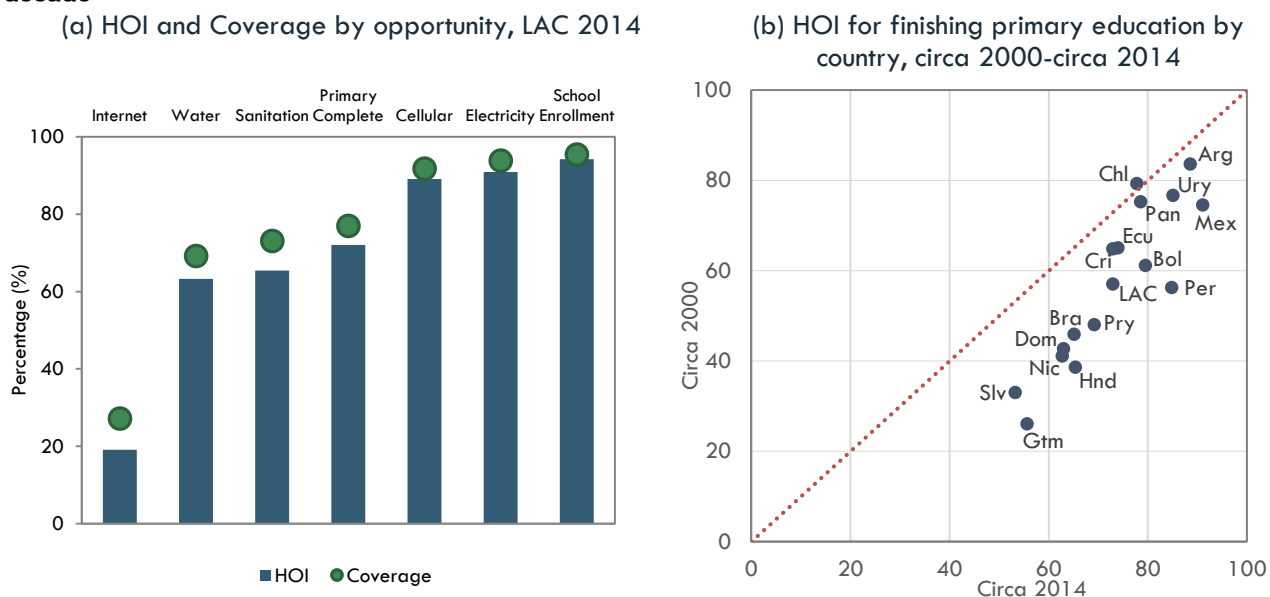
One of the achievements of the region in the last decade has been an improved access to basic opportunities. While the region has achieved very high rates of coverage in electricity or primary school enrolment, access to other basic opportunities such as water and sanitation or the internet lags behind (see coverage rates in Figure 6a). In addition, access is not

typically uniform across all groups of society. To explore how equitable access to these basic opportunities is we can use the Human Opportunity Index (HOI).⁸ The HOI is an indicator that measures how a child's access to basic opportunities such as education, water, electricity, and sanitation, is affected by circumstances outside of his or her control

—for instance, place of residence or education of the household head. The difference between the coverage ratio and the HOI for a given opportunity reflects how the set of circumstances affects the chances of accessing this opportunity. The larger the gap between coverage and HOI the more unequal access is. As Figure 6(a) suggests, LAC shows gaps in access to basic opportunities that is more pronounced in the case of access to internet in the house, running

water in the dwelling, and improved sanitation. While access to basic opportunities remains unequal, the region has made significant progress in increasing access to basic opportunities in the last 14 years. For example, the HOI for finishing primary school has increased substantially in almost every country in the region between 2000 and 2014 and in particular in those countries with low initial levels – as shown in Figure 6(b).

Figure 6. LAC has made important progress in improving access to basic opportunities in the last decade



Source: LAC Equity Lab tabulations using LABLAC and SEDLAC data (World Bank and CEDLAS). Note: LAC numbers are calculated as unweighted average of country-specific numbers in 2000 and 2014, or the nearest year when data for those years are unavailable.

What can be done to regain the pace of social gains in the region? First, taking into account the prominence of growth in explaining poverty reduction in the LAC region, reigniting growth is critical for resuming the pace at which social gains were being achieved in the region before the economic slowdown. The growth agenda is thus critical to preserve and boost social gains. Second, it will be important to cushion the impact on the poor and vulnerable and to ensure that investment on their human capital are not compromised or halted. As we saw in Figure 1, the vulnerable remains the largest

group of the population. Combined the poor and vulnerable account for around two-thirds of Latin Americans. Finally, as policy-makers face increasingly difficult trade-offs it is key to preserve the gains in access to basic opportunities that have characterized the region in the last decade. Much needed efforts of fiscal consolidation will benefit from better understanding what public programs help those who need it the most and where there may be efficiency gains. These types of analyses will help to inform policy choices to build on the very significant social gains achieved in the region in the last decade.

Annex 1.

About this brief

This brief was produced by the Latin America and Caribbean Team for Statistical Development (LAC TSD) in the Poverty and Equity Global Practice of the World Bank. The core team consisted of Leonardo Lucchetti, Eduardo Malasquez, Germán Reyes, and Liliana D. Sousa. The team worked under the guidance of Oscar Calvo-Gonzalez and received valuable contributions from Andrés Castañeda, Giselle Del Carmen, Karem Edwards, Emma Monsalve, Laura Moreno, Thiago Scot, Daniel Valderrama, and Martha Viveros.

The numbers presented in this brief are based on two regional data harmonization efforts known as SEDLAC and LABLAC, joint efforts of the World Bank and CEDLAS at the National University of La Plata in Argentina. They increase cross-country comparability of selected findings from official household and labor surveys. For that reason, the numbers discussed here may be different from official statistics reported by governments and national offices of statistics. Such differences should not be interpreted in any way as a claim of methodological superiority, as both sets of numbers serve the same important objectives: regional comparability and the best possible representation of the facts of individual countries

Unless otherwise noted indicators for LAC are calculated using data from Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, and Uruguay (LAC-17). In order to analyze the same set of countries every year, interpolation was applied when country data were not available for a given year.

The welfare indicator used in this report is the total household per capita income. Since October 2015, the basic World Bank indicator for measuring extreme poverty globally is the percentage of people living on less than \$1.90 a day in 2011 purchasing parity power (PPP). But the level of economic development in the LAC region has led analysts to use poverty lines that are higher: a \$2.50 a day extreme and a \$4 a day overall poverty lines. Unless otherwise noted, poverty lines and welfare measures in this brief are in 2005 US\$ (PPP) per day.

The Gini coefficient measures income inequality, using values between zero for perfect equality and one for perfect inequality. Since the coefficient does not satisfy group decomposability, the regional Gini coefficient is computed based on pooled country-specific data previously collapsed into 8,000 quantiles. As a result, this measure captures the income inequality between the region's population, and thus differs from measures based on country-specific indicators. In order to analyze the same set of countries every year, interpolation was applied when country data were not available for a given year. Inequality measures include households with zero incomes. Results are similar with the exclusion of these households.

Annex 2.

Poverty and Inequality rates by country, 2009-2014

	Extreme poverty (\$2.50 a day)						Total poverty (\$4 a day)						Gini coefficient					
	2009	2010	2011	2012	2013	2014	2009	2010	2011	2012	2013	2014	2009	2010	2011	2012	2013	2014
LAC	15.5	14.1	13.0	12.1	11.2	10.8	30.1	28.0	26.7	25.3	24.1	23.3	52.7	52.0	51.8	51.8	51.6	51.4
Brazil	13.9		11.7	9.6		7.8	26.9		23.8	20.8		18.1	53.9		53.1	52.7		51.5
Mexico		12.6		11.4		11.7		28.2		27.6		27.5		47.5		49.4		49.1
Andean region	19.4	17.0	14.7	14.8	12.8	12.0	35.7	32.4	29.3	28.5	26.8	25.1	52.1	51.3	49.8	49.5	49.5	49.2
Bolivia	20.6		16.1	17.1	14.4	14.0	35.1		29.0	29.2	27.2	25.9	49.7		46.3	46.7	48.1	48.4
Colombia	21.9	19.6	16.8	17.5	15.2	14.5	39.6	36.5	32.8	32.9	30.8	28.9	55.9	55.5	54.2	53.5	53.5	53.5
Ecuador	18.9	15.9	13.5	12.9	10.5	9.3	37.1	33.4	29.5	27.8	26.1	23.6	49.3	49.3	46.2	46.6	47.3	45.4
Peru	15.6	13.2	11.8	10.9	9.8	9.2	29.6	26.1	24.3	22.1	21.3	20.1	48.0	46.2	45.5	45.1	44.7	44.1
Central America	24.5	24.7	24.4	24.9	24.0	23.1	43.2	43.4	43.2	43.5	42.9	41.8	52.6	52.3	53.0	53.0	53.0	52.1
Costa Rica		4.6	5.1	4.7	4.6	4.6		12.7	13.0	12.2	12.2	12.0		48.1	48.6	48.6	49.2	48.5
Dominican Republic	16.4	16.1	14.0	14.6	13.9		34.7	35.1	33.3	33.3	33.1		48.9	47.2	47.4	45.7	47.1	
El Salvador	18.7	19.8	16.6	14.7	12.7	12.3	38.9	39.3	37.9	34.8	31.8	31.4	45.9	44.5	42.4	41.8	43.5	41.8
Guatemala						36.9						59.8						48.7
Honduras	31.3	34.0	37.4	42.4	39.6	36.2	50.0	53.3	56.4	61.3	59.4	55.9	51.6	53.4	57.4	57.4	53.7	50.6
Nicaragua	29.3					20.3	52.2					41.4	45.7					47.1
Panama	12.3	13.2	11.6	11.8	9.9	10.2	25.3	24.0	21.2	20.9	20.4	18.7	52.0	51.9	51.8	51.9	51.7	50.7
Southern Cone	7.7	6.3	5.1	4.8	4.0	4.6	16.5	14.8	12.8	11.5	10.6	11.2	48.9	48.4	47.5	46.5	46.4	47.1
Argentina (urban)	8.0	6.1	4.6	4.7	4.5	5.4	16.3	14.1	11.6	10.8	10.8	12.7	45.3	44.5	43.6	42.5	42.3	42.7
Chile	4.1		2.9		2.0		11.6		9.9		6.8		52.0		50.8		50.5	
Paraguay	17.9	16.1	14.3	12.0	8.3	9.0	32.5	30.5	27.5	24.1	20.2	18.8	49.7	51.8	52.6	48.2	48.3	51.7
Uruguay (urban)	3.5	2.8	2.6	2.6	2.4	2.0	11.9	10.7	8.6	8.3	7.8	6.7	46.5	45.5	43.6	41.5	42.1	41.8

Source: LAC Equity Lab tabulations using SEDLAC data (CEDLAS and the World Bank). Note: Poverty lines and incomes are in 2005 US\$ purchasing parity power (PPP) per day. LAC and sub-regional poverty indicators are calculated using pooled data from the relevant set of countries. In order to analyze the same set of countries every year, interpolation was applied when country data were not available for a given year.

Annex 3.

Profiles: The Poor and the Bottom 40 percent (2014)

	Poor	Bottom 40	Top 60	All
Profile of households				
Demographics				
Household size	4.3	4.2	3.0	3.4
Number of children (ages 0-14)	1.7	1.5	0.6	0.9
Proportion living in rural areas	38.8	32.5	12.6	19.1
Education and income				
School enrollment (ages 6-14)	93.8	94.7	96.9	95.8
School enrollment (ages 15-24)	43.6	45.0	55.1	51.1
Years of education (ages 18 and over)	6.1	6.6	9.5	8.6
Median daily per capita income (2005 US \$PPP)	2.6	3.7	13.0	9.3
Characteristics of the main earner				
Average age	45.0	45.7	50.6	49.0
Female	34.5	34.0	34.0	34.0
Average years of education	5.5	6.0	9.0	8.0
Labor profile of individuals (Ages 18-65)				
Labor market				
Labor force participation	64.3	66.2	77.7	73.8
Female	47.1	49.6	66.5	60.8
Male	85.5	85.8	87.8	87.2
Unemployment rate	13.5	11.1	4.1	6.1
Female	14.7	13.2	5.3	7.5
Male	9.7	8.4	3.7	5.1
Type of employer				
Private large firm	18.2	24.4	41.4	36.5
Private small firm	78.9	71.1	44.1	51.9
Public sector	2.9	4.5	14.5	11.6
Type of worker				
Employers	4.8	4.0	5.0	4.7
Self-employed	34.3	30.2	20.3	23.2
Unpaid workers	15.1	11.1	3.1	5.4
Wage employees	45.8	54.7	71.6	66.7
Sector of employment				
Primary sector	42.8	32.4	8.5	15.6
Manufacturing	10.7	12.4	14.7	14.0
Construction and utilities	9.0	10.3	9.0	9.4
Retail	21.1	24.6	27.4	26.6
Services	16.4	20.3	40.4	34.4

Source: SEDLAC (CEDLAS and the World Bank). Note: All indicators are percentages unless otherwise noted.

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1. The indicators reported in this brief can be found in the LAC Equity Lab website at www.worldbank.org/equitylab. See Annex 1 for acknowledgements and a description of the data and methodology used in this brief.
 2. This report follows Ferreira et al. (2012), defining economic classes based on the concept of economic security: the vulnerable, who have incomes between \$4 and \$10 a day; and the middle class, living on between \$10 and \$50 a day (2005 PPP). The vulnerable group are those with a higher probability of falling into poverty in any given year. Source: Ferreira, F., J. Messina, J. Rigolini, M. Lugo, R. Vakis and L. López-Calva. 2012. "Economic Mobility and the Rise of the Latin American Middle Class." World Bank Publications.
 3. Based on 2012 trends, the middle class would have become the largest group in the region by 2016. Source: World Bank. 2014a. "Social Gains in the Balance: A Fiscal Policy Challenge for Latin America and the Caribbean." Report 85162 (February), World Bank, Washington, DC.
 4. World Development Indicators and estimates from the World Bank's January 2015 Global Economic Prospects.
 5. See Annex 1 for technical notes regarding the estimation of inequality and Annex 2 for the Gini coefficient for each country.
 6. This figure is based on the Growth Incidence Curve (GIC) methodology; however, to decompose income growth by source of income, this curve is reported as average annual growth rather than annualized growth. For more details on the GIC methodology, see Ravallion and Chen (2003). "Measuring Pro-poor Growth." *Economics Letters*, 78 (1): 93–99.
 7. LFS are available sooner than household surveys but with less information about household income and often limited to urban populations.
 8. Barros et al. (2009) developed the HOI. Source: Barros, R. P., F. Ferreira, J. Molinas and J. Saavedra-Chanduvi. 2009. "Measuring Inequality of Opportunities in Latin America and the Caribbean." World Bank. Washington, DC: Palgrave Macmillan.