

The Development Challenge for Brazil

1. A Major Middle Income Country With A High Incidence Of Poverty and Inequality

1.1 Brazil is the 5th most populous country in the world and has the 9th largest economy¹. It accounts for half or more of South American Gross National Income (GNI). In 2000 a total of US\$30 billion of foreign capital was invested, making Brazil the number two recipient among developing countries.

1.2 Brazil's assets include vast natural resources, which are recognised as being of global importance, a large internal market, and a democratic government. However, despite its wealth (a GNI per capita figure of US\$3,070 in 2001²), the incidence of poverty and inequality remain high. Inequality is linked to race, gender, social class and geographic location, with the North and North East being the poorest regions. There are over 40 million Brazilians living on less than \$2 a day, and nearly 20 million on less than \$1 a day³.

1.3 Brazil is among the most unequal countries in the world. The richest 10% of the population have about 48% of the national income, the poorest 20% have 2.5% (see Box 1). The poorest 50% account for 10% of national income and so do the richest 1%. Addressing inequality was stressed as the key challenge for Brazil in the consultative workshops leading up to the drafting of this Country Assistance Plan.

Box 1 Gini Coefficient Comparisons

The Gini coefficient measures levels of income distribution. The most recently quoted Gini figure for Brazil is 0.61⁴. This makes Brazil almost twice as unequal as Indonesia. A comparison with a range of countries in Latin America, Africa and Asia, (Chile (0.58, Nigeria (0.51) and India (0.38)) indicates that Brazil is among the most unequal countries both in the region and the world. National inequality figures are even starker when broken down along racial and gender lines (see Box 2).

(The Gini coefficient is expressed as 0 = equality, 1 = extreme inequality)

1.4 The gulf in income levels between people who live in the developed South of Brazil and in the North East of the country is large. Poverty is concentrated in the North East region, where the UN's Human Development Index (HDI) is 0.57⁵ (compared to 0.78 for the South of Brazil). This places the region on a par with India and Kenya at the bottom of middle ranking human development category. However, the HDI for individual states is as low as 0.45, making socio-economic indicators comparable with, for example, Bangladesh and Nigeria. Great disparities in prosperity also exist within regions. Box 2 provides indicators of inequality in terms of race and gender.

Box 2 : Indicators of inequality - race, gender and location

¹ Purchasing Power Parity US\$

² World Bank Atlas method

³ UNDP "Human Development Report", 2003

⁴ UNDP "Human Development Report", 2003

⁵ The Human Development index is expressed as 0 = undeveloped, 1 = developed

Race inequality: Human development index 1998 (source FASE , Marcelo Paixao, 2000)
White population 0.79
Black population 0.68

Gender inequality: Women earn 35% less than the equivalent male income (source: UN Human Development Report)

Regional inequality: Households earning less than 2 minimum salaries/month (source IBGE, 1999)
All Brazil 27.6 percent
North East region 47.5 percent

2. Progress in Achieving the Millennium Development Goals

2.1 The 1990s saw significant progress in reducing income poverty, the proportion of the population below the national absolute poverty line falling from 20.2% in 1991 to 14.5% in 2000 (UNDP 2003). However, the recent slowdown in economic growth has set back progress, threatening the likelihood of achieving the MDG of the proportion below the poverty line falling below 10% by 2015 (UNDP 2003). Owing to the high income inequality, growth of well above the long-term trend of 4% would be needed in order to make a significant impact on poverty. As a result, Brazil cannot depend on growth alone to achieve the 2015 poverty reduction target but will also require some redistribution of income and/or wealth.

2.2 Brazil has been demonstrating progress on most other MDGs - for example improvements in the prevalence of underweight children, in the net enrolment ratio in primary education, in the literacy rate of 15-24 year olds and a reduction in under-five mortality from 48 per 1000 in 1991 to 38 in 2000 (UNDP 2003) – and is already meeting those relating to gender equality (see Annex 5). The main exception is maternal health where the maternal mortality ratio has been rising (from 50.15 per 1000 in 1996 to 63.67 in 2000⁶) - reversing this trend will be a major challenge.

3. Economic Development Building The Foundations for Sustainable Poverty Reduction

3.1 Brazil has made significant progress in tackling macroeconomic weaknesses in recent years, particularly in controlling inflation and tightening public spending. The Fiscal Responsibility Law imposed tight discipline on public spending and, for the first time, a requirement for transparency and accountability on regional and local government spending. The development of a more business-friendly climate has seen a significant increase in foreign direct investment and the beginnings of a recovery in growth (1.5% in 2002) and industrial employment (rising for the first time in a decade). However, Brazil remains vulnerable to exogenous shocks because of its dependence on foreign capital and its high levels of short-term debt. This vulnerability can only be reduced with major structural reform and further progress in reducing protection by developed countries.

⁶ Mainly poor black women in the North and North East are affected. Brazil has one third of Latin America's maternal mortality deaths (UNDP 2003).

4. *An Emerging Consensus To Tackle Poverty*

4.1 Economic growth is a necessary but insufficient condition for poverty reduction. Substantial government efforts have also been made over the past few years to reduce inequalities, principally through the expansion of essential services, such as education and health, to lower income groups. There is a growing consensus among the main Brazilian political parties that addressing poverty and inequality are key priorities for Brazil and of the importance of race as a major factor in inequality. Each cycle of presidential, state and municipal elections are important events to develop and test the emerging consensus and it is expected that poverty reduction will remain a central aim of future governments in the medium term.

4.2 The Pluriannual Plan (the plan and budget for the government's four year term) is expected to be the flagship development and reform plan, identifying the reduction of social inequality and regional disparities among its key priorities. Within its scope, the federal government is introducing programmes designed to tackle poverty, the most important of which is 'Fome Zero' (the national campaign against hunger and poverty). Reforms are being introduced to ensure that by 2007 every Brazilian child will complete primary education at an acceptable level of academic achievement. Other significant programmes are under way in health, social security, agrarian reform, increasing government capacity to promote gender and race equity; enhancing greater transparency, accountability and effectiveness of government, and supporting sustainable environmental development.

5. *The Need For A Coherent Poverty Reduction Approach*

5.1 Integrating poverty and inequality reduction into Brazilian government policy-making processes and developing coherent strategies to address poverty and inequality are major challenges. There is a general acceptance that targeting of programmes to meet the needs of the poor should to be improved. Only 18% of social spending (excluding social security) in 1997 reached the poorest 20% of Brazilian society. An even smaller amount (7.4%) of social security spending reached the poorest 20% during 1996/97.⁷ There have been many separate programmes with limited links that suffer from a lack of co-ordination. Measuring impact and efficiency have been constrained by the lack of effective monitoring and evaluation of government programmes.

5.2 The Brazilian Government aims, with 'Fome Zero', to develop an overarching, co-ordinated poverty reduction approach to enhance the coherence of the poverty reduction measures of individual ministries. The development of state level strategies to reduce poverty and inequality is being discussed in certain North Eastern states and municipalities.

5.3 Brazil faces particular challenges in improving coherence amongst the various tiers of government. The devolution of responsibility for service

⁷ World Bank Country Assistance Strategy 2000

provision to the states and to Brazil's 5000 municipalities is intended to pass decision making on investment, service provision and recurrent budgets to a local level. The states and municipalities present a wide diversity of experiences, resources and capacity. Decentralisation has not always been accompanied with the human and financial resources required to deliver improved services. In addition, the need to supplement federal funds with locally raised taxes for the provision of basic services such as health, education, water and sanitation can exacerbate regional differences.

5.4 Mechanisms, including local councils, exist to enable civil society to have a role alongside government in both the allocation and monitoring of expenditure at state and municipal level. However, in practice many of these councils lack the resources, both human and financial, to enable them to be effective. A related issue is how far the civil society groups on these councils are representative of poor people. Helping poor people at the state and municipal level to articulate and claim their rights and helping government to respond by supplying qualitative services that address diversity and equality issues are major tasks.

6. *The Contribution Brazil Makes To Other Developing Countries*

6.1 Brazil is a significant player in international discussions, particularly in trade and the environment. It also has much to offer the rest of world, and particularly other developing countries, through sharing the lessons it has learnt from its innovative efforts to reduce inequality and poverty and tackling issues such as HIV/AIDS. Brazil is an active partner within the G3 (with India and South Africa) and South South cooperation.