

## How did Brazil reduce poverty and inequality?



**At the World Social Science Forum in September 2015 in Durban, South Africa, many presentations offered a grim perspective on the state of poverty and inequality reduction in different countries around the world. There were a few notable exceptions that gave impressive and uplifting news about significant progress. One of them was from Brazil.**

Since success stories of significant reductions in poverty and inequality are somewhat rare, this article reviews three key policies that contributed to this success, hoping to offer concrete policy suggestions for poverty reduction in other parts of the world, including Egypt.

Brazil, a middle-income country and rising global power, has long been known as one of the most unequal countries in the world. Between 2003 and 2009, 21 million people have reportedly escaped poverty in the South American country. According to Brazil's National Institute of Applied Economics Research (IPEA), the poverty incidence rate declined from 35.8 to 21.4 percent. Brazil has also slowly reduced inequality: the Gini index dropped by nine percent between 2001 and 2009, reaching its lowest level since the 1970s. While the Gini coefficient is a limited and sometimes misleading indicator, most notably because it measures inequalities in income and not wealth, it remains the most widely used global indicator of inequality.

Three policies were central to this success

**Bolsa Família (Family Scholarships):** This program provides financial aid to poor Brazilian families whose monthly income per capita is under R\$150 (\$US47). The value of the payment ranges between approximately US\$10 and \$US80 per month, and the average payment in March 2014 was approximately \$US47. Families apply and provide the necessary documents, and, if accepted, they receive the cash electronically from an ATM. In return for small cash transfers, families must keep their children in school and vaccinate them, ensuring they attend preventive health care visits, which include prenatal care for pregnant women, nutritional care and monitoring of their children's growth and development. After ensuring that people are aware of the requirements, the government then monitors their

compliance through the ministries of education and health.

Launched in 2003 to consolidate existing cash transfer programmes, its beneficiaries increased to 13.8 million families in 2014, thus reaching almost 50 million people (26 percent of Brazil's population). It is the largest conditional cash transfer program in the world. The program mitigates short-term problems that result from poverty and helps to invest long term in health and education, thereby interrupting the intergenerational transmission of poverty. Studies show that it has significantly reduced extreme poverty and hunger, increased school attendance and decreased dropout rates. One estimate is that this program reduced poverty by 12-18 percent between 2003 and 2009. It is, after all, a cost effective intervention with excellent benefits: it costs a mere 0.5 percent of GDP and reaches more than a quarter of the population. It has also granted autonomy and dignity to the poor. If the ambitions of Bolsa Familia had been accompanied by greater improvements in health facilities and schools, it may have had an even greater impact.

**Educational reform:** Brazil worked on expanding its educational system and improving its quality. Public expenditure on education increased from 2.7 percent of GDP in 1980 to 4.5 percent in the 2000s, with most of the additional funding going towards primary education. Improved education resulted in better skilled workers and thus higher incomes. Improving the quality of education included setting ambitious targets for improvement and establishing a national assessment system. This national system today assesses progress by school, municipality, state and region in Brazil. Results are reported twice a year, are published by local media and are available for citizens to access. Targets relate to enrolment and repetition rates and also include assessing students for proficiency in various subjects, with the aim of improving their scores in relation to international standards. Brazil's scores in the Programme for International Student Assessment (PISA) remain below average. PISA is a worldwide study by the OECD that assesses the performance of 15-year-olds in mathematics, science and reading. Nevertheless, it had the largest performance gains in mathematics between 2003 and 2012, and enrolment rates for 15-year-olds increased from 65 percent in 2003 to 78 percent in 2012.

**Minimum wage:** Brazil has had a minimum wage that applies to formal work, both in the public and private sectors, since 1940. After years of inflation and the decline in its real value, the Brazilian government increased the minimum wage and determined that it would be adjusted annually based on the rate of inflation of the previous year and GDP growth in the preceding two years, rather than on the whims of presidents. In February 2009, it increased to approximately \$US230, almost twice what it was seven years before. The value of the minimum wage in Brazil is also tied to the value of social security benefits, such as pensions and unemployment benefits, meaning increases in minimum wages also affect other groups, most notably pensioners and the unemployed. The minimum wage contributed to a reduction in gender and racial disparities, because it applies to everyone — men, women and people from all racial backgrounds. Its effect on the reduction of poverty and inequality were understandably considerable, and even higher than the effect of Bolsa familia. This is because income from wages in 2005 was almost four times higher than income from pensions. The number of workers whose incomes were below the poverty line fell from 23 percent in 1999 to 14 percent in 2006. Its main flaw is that it does not reach informal workers and thus excludes many of Brazil's poor.

Brazil did not only focus on economic growth, but accompanied this growth with active social policies for redistribution. Consequently, growth led to better living standards for much of the population, through better wages and social transfers. In addition, Brazilian growth, which averaged 4.4 percent between 2004 and 2010, led to a significant expansion in formal employment.

Brazil's approach was guided by improving the incomes of those at the bottom of the pyramid faster than those at the top, and also faster than the rate of GDP growth. The result is that Brazil succeeded in reducing both poverty and inequality. While there remains much room for improvement, Brazil's achievement is worth understanding. According to **Marcelo Neri**, Brazil's former Minister for Strategic Affairs, who I interviewed at the World Social Science Forum, this approach had massive success until 2012 but then slowed, and thus Brazil is now searching for a new formula to continue reducing its stubbornly persistent problem of inequality.

So where does Egypt stand on similar policies?

Egypt has long had a cash transfer/social assistance programme (ma`ash al-daman al-igtima`i), a program of the Ministry of Social Solidarity that reaches approximately 1.5 million households unable to work and uncovered by any other social insurance scheme. This mainly includes widows raising children, the elderly and the disabled.

In addition, two new cash transfer programs were launched in 2015. Karama (dignity) provides an individual monthly allowance of LE320 for the elderly and those with severe disabilities. Takaful (solidarity), a conditional cash transfer program disbursed quarterly, offers poor families with children who are younger than 18 a monthly allowance of LE325 and additional sums of LE60, LE80 and LE100 per child in primary, secondary or high school respectively, on condition of regular attendance. These programs, launched in early 2015 in some of the poorest villages in Upper Egypt, now reach almost 160,000 beneficiaries, with plans for geographic and quantitative expansion. Their impact on poverty in Egypt will only be felt as they reach more households, but they also must be accompanied by drastic improvements in the quality of education — not only to improve educational outcomes, but also to reduce the cost burdens of widespread private tutoring in Egypt, which eats up a significant amount of household incomes.

Secondly, educational reform remains a much-discussed priority for policymakers, but has had limited visible results. As for minimum wages in Egypt, they now exist for the public sector — which employs close to seven million people — but they are absent from the private sector and the informal economy, in which most of the population works.

More importantly perhaps, is the limited public debate about which policies are needed to reduce both poverty and inequality.