The focus of the World Bank’s strategy on poverty and equity should be celebrated. The collection here reflects this new emphasis. The book documents the economic gains observed in the Latin America and Caribbean region during the last decade by highlighting the achievements in the reduction of poverty and inequality and in the increase in income growth among the less well off, results that are associated with an improvement in income distribution. The country cases also offer reasons to be concerned about the sustainability of these gains, however, and illustrate the increased vulnerability of large groups in the population that, while living above the income poverty line, could easily fall back into poverty. The framework described at the beginning of the book makes clear that equity-related policies—such as enhancing access to quality education and health care, ending the exclusionary dynamics in specific markets, creating good-quality jobs, and promoting a more comprehensive approach to social protection—are necessary pillars of any policy aimed at sustaining the advances toward more sustainable and equitable growth.

— Rebeca Grynspan
Ibero-American Secretary General, former United Nations Under-Secretary-General, and former Vice President of Costa Rica

Latin America is among the brightest spots in demonstrating how prosperity has been shared in the last decade. Shared Prosperity and Poverty Eradication in Latin America and the Caribbean meticulously documents the auspicious trends in the region and delves into their determinants within a comprehensive framework. This is an extremely useful source for scholars and practitioners concerned with what happened, why it happened, and what is next on the policy agenda for building more inclusive societies in the region.

— Nora Lustig
Samuel Z. Stone Professor of Latin American Economics, Tulane University, and Director, Commitment to Equity Project

This is an excellent contribution to understanding why, despite the recent progress—including reaching income levels equivalent to more than 15 times the resources needed to lift all individuals out of extreme poverty—more than 75 million people are still in this condition in Latin America. Through an integrated framework applied to eight countries and an overview of the region’s performance, the book occupies the forefront of the discussion and will become a central reference for those studying the puzzle of how such a resource-abundant environment coexists with mechanisms of exclusion that prevent sustained and shared prosperity.

— Miguel Székely
Director, Center for Educational and Social Studies, Tecnológico de Monterrey, and former Undersecretary for Planning and Evaluation, Ministry of Social Development, Mexico

Louise Cord, Maria Eugenia Genoni, and Carlos Rodríguez-Castelán, editors

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Foreword

The Latin America and the Caribbean Region has seen marked and critical progress for its people over the last decade. Extreme poverty has been halved, inequality has declined, and the growth rate among the bottom 40 percent of the population in the region eclipses the performance of that group in every other region in the world. These are all great strides that have helped transform the socioeconomic makeup of the region and grow the middle class to unprecedented levels.

Continuing with the status quo, however, will not be enough, and the last decade’s progress is at risk in the face of the global economic slowdown and declining incomes across the region. Moreover, with 75 million people still living in extreme poverty and nearly two-thirds of the population either poor or vulnerable to falling into poverty, the region has not yet enabled and harnessed the full potential of all of its people. A persistent lack of opportunities, quality basic services, and good jobs has kept many of the poor in poverty, and made it harder to break the cycle of poverty and vulnerability between generations.

The region’s overall advances mask significant differences between countries, with strong performers canceling out some of the losses of those who were perhaps less successful in reducing poverty and boosting the welfare of the least well-off. And, even in countries where progress has been marked, poverty is often persistent and geographically concentrated. Take Peru, for example, one of the countries that has done quite well in reducing poverty over the last 10 years. Just one-third of the country’s population lives in rural areas; however, those same areas account for half of the poor and 80 percent of the extreme poor.

It is important to keep in mind that Latin America and the Caribbean includes countries with varying levels of development, and thus the composition of the bottom 40 percent and the impact of growth on this group may
look markedly different from country to country. Some of the strongest performers, Argentina, Bolivia, Brazil, and Panama, saw income growth rates among the bottom 40 well over 7 percent. Compare this to some of the weakest performers, Guatemala and Mexico, which saw growth rates among the bottom 40 of −1.0 and 1.3 percent, respectively.

*Shared Prosperity and Poverty Eradication in Latin America and the Caribbean* takes a closer look at the region, presenting eight country case studies in order to better understand where poverty persists and how best to design policies and programs that will reach the least well-off both today and in the years to come. This country-specific approach helps offer tailored analysis for countries, taking into account their socioeconomic structure, progress on the World Bank Group’s twin goals, and level of development, rather than applying the region’s overall good performance to each country uniformly.

As the World Bank Group continues to work with its partners to end poverty by 2030 and boost shared prosperity around the world, knowing who remains poor and vulnerable and how to increase the welfare of the bottom 40 percent in each country will be crucial. Policies and programs, in order to be effective, cannot be designed with no evidence to support them, or targeted solely on the basis of what we think might work. This study will help policymakers do a better job of building on the last decade’s progress, promoting growth and incomes regardless of the global slowdown, and moving forward into an even more successful decade to come for the people of Latin America and the Caribbean.

Jorge Familiar
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Acknowledgments

This overview has been written by a team led by Louise Cord, Maria Eugenia Genoni, and Carlos Rodríguez-Castelán. The core team members are Giselle Del Carmen, Stephanie Majerowicz, and Daniel Valderrama. The team benefited from valuable inputs provided by Alan Fuchs, Santiago Garriga, Lea Giménez Duarte, María Ana Lugo, and Martha Viveros. Administrative support was provided by Karem Edwards. Robert Zimmermann conducted editorial reviews. Publishing and dissemination support was provided by Mark Ingebretsen, Patricia Katayama, and Marcela Sánchez-Bender. The work was conducted under the direction of Louise Cord, Augusto de la Torre, Humberto López, and Ana Revenga.

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3 Brazil
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5 El Salvador
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Abbreviations

GDP  gross domestic product
OECD  Organisation for Economic Co-operation and Development
PISA  Program for International Student Assessment
PPP  purchasing power parity
SEDLAC  Socio-Economic Database for Latin America and the Caribbean
UNDP  United Nations Development Programme
Overview

Louise Cord, Maria Eugenia Genoni, and Carlos Rodríguez Castelán

Introduction

In 2013, the World Bank adopted two overarching goals to guide its work: (1) to end extreme poverty or to reduce the share of people living in extreme poverty to 3 percent of the global population by 2030 and (2) to promote shared prosperity in every country through a sustainable increase in the well-being of the poorer segments of society, roughly defined as the lowest 40 percent of the income distribution (the bottom 40). The adoption of these complementary objectives is helping to renew the focus of the global development community on the welfare of those at the bottom of the income distribution. Moreover, these goals provide a line of sight that development agencies and countries may use to prioritize actions and funds.

Over the last decade, the Latin America and Caribbean region achieved important progress toward the twin goals by cutting extreme poverty in half and realizing the highest income growth rate among the bottom 40 across all regions of the world in absolute terms and relative to total population. These gains have transformed the configuration of the socioeconomic groups in the region. In 2012, more than one-third of the bottom 40 in the region was comprised of vulnerable households (those that have moved out of poverty, but do not have enough income to be considered part of the middle class); this compares with 2003, when the bottom 40 was exclusively comprised of households living in poverty. The inclusive nature of the growth process in the region has also been evident in the decline in the region’s notoriously high levels of inequality, which dropped from a Gini coefficient of 0.56 in 2003 to 0.52 in 2012. Some projections estimate the share of households that will be living in extreme poverty ($1.25 a day) in the region in 2030 at 3.1 percent, down from 4.6 percent in 2011, and thus reaching the World Bank’s goal of 3 percent by 2030 (World Bank 2015b).
Despite this impressive performance, social progress has not been uniform over this period, and certain countries, subregions, and even groups have participated less in the growth process, thereby constraining opportunities for poverty reduction and shared prosperity in countries and the region. More than 75 million people are still living in extreme poverty in the region, half of them in Brazil and Mexico, and extreme poverty rates (using the $2.50-a-day per capita line) are above 40 percent in Guatemala and reach nearly 60 percent in Haiti. This means that extreme poverty is still an important issue in both low- and middle-income countries in the region. The recent slowdown in economic activity and the decline in the pace of inequality reduction pose additional barriers to rapid progress toward the institutional goals (Cord et al. 2014; de la Torre et al. 2014). According to a recent study by Narayan, Saavedra-Chanduvi, and Tiwari (2013), the shared prosperity indicator (SPI) is highly correlated with growth in average incomes, but, if inequality is high, mean income growth will not accrue proportionally to the bottom segment of the distribution.

The purpose of this overview is to assess the performance of the region in reducing poverty and boosting shared prosperity during the last decade, while using a simple asset-based framework to highlight some of the key elements affecting the capacity of less well-off households to generate income. The descriptions presented in this chapter set the stage for the eight country studies that follow and that assess the heterogeneous advances toward the goals and identify some of the key policy variables that have affected the outcomes within the countries.

The first part of this chapter provides a baseline analysis of the region in terms of the institutional goals, while emphasizing the diversity of outcomes. This analysis takes advantage of comprehensive harmonized household survey data from the Socio-Economic Database for Latin America and the Caribbean (SEDLAC) database; such data are key for cross-country comparability. These data cover 17 countries in Latin America and the Caribbean and account for about 90 percent of the population in the region.

The second part of the chapter illustrates an asset-based framework. The framework identifies the main elements that contribute to household income generation and that can be intuitively related to poverty reduction and shared prosperity. The simple framework depicts the realization of household market income as a function of four major components: (1) the capacity of households to generate income based on the productive assets they own, (2) the private transfers—the monetary value of domestic and international private contributions—they receive and the public transfers that are incorporated as a policy variable, (3) the set of prices of the basket of goods and services that the households consume, and (4) the external shocks that generate variability in the incomes. The capacity of households to generate income based on the productive assets they own can be further disaggregated into the interaction between the role of assets (human capital, housing, and capital and land), the intensity of asset use (participation in labor and financial markets, agency), and the returns to assets (labor demand factors, including uneven returns by race, gender, and location).
This asset-based approach integrates macroeconomic and microeconomic dimensions so that growth and the incidence of growth can be understood as mutually determined processes. The framework considers the distribution of assets as a given in the short run; thus, changes in the income generation capacity of households depend mostly on macroeconomic variables that affect the demand for labor across sectors, relative prices (returns and consumer prices), and the intensity of the use of assets over the economic cycle. In the long run, the main drivers of income growth will be the level and distribution of assets—human, physical, financial, social, and natural capital—that people own and accumulate, as well as the intensity with which they are used and the associated returns, which will reflect asset productivity.

The third part of the chapter relies on the asset-based framework to characterize the bottom 40 in terms of their capacity to generate income relative to the top 60 percent of the distribution (the top 60). The analysis focuses mainly on describing the capacity of households to generate labor income given the importance of this source of income in total income and as a driver of trends in poverty and shared prosperity in the past decade. Exploring the asset composition of households can provide information important to understanding the factors that contribute to boosting the capacity of individuals to generate income, climb out of poverty, and avoid the risk of downward mobility.

Finally, the chapter links the twin goals to four fundamental policy areas that have a direct impact on the capacity of households to generate income, but with a particular focus on those households that are poor and that belong to the bottom 40. These four broad policy areas, which have also been defined in previous studies (World Bank 2013a, 2014a), are (1) equitable, efficient, and sustainable fiscal policy and macroeconomic stability (direct and indirect taxes and transfers, inflation targets); (2) fair and transparent institutions capable of delivering universal, good-quality basic services (a greater and better supply of public goods, protection of property rights); (3) well-functioning markets (improved connectivity to markets, competition policy); and (4) adequate risk management at the macro and household levels (macroprudence, safety nets). The country study cases presented in the rest of this volume organize the discussion around these four policy areas in a way that is relevant for poverty reduction and the promotion of shared prosperity.

**Transformational Change in Living Standards in the Region**

**Recent trends in poverty reduction and shared prosperity**

**Poverty reduction**

Over the past decade, the Latin America and Caribbean region experienced remarkable reductions in extreme poverty.\(^7\) According to extreme poverty
measures using an income-based aggregate and an international poverty line of $1.25 a day in 2005 prices, the extreme poverty rate fell from 10.2 to 4.6 percent between 2002 and 2011. Based on a higher international poverty line of $2.50 a day calculated from an average of national poverty lines in the region to identify the extreme poor, the headcount fell by half, from 27.1 to 13.3 percent over the same period (table 1).

Compared with other developing regions, Latin America and the Caribbean also performed well in reducing extreme poverty over the last decade. Based on a $1.25-a-day poverty line, the region’s extreme poverty reduction of about 55 percent surpassed South Asia and Sub-Saharan Africa, but lagged Europe and Central Asia and East Asia and the Pacific. Based on the $2.50-a-day poverty line, the region’s extreme poverty reduction of 51 percent exceeded the declines observed in all other regions except Europe and Central Asia, which cut this rate by 67 percent.8

The improvements in living conditions in Latin America and the Caribbean dramatically shifted the socioeconomic composition of the population. In 2012, more Latin Americans were living in the middle class than in total poverty, 34.4 versus 21.2 percent in 2003 (figure 1, panel a). Moreover, whereas in 2003, 6 in 10 people in the bottom 40 were among the extreme poor, by 2012, only 3 in 10 were in this condition. In 2012, the vulnerable (people earning between $4 and $10 a day) made up a third of the bottom 40 in the region (figure 1, panel b).9

**Shared prosperity**

The reduction in poverty rates and the significant expansion in the middle class observed in Latin America and the Caribbean has been accompanied by strong growth in the incomes of the bottom 40. Between 2003 and 2012, the average income of the bottom 40 in the region increased by 5 percent a year, from $2.10 a day per capita in 2005 prices to $3.30 a day. This growth rate was greater than the corresponding rate observed for the whole population, which was 3.3 percent a year (from $8.80 a day per capita to

### Table 1 Extreme Poverty Rates, Developing Regions, 2002 and 2011

<table>
<thead>
<tr>
<th>Region</th>
<th>Extreme poverty rate, $1.25 a day</th>
<th></th>
<th></th>
<th>Extreme poverty rate, $2.50 a day</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2002</td>
<td>2011</td>
<td>Change, %</td>
<td>2002</td>
<td>2011</td>
<td>Change, %</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>57.1</td>
<td>46.8</td>
<td>18.0</td>
<td>84.2</td>
<td>78.0</td>
<td>7.4</td>
</tr>
<tr>
<td>South Asia</td>
<td>44.1</td>
<td>24.5</td>
<td>44.4</td>
<td>86.7</td>
<td>74.5</td>
<td>14.0</td>
</tr>
<tr>
<td>East Asia and the Pacific</td>
<td>27.3</td>
<td>7.9</td>
<td>71.0</td>
<td>62.4</td>
<td>31.9</td>
<td>48.8</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>10.2</td>
<td>4.6</td>
<td>54.7</td>
<td>27.1</td>
<td>13.3</td>
<td>51.0</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>3.8</td>
<td>1.7</td>
<td>55.9</td>
<td>31.9</td>
<td>22.1</td>
<td>30.7</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>2.1</td>
<td>0.5</td>
<td>77.0</td>
<td>11.6</td>
<td>3.8</td>
<td>67.2</td>
</tr>
</tbody>
</table>


*Note:* The poverty data on Latin America and the Caribbean differ slightly from the data in the Socio-Economic Database for Latin America and the Caribbean (SEDLAC) database because of variations in the methodology used to calculate poverty rates.
The region’s performance in shared prosperity was also positive compared with that of other regions. Between 2006 and 2011, the average growth rate per year in the mean income of the bottom 40 across countries in the region was approximately 5.2 percent. This was the highest rate in all regions (figure 2, panel a). Moreover, the region’s bottom 40 enjoyed the most rapid income growth relative to the total population; thus, based on these indicators, Latin America and the Caribbean has been the most inclusive region in the world over the last decade (figure 2, panel b).

Demographic changes and the composition of the bottom 40
Over the last decade, the observed progress in poverty reduction and shared prosperity has been accompanied by a transformational change in the basic demographic characteristics of households in the region (table 2). Households in Latin America have become smaller and more likely to be headed by older, more well educated, and women household members. These trends are similar among households in the bottom 40 and households in the top 60. Despite the similar trends, households in the bottom 40 are significantly different from those in the top 60, and the gaps have not changed substantially. Households in the bottom 40 are younger, larger, and more likely to be headed by women and less well-educated individuals. For instance, the education gap of household heads was approximately three years between the two groups in 2012. Moreover, 2 in 3 households in the bottom 40 resided in urban areas, compared with 9 in 10 among the top 60.
Transformational change reflects strong growth and significant redistribution

Strong growth and a significant narrowing in the region’s high level of income inequality drove the gains in poverty reduction and shared prosperity between 2003 and 2012. The combination of prudent macrofiscal economic policies, global liquidity, and positive terms of trade because of

**Table 2** Bottom 40 and Top 60: Household Characteristics, Latin America and the Caribbean, 2003 and 12

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Bottom 40</th>
<th></th>
<th>Top 60</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2003</td>
<td>2012</td>
<td>2003</td>
<td>2012</td>
</tr>
<tr>
<td>Average age, household head, years</td>
<td>43.3</td>
<td>45.3</td>
<td>48.2</td>
<td>50.0</td>
</tr>
<tr>
<td>Woman-headed households, %</td>
<td>28.1</td>
<td>36.3</td>
<td>27.4</td>
<td>34.7</td>
</tr>
<tr>
<td>Average education, household head, years</td>
<td>4.7</td>
<td>5.8</td>
<td>8.0</td>
<td>8.9</td>
</tr>
<tr>
<td>Average household size, number</td>
<td>4.4</td>
<td>4.1</td>
<td>3.4</td>
<td>3.0</td>
</tr>
<tr>
<td>Urban households, % of total</td>
<td>66.6</td>
<td>66.2</td>
<td>86.3</td>
<td>87.5</td>
</tr>
</tbody>
</table>

**Source:** World Bank calculations based on data in SEDLAC.

**Note:** The data represent population-weighted averages across countries in the region.

**Figure 2** Shared Prosperity: Annualized Income Growth, Developing Regions, around 2006–11

- **a. The bottom 40**
  - Latin America and the Caribbean: 5.2
  - East Asia and the Pacific: 5.0
  - South Asia: 4.1
  - Middle East and North Africa: 3.5
  - Sub-Saharan Africa: 2.2

- **b. Ratio: bottom 40 to entire population**
  - Latin America and the Caribbean: 1.9
  - East Asia and the Pacific: 1.5
  - South Asia: 1.3
  - Middle East and North Africa: 1.2
  - Sub-Saharan Africa: 1.1


**Note:** The data are simple averages across countries in the regions calculated using household surveys. They may not be strictly comparable because some regions use expenditure survey data, while Latin America and the Caribbean uses income data.
the commodity boom helped foster a decade of strong growth in the region, which was largely able to weather well the financial crisis. In particular, during the past decade, real incomes rose by more than 25 percent across the region; annual gross domestic product (GDP) increased at an average of 3.2 percent. Moreover, growth proved resilient across the region: many countries maintained positive growth rates throughout the global financial crisis of 2008. However, while GDP growth was an important driver of poverty reduction and shared prosperity, it did not seem to be the only force behind the progress. In fact, while the region’s GDP growth during the 2000s was high, the region did not grow much more quickly relative to the previous decade (figure 3). GDP growth was 3.1 percent during the 1990s, compared with 3.2 percent during the 2000s. Despite similar growth rates, the region’s performance in poverty reduction was different in the 1990s and 2000s. While poverty fell less than 1 percent a year during the 1990s, poverty rates decreased at a much higher rate in the 2000s, approximately 6 percent a year. The different poverty gains across two decades with similar levels of growth highlight the importance of the nature of growth and the redistributive policies applied.

An important difference between the 1990s and the 2000s was the region’s progress in narrowing household income inequality. While the Gini coefficient barely changed during the 1990s, it fell from 0.56 to 0.52 between 2003 and 2012 (figure 4). This trend was widespread: income inequality declined in all 17 countries for which frequent household survey
Even though this decline likely reflects a combination of pro-poor social policies and growth, there is still debate about the specific drivers behind it. Recent evidence highlights the change in the distribution of labor income as the main factor behind the progress, followed by the expansion of government transfers and, for the countries in the Southern Cone, the broadening of pension coverage (Cord et al. 2014; López-Calva and Lustig 2010; Lustig, López-Calva, and Ortiz-Juarez 2013). The decline in labor income inequality is largely explained by a fall in the skill premium, that is, a reduction in the wage differential between more highly educated workers relative to less highly educated workers. This reduction seems to reflect a combination of lower excess demand for skilled labor and improved access to education that increased the supply of skilled workers (Gasparini et al. 2011). In particular, the expansion of education coverage over the period implied a rise in the share of new students at lower socio-economic status, which may have reduced the average quality of education. A deterioration at the margin of the quality of educational institutions may have also accompanied this trend (de la Torre et al. 2014). One potential demand-side explanation of the observed narrowing in wage inequality is the effect of the commodity boom, which promoted growth in the nontradable sectors and, in this way, raised the demand for unskilled workers relative to skilled workers.

Source: Cord et al. 2014.
Note: Because the Gini coefficient does not satisfy group decomposability, the regional Gini coefficient is computed based on pooled country-specific data for 17 countries. To test the robustness of the results, the unweighted average is also presented.
In sum, during the past decade, both growth and redistribution contributed toward the progress achieved in eradicating extreme poverty and promoting shared prosperity. Two-thirds of the observed decline in extreme poverty in the region between 2003 and 2012 can be explained by economic growth, while the rest is explained by changes in income distribution (World Bank 2014a).

**Progress was heterogeneous across countries**

While the region’s progress on the twin goals was substantial during the period, the averages mask significant heterogeneity across and within countries. While certain countries took advantage of a decade of high growth rates to drive steep declines in poverty and boost shared prosperity, such as Bolivia, Brazil, and Peru, others grappled with lackluster growth, such as Guatemala and Mexico. Other countries achieved substantial growth, but struggled to convert the gains into better livelihoods among the poorest. One clear example is the Dominican Republic, where GDP per capita grew by 53 percent from 2000 to 2012, while extreme poverty remained stagnant (box 1).

The region still presented wide disparities in extreme poverty rates. In 2012, about 4 in 10 people in Guatemala and Honduras were living in extreme poverty. In contrast, 3 in 100 people were among the extreme poor in Chile and Uruguay (figure 5). Nonetheless, there is evidence of a regional convergence in poverty rates: countries with high poverty rates at the beginning of the decade experienced large reductions thereafter. Some of the top performers were the Andean countries and Brazil. Notable exceptions were Guatemala and Honduras, which both had high initial extreme poverty rates; Guatemala even saw a subsequent rise in extreme poverty.

In addition, even among the strong performers, there were significant geographical disparities, including pockets of high and persistent poverty. For instance, Peru, one of the best performers on the twin goals in the region, presented strong disparities in poverty across its 1,800 districts. In 2007, almost half the extreme poor were concentrated in approximately 11 percent of the districts (map 1, panel a), while these same 11 percent of districts accounted for a third of the total population. In addition, in 2013, the rural areas of Peru contained 33 percent of the country’s population, but accounted for half of the poor and 80 percent of the extreme poor. Meanwhile, in Bolivia between 2001 and 2011, approximately half the municipalities reduced extreme poverty substantially. However, some areas were still lagging in 2011, particularly small rural municipalities where the poverty rates had been higher at the beginning of the decade. In 2011, nearly a third of Bolivia’s municipalities still showed an incidence of extreme poverty greater than 50 percent (map 1, panel b). In the case of Colombia, historically large disparities between urban and rural areas persist, and the rate of income convergence across the country’s departamentos has been limited over the past decade. According to official data, the difference between the departamento with the highest poverty rate and the departamento with the
Shared Prosperity and Poverty Eradication in Latin America and the Caribbean

The lowest rate was 38 percentage points in 2002, whereas, in 2014, the difference was 53 percentage points. (See the country chapters.)

Levels of development differ across Latin America, which implies that levels of income and other characteristics of the bottom 40 in each country may also differ, especially because participation in this population segment is measured in relative terms. In some countries, there is a large overlap

Box 1 Poverty Trends in the Caribbean

Even though the improvement in economic conditions was significant throughout Latin America, progress was sluggish and limited in the Caribbean. Extreme poverty rates in the Dominican Republic have remained stagnant despite the strong economic growth over the past decade (World Bank 2014b). Between 2000 and 2012, the extreme poverty headcount ($2.50 a day) fell less than 1 percentage point (from 15.7 to 14.6 percent) below the regional average. In Jamaica, poverty rates based on official figures reached 17.6 percent in 2010, compared with 12.3 percent in 2008. The country was negatively affected by the global crisis, as well as rising food and energy prices, and this hindered poverty reduction (World Bank 2014c).

Similarly, while extreme poverty in Haiti—based on a consumption aggregate and a national poverty line of $1.23 a day—dropped from 31 to 24 percent between 2001 and 2012, the gains appear to have been linked to the greater aid flows, particularly into urban areas, and higher remittances, which soared after the earthquake (World Bank and ONPES 2014). In addition, the moderate poverty rate remains high (58.5 percent in 2012).

The lack of official poverty and inequality data in the eastern Caribbean makes it challenging to evaluate trends in poverty there. Nonetheless, the patterns of asset ownership and the high rates of unemployment and underemployment suggest that social disparities have been exacerbated by the 2008 financial crisis (World Bank, forthcoming). The evidence from household survey data suggests that the financial crisis had significant negative and long-lasting impacts on household welfare in St. Lucia. While the unemployment rate was around 16.9 percent among all welfare quintiles from early 2008 through late 2009 (according to an asset-based welfare measure), the unemployment rate among the bottom 40 (29 percent) was nearly double the rate among the two highest quintiles (15.7 percent) from 2011 to 2013.

Prior to the crisis, the characteristics of the bottom 40 and the top 60 were relatively similar in St Lucia, while, since the crisis, there has been a widening gap between the two groups. For example, in 2008, although they were more likely to be self-employed and less likely to be working in the professional services sector, the bottom 40 were virtually indistinguishable from the top 60. By 2013, however, the bottom 40 were significantly more likely to be unemployed (by 11 percentage points), significantly less likely to be an employee or an employer, had significantly less educational attainment, showed a higher probability of residing in urban areas, typically had smaller households, and were more likely to be living in woman-headed households. By 2013, relative to the top 60, they were twice as likely to be working in the agricultural sector, were more likely to be working in construction or manufacturing, and were significantly less likely to be working in education, health care, or social or professional services.

These outcomes are not surprising given that the economies in the Caribbean greatly depend on industries such as tourism, agriculture, and financial services that rely heavily on the external demand of the developed economies where the crisis originated. In addition, most Caribbean countries suffer from substantial national debt and lack a stable financial sector to channel financial resources efficiently. These challenges make especially difficult the establishment of the social protection mechanisms necessary to shield the vulnerable from the relatively large shocks faced by the region.
between the bottom 40 and the extreme poor (for example, Guatemala, Honduras, and Nicaragua), while, in other countries, the bottom 40 is mainly comprised of people living above the poverty line (such as Chile and Uruguay). The heterogeneous progress over the past decade in shared prosperity can also be illustrated through changes in the composition of the bottom 40. For instance, while 8 in 10 people in the bottom 40 in

Source: Calculations based on data in SEDLAC.
Note: The extreme poverty rate is calculated using a $2.50-a-day poverty line. Panel b excludes Guatemala, which is the only country in the region in which extreme poverty grew over the period.
Ecuador were among the extreme poor in 2003, only 3 in 10 were in this condition in 2012. In contrast, in several Central American countries, such as Guatemala, Honduras, and Nicaragua, an overwhelming proportion of the bottom 40 continued to be composed of the extreme poor, with little change (figure 6).

While the average income of the bottom 40 grew approximately 5 percent a year across the region between 2003 and 2012, the heterogeneity was significant in shared prosperity by country. The strongest performers, Argentina, Bolivia, Brazil, and Panama, with income growth rates among the bottom 40 well over 7 percent, far outpaced the weakest performers, Guatemala and Mexico, with growth rates among the bottom 40 of −1.0 and 1.3 percent, respectively. Guatemala was the only country in the region in which the incomes of the bottom 40 declined over the decade (figure 7).

For most countries in the region, income growth among the bottom 40 outpaced the average growth among the population over the decade (figure 8). However, the size of the gap also varied. In some countries, such as Argentina, Bolivia, and Nicaragua, the growth rate was significantly higher.
among the bottom 40, while, in Costa Rica, Guatemala, and Mexico, the rates were almost the same. Colombia was the only country in the set that was analyzed in which average income growth among the bottom 40 did not surpass the income growth of the total population.

Source: Calculations based on data in SEDLAC.
Note: Estimates of poverty, vulnerability, and the middle class in the region are population-weighted averages of country estimates. The poor are defined as people living on less than $4 a day; the vulnerable are those living on $4–$10 a day; and the middle class are those living on $10–$50 a day (all in 2005 PPP international U.S. dollars).
Even though there was a positive correlation between total income growth and income growth among the bottom 40 during the last decade, the relationship was not perfect. Some countries, such as Chile, Colombia, Costa Rica, Honduras, and Paraguay, had similar growth rates in the average income among the bottom 40, but different overall income growth rates. Other countries, such as Argentina, Brazil, and Colombia, experienced similar total income growth rates, but performed differently in the mean income of the bottom 40. This heterogeneity indicates that the outcomes in shared prosperity were dependent not only on growth, but also on the sources of growth and specific policies and redistribution efforts.

Similarly, the responsiveness of poverty to growth was heterogeneous in the region. For instance, Mexico showed low GDP growth over the period (about 0.7 percent a year), but poverty levels were responsive to this growth (about 2 percent of poverty reduction for each 1 percent in GDP growth). In contrast, the Dominican Republic experienced high GDP growth, but this did not translate into a commensurate reduction in poverty (about 0.2 percent of poverty reduction for each 1 percent in GDP growth).

There was also significant variation across countries in the relative importance of redistribution and growth for poverty reduction. Thus, in Colombia, poverty reduction was only driven by growth, while in other
countries, such as the Dominican Republic, El Salvador, and Nicaragua, redistribution was almost exclusively responsible for the reductions in extreme poverty. Most countries fell somewhere in between: important components of poverty reduction were attributable to growth, but others were associated with redistributive policies such as the expansion of social safety nets (figure 9).

The sustainability of the social gains achieved by most countries in the region may be jeopardized by less positive prospects for economic growth and by stagnation in the pace of the reduction in income inequality. According to de la Torre et al. (2014), growth in Latin America and the Caribbean has been decelerating since 2012 relative to the significant growth rates that characterized the region during the golden precrisis years. According to the latest projections, GDP growth in the region will reach only 1.7 percent in 2015 and 2.9 percent in 2016 (World Bank 2015c). Moreover, Cord et al. (2014) find evidence of stagnation in the pace of the reduction in income inequality in Latin America since 2010 (box 2).

To identify opportunities to maintain the progress toward achieving the twin goals of ending extreme poverty and boosting shared prosperity, the next section presents a conceptual framework that is useful for understanding the factors that may contribute to boosting the capacity of individuals
to generate income, climb out of poverty, and avoid the risk of downward mobility. The framework takes account of the concept of sustainability and the interaction of macro- and microeconomic variables in achieving and sustaining the goals socially, economically, and environmentally.

**The Asset-Based Approach to Gauging Household Income**

The World Bank goals of reducing extreme poverty and boosting shared prosperity have three important characteristics in common. First, both are measured using a monetary welfare indicator, such as income or consumption, as a proxy for the capability of individuals to achieve a certain standard of living. The extreme poverty rate measures the share of individuals currently living below the $1.25-a-day threshold, while the shared prosperity goal aims to capture a relevant sustainable increase in income among the poorer segments of society, roughly defined as the bottom 40. Second, both
Box 2 Stagnation in the Contraction of Income Inequality in the Region

The within-country trends in income inequality are significantly different in Latin America and the Caribbean if one views the last decade as two periods, 2003–10 and 2010–12 (figure B2.1). Such a split is useful because it showcases the stagnation in the pace of the contraction in income inequality in the region after the global financial crisis of 2008 (see Cord et al. 2014). Of the 17 countries on which data are available for 2003–10, 15 exhibited a decline in the Gini coefficient; Colombia and Costa Rica were the only exceptions. Since 2010, 4 of the 15 countries on which data are available experienced a rise in the Gini coefficient (Costa Rica, Honduras, Mexico, and Peru), while Panama showed no change. The rise of the Gini coefficient in Honduras was substantial, from 0.53 to 0.57 in 2010–12. Meanwhile, the increase in the Gini from 0.48 to 0.49 in Mexico in 2010–12 explains a good part of the recent regional slowdown in the decline of income inequality. At the same time, while inequality reduction continued in 10 countries after 2010, the pace of the decline weakened in Brazil, the most populous country in the region.

Figure B2.1 Gini Coefficient: Annualized Changes, Latin America and the Caribbean, 2003–10 and 2010–12

Source: Cord et al. 2014, based on data in SEDLAC.
Note: The figure shows changes in the Gini coefficient between 2003–10 and 2010–12, or the nearest years, in case data for these years are not available. Data on Guatemala and Nicaragua are available only for the first period.

Cord et al. (2014) find that the declines in inequality before 2010 were driven by labor markets in the Andean and Southern Cone subregions, including Brazil, while in parts of Central America and Mexico, the decline was mainly determined by equalizing nonlabor income sources and the impact of (continued)
focus on the welfare of those at the bottom of the income (or consumption) distribution; the poverty rate is an absolute measure, while shared prosperity is a relative concept. Third, both track economic progress by focusing on trends in household welfare.

Based on these three shared characteristics of the twin goals, this section presents a simple asset-based approach as a macro-micro framework to guide the discussion in the following section, which describes key aspects of the capacity of households in the bottom 40 in Latin America and the Caribbean to generate income compared with the top 60 in the region. The framework is an extension of a model presented by Attanasio and Székely (2001) and Bussolo and López-Calva (2014) and that aims to unpack the elements of the market incomes of households to shed light on the potential determinants of outcomes in poverty and shared prosperity.15

In the framework, the realization of household market income is a function of four main components: (1) the capacity of households to generate income based on the assets they own; (2) the private transfers households receive, which may include domestic and international remittances and in-kind transfers from other households; (3) the set of prices of the basket of goods and services that the households consume; and (4) a positive probability of being affected by the realization of (negative or positive) shocks (health, natural disasters, crime, and loss of employment) (figure 10).16

The capacity of households to generate income based on the assets they own can be disaggregated into three additional elements: (1) the stock of income-earning assets owned by each household member, which may include human capital (such as educational attainment and years of experience in the labor market), financial and physical assets (such as ownership of machinery or financial assets such as stocks and bonds), social capital (such as the set of norms and social networks that facilitate collective action; see Putnam 1993), and natural capital (such as land, soil, forests, and water); (2) the rate at which these assets are utilized by each household member to produce income (this may include labor market participation, the use of

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**Box 2 Stagnation in the Contraction of Income Inequality in the Region (Continued)**

the financial crisis, which especially affected the incomes of the top end of the distribution. They also find that the stagnation experienced since 2010 reflects, to a large extent, the subsequent recovery in Central America and Mexico. Moreover, even in countries in which income inequality continued to fall, this was mostly driven by zero or negative growth among the top of the income distribution, rather than greater growth among the poorest.

a. The Gini coefficients in this study are calculated using the SEDLAC database, a regional harmonization effort. The effort generates income aggregates that are comparable across countries and, as a result, often differ from official income aggregates. The trends in Mexico’s Gini coefficient are comparable with the trends in the Gini calculated by Mexico’s National Institute of Statistics and Geography (using the traditional Household Income and Expenditure Survey), which increased from 0.435 to 0.440 between 2010 and 2012, while the Gini calculated by Mexico’s National Council for the Evaluation of Social Development Policy (relying on the socioeconomic conditions module of the household survey) fell from 0.509 to 0.498.

b. Brazil is home to 37 percent of the total population of the 17 countries under analysis.
machinery, and the exploitation of land through agricultural production); and (3) the returns to assets (such as the price of factors of production, including wages and interest rates).

For ease of illustration, the elements of the asset-based framework are sometimes presented somewhat independently of each other. However, the elements do interact with each other as part of the dynamics of household income generation. For instance, nominal wages and the number of hours of work are important in decisions to participate in the labor market, and consumer prices may impact income earnings through the returns to the assets of producer households (Bussolo and López-Calva 2014; López-Calva and Rodríguez Castelán 2014). Moreover, in the framework, both the observed accumulation of income-earning assets and the observed rate at which these assets are used by individuals are assumed to incorporate the desire of individuals to realize their aspirations, one of the manifestations of agency. Some examples of how a lack of aspirations may prevent households from accumulating assets and participating in productive activities include sub-optimal investment in human capital and production technologies or the abandonment of the search for employment in formal sector firms.17

Furthermore, actual household market income may differ from potential household market income because of shocks that may affect private transfers and the income from the use of assets. There are multiple external risks, including macroeconomic crisis, extreme climate-related events, health-related shocks, and crime and violence, that individuals and societies face and that can have pernicious consequences for the income generating capacity of households (World Bank 2013b). Risks turned into negative shocks could potentially lead to asset loss, disinvestment, unemployment, malnutrition, and child labor if people lack the means to manage and cope with them. A large body of empirical evidence shows that the poor are often more vulnerable to the negative consequences of shocks. Thus, in the
framework, the probability of being affected by external shocks is expected to be greater among low-income households.

The asset-based approach integrates both the macroeconomic and the microeconomic dimensions so that growth and the incidence of growth can be understood as jointly determined processes. The framework facilitates an explanation not only of the ways macrofactors affect income growth among different population groups, but also of the ways the distribution of assets across such groups may determine the capacity of these groups to contribute to overall growth. According to Bussolo and López-Calva (2014), the framework considers the distribution of assets as a given in the short run, and changes in the income generating capacity of households thus depend mostly on the macroeconomic variables that influence the demand for labor across sectors, relative prices (returns), and the intensity of the use of assets over the economic cycle. In the long run, the main drivers of income growth will be the level and distribution of the assets—the human, physical, financial, social, and natural capital—that people own and accumulate, as well as the intensity with which the assets are used and the volume of the associated returns, which will reflect the productivity of the assets.

Finally, the asset framework allows for a cohesive description of intra- and intergenerational economic mobility, chronic and transient poverty, and between-group inequities (the poor and the nonpoor, the bottom 40 and the top 60, minorities, and so on) that potentially thwart the possibility of certain vulnerable populations to participate in and benefit fully from the development process.

In the next section, the asset-based framework is used to describe trends in selected central components of the income generating capacity of households in the bottom 40 relative to the top 60 to shed more light on the significant progress achieved in poverty reduction and underscore the substantial heterogeneity of the countries of Latin America and the Caribbean.

### The Income Generating Capacity of the Less Well Off

Data from household surveys across the region show that labor makes up a significant majority of income across all countries among the bottom 40 and the top 60 (figure 11). Labor income accounts for 60 to 80 percent of total income among households in the bottom 40, while the corresponding share is even higher among households in the top 60. It has been the main driver of poverty and inequality declines over the past decade. The majority (60 percent) of the decline in extreme poverty in the region is explained by higher labor incomes. Higher earnings among women were responsible for 22 percent of the decline, while the earnings of men accounted for 38 percent (figure 12). Similarly, labor incomes explained approximately two-thirds of the total poverty reduction and about 45 percent of the inequality reduction between 2003 and 2012.
Given the importance of labor income as a share of total income among the less well off, a description of how the capacity to generate labor income has evolved over the past decade across the region can promote a better understanding of the progress and divergence of countries with respect to the twin goals. In particular, this section focuses on the ability of the bottom 40 to generate labor income and explores the asset stock, intensity of use, and returns that determine labor income. It then illustrates the importance of private transfers, prices, and exposure to external shocks in determining the market income of households. It concludes with a brief discussion of how policies can be linked to the capacity of households to generate income through the asset-based approach.

**The stock of assets: human capital**

Human capital is generally defined as the stock of knowledge, competencies, and personal attributes that determine a person’s capacity to perform in a labor market. It can be built up through education or training, but also includes intrinsic talents and skills, such as creativity and discipline, that are more difficult to measure. Human capital is the main asset that allows individuals to generate labor income. Hanushek and Woessmann (2012) find that differences in human capital can account for half to two-thirds of the variations in income between Latin America and the rest of the world. In large part, this is driven by differences in educational attainment and in the

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**Figure 11 Labor Income, Bottom 40 and Top 60, Latin America and the Caribbean, around 2012**

![Bar chart showing labor income and non-labor income for different countries.](source)

**Source:** Calculations based on data in SEDLAC.
quality of schooling. Educational attainment is an imperfect, but important measure of human capital. In the past decade, there have been substantial improvements in educational attainment among the bottom 40 across the region, but the group continues to lag the top 60 (figure 13).

Most countries in the region have achieved nearly universal coverage in primary education. With a few exceptions in Central America, the gaps in access to primary education between the bottom 40 and the top 60 have practically closed. While progress has also been made in access to secondary education (above 80 percent in most countries), access to tertiary education remains a privilege of the wealthier top 60, with more persistent gaps between the bottom 40 and top 60, and achieving universality among either group is a distant goal. For instance, in Uruguay, while access to secondary education was at 86 percent among the bottom 40 and 95 percent among the top 60 in 2012, access to tertiary education among these two groups was 21 and 55 percent, respectively.

Despite the improvements in access and educational attainment, the quality of education remains an important challenge across the entire income distribution in Latin America and the Caribbean. There is significant variation in the quality of education within the region, which is heavily...
correlated with top 60 or bottom 40 status. While the rate of completion of the sixth grade on time has improved, especially among the bottom 40, there is still evidence of gaps across socioeconomic groups (figure 14). As of 2012, the gap in the completion of sixth grade on time between children in households in the bottom 40 and children in households in the top 60 was widest—more than 20 percentage points—in Colombia, the Dominican Republic, and Nicaragua.

Internationally comparable measures of educational quality such as the scores of the Program for International Student Assessment (PISA) of the Organisation for Economic Co-operation and Development (OECD) demonstrate that the region lags all other regions except Sub-Saharan Africa in learning outcomes. The assessment scores have improved among some countries in the region that apply the test, most notably Brazil and Peru and, to a lesser extent, Chile and Uruguay. However, overall performance is significantly behind the performance of the OECD countries. Thus, the average student in the region scores 100 points lower than the average OECD student in mathematics, which is equivalent to two full years of education in mathematics (Bruns and Luque 2015).

Intensity of use: labor force participation
To turn human capital into labor income, the poor and bottom 40 need access to the labor market. This includes not only the ability to participate in the labor market, but also sufficient labor demand so that the bottom 40 are able to work an adequate amount of time. The labor force participation
rate in the region was slightly above 65 percent between 2003 and 2012. However, regional trends in labor force participation diverged among individuals in the bottom 40 and individuals in the top 60: the rate increased from 66.7 to 68.6 percent among the latter, but fell from 62.8 to 59.4 percent among the former.

This phenomenon, which was related to a decline in the use of productive assets among the less well off between 2003 and 2012, was the norm in many countries in Latin America (figure 15). With the exception of a few countries in Central America, the Dominican Republic, Mexico, and Paraguay, the share of the bottom 40 participating in the labor force dropped during these years. The trends were similar among men and women except in Chile and Uruguay, where labor force participation narrowed among men and widened among women. Moreover, in the countries in which the labor force participation of the bottom 40 increased, female labor force participation drove the change. Labor earnings among women can thus make a key contribution to poverty reduction and greater shared prosperity. Indeed, female labor market participation grew by 15 percent in Latin America from 2000 and 2010, which contributed to the substantial drop in poverty rates observed across the region (World Bank 2012a). Among the
top 60, labor force participation rose in most countries, mainly also driven by the higher participation of women in the labor market.

The higher labor force participation rates of the top 60 relative to the bottom 40 is somewhat endogenous, but is nonetheless indicative that the bottom 40 may face higher barriers or enjoy fewer opportunities or incentives to access labor markets. The decline in the share of the bottom 40 participating in the labor force suggests that the reduction in poverty and in the promotion of shared prosperity observed in the region would have been even more dynamic had the labor participation among the bottom 40 risen in more countries. Achieving a better understanding of the constraints faced by the bottom 40 in participating in labor markets is thus critical to efforts to enhance the inclusiveness of growth and the ability of the bottom 40 to contribute to growth. Box 3 discusses several hypotheses that may explain the decline in labor force participation among the bottom 40 in many countries in Latin America.

Over the past decade, there have been important gains in access to housing and communications infrastructure that, all else being equal, may have enhanced the access to markets and allowed for greater use of productive assets by households. Recent studies have found that greater access to electricity services among informal women entrepreneurs and wider access to financial markets through mobile phone services can have positive effects
Box 3 Explaining the Decline in Labor Force Participation among the Bottom 40

There may be several reasons for the drops in labor force participation among the bottom 40 in Latin America and the Caribbean. According to one hypothesis, younger segments of the population are delaying their participation in the labor market to invest in education. This would represent a potential trade-off involving a sacrifice of short-term gains in poverty reduction and shared prosperity for greater long-term human capital improvements. This hypothesis is consistent with the falloff in labor force participation among 15- to 20-year-olds in many countries in 2012 and the rise in enrollments in secondary and tertiary education among the poor in the region. This was evident, for example, Bolivia, Brazil, Colombia, and Ecuador.

According to a second hypothesis, the high unemployment rates observed among younger age-groups discourage labor force participation. This is consistent with data indicating that persistent shares of youth are out of school and out of work (Cárdenas, de Hoyos, and Székely 2014). Recent demographic trends have pushed youth above the threshold for working age, while the workforce, especially potential workers with less education or poorer-quality education, may not be able to take advantage of employment opportunities.

A third hypothesis is related to the potential effects on labor force participation at the margin, particularly among the 25–65 age-group, caused by newly expanded social protection systems across the region, including conditional cash transfer programs, universal health insurance schemes, and unemployment insurance initiatives. This hypothesis is consistent with the findings of recent studies on the negative labor market outcomes generated by social protection schemes instituted in parallel to established social security programs for the formally employed (for instance, see Levy 2008 on the case of Mexico). Argentina, Brazil, and Ecuador may offer examples of this phenomenon.

A fourth hypothesis focuses on the decline in labor force participation among the 65+ age-group. Because of the aging of the population, smaller, younger cohorts are unable to replace the older cohorts that are retiring, thereby cutting into overall participation rates. Moreover, the expansion of noncontributory pension programs and skills obsolescence among older workers, especially in the context of the demands of new information technologies, may also be contributing to a reduction in the labor force participation rates among the 65+ age-group.

Returns: wages

Despite the drop in labor force participation among the bottom 40, there has been improvement in hourly wages among the bottom 40 in most of the countries of the region over the past decade. The rise in hourly wages has been especially strong in Argentina, Bolivia, and Brazil, while the rise has been more moderate in Chile, Colombia, Nicaragua, Paraguay, Peru, and Uruguay. The rest of the region has seen smaller increases in hourly wages among the bottom 40. In contrast, except for Honduras, the top 60 has enjoyed a smaller expansion in hourly wages (figure 16). This indicates that an important force behind the rise in the incomes of the bottom 40 has been higher returns in the labor market rather than greater labor market on the productive use of assets by households (Demombynes and Thegeya 2012; Dinkelman 2011). Box 4 presents evidence on access to services in Latin America that can be associated with the greater use of the productive assets of households, particularly among the poor and the bottom 40.
Box 4 Connectivity Infrastructure in Latin America and the Caribbean

While not a perfect indicator of connectivity to markets, access to electricity and new information technologies are a good proxy for the transaction costs and barriers associated with accessing markets. Access to electricity, cell phones, and the Internet allows individuals to connect to markets to employ their assets and obtain returns.

Access to electricity has improved across Latin America and the Caribbean over the past decade, and regional disparities have shrunk substantially (figure B4.1). Bolivia and Peru have made the biggest advances in expanding electricity coverage among the bottom 40. However, substantial disparities still exist within and across countries. While less than 70 percent of the population in Nicaragua has access to electricity, Brazil, Chile, and Uruguay have achieved almost universal coverage. Many countries have closed the electricity gap between the bottom 40 and the top 60, but the gap is still large in Bolivia, many Central American countries, and Peru.

Figure B4.1 Electricity Coverage Rates, Latin America and the Caribbean, 2000–12

As of 2012, access rates to cell phones were high in the region among both the bottom 40 and the top 60 (figure B4.2). The large gaps between the bottom 40 and top 60 observed at the beginning of the decade had been nearly erased 12 years later in countries such as Brazil and Chile. However, coverage gaps of over 20 percentage points between households in the top 60 and the bottom 40 persist in Mexico, Nicaragua, and Peru, and this limits access to markets and information among the poorest.

Internet access rates are much lower across the region, and there is significant heterogeneity (figure B4.3). Available data suggest that countries have made enormous leaps in Internet connectivity over the past decade. Coverage rates in Brazil and Chile rose from low levels to 21 and 25 percent of the bottom 40, respectively. However, unlike electricity and cell phone coverage, which is now almost universal across the region, even the wealthiest Latin American countries barely reach 50 percent in Internet coverage, while coverage does not exceed 10 percent in Bolivia and in Central America.

(continued)
Box 4  Connectivity Infrastructure in Latin America and the Caribbean (Continued)

Figure B4.2 Cell Phone Coverage Rates, Latin America and the Caribbean, 2000–12

Source: Calculations based on data in SEDLAC.

Figure B4.3 Internet Coverage Rates, Latin America and the Caribbean, 2000–12

Source: Calculations based on data in SEDLAC.
participation, which is consistent with the falling skill premiums noted in many studies during the first decade of the 21st century.

Despite the gains among the bottom 40, some population groups are lagging in wage compensation. Thus, for example, according to a recent report of the World Bank (2012a), women and men may not be compensated on par. After controlling for education, age, and the share of workers in each occupation between 2000 and 2010, the report finds evidence of a large and persistent wage gap affecting women in Brazil, Chile, Mexico, and Peru that is especially marked among the top-paid professions.

One of the advantages of the simple asset-based framework is the framework’s suitability for the analysis of the capacity of various socioeconomic and demographic groups to generate income. Box 5 describes poverty rates and the capacity to generate income among indigenous populations based on a subset of countries on which household survey data on ethnicity are available.

**Private transfers**

In some countries and among some households, private transfers, such as remittances and in-kind transfers from other households, can be a major source of income and a determinant of household well-being. In the region, total transfers represent about 10 percent of total household income. Moreover, the share of private transfers in total household income tends to be larger among the bottom 40 than among the top 60. However, the
Box 5 The Asset-Based Approach: Indigenous Populations

Poverty reduction
The poverty reduction in Latin America and the Caribbean between 2000 and 2012 was also evident among most indigenous groups. For instance, the share of indigenous people living on less than $2.50 a day in Bolivia and Ecuador (extreme poverty) fell 19 and 17 percentage points, respectively. In both cases, the decline was higher than the decline among the total population. In contrast, the share of indigenous people living on less than $2.50 a day in Guatemala rose from 45.7 to 54.9 percent over the period.a

Figure B5.1 $2.50- and $4.00-a-Day Poverty Rates, Indigenous Populations, Latin America and the Caribbean, 2000–12

Source: Calculations based on data in SEDLAC.
Note: The nearest year to 2000 or 2012 is used for countries on which data are not available in that year. Ethnic identity is based on self-reported data. Because the data presented here are based on SEDLAC, a regional data harmonization effort that increases cross-country comparability, they may differ from official statistics reported by governments and national statistical offices. All monetary values are reported in 2005 PPP international U.S. dollars.

(continued)
significance of private transfers as a share of total transfers varies widely across countries and between the bottom 40 and the top 60 (figure 17, panel a). Private transfers are especially important in countries in Central America, such as El Salvador and Guatemala, where they account for more than 80 percent of total households transfers.

Evidence indicates that the positive effects of remittance flows include greater macroeconomic stability, higher savings, better access to health care and education, more entrepreneurship, and reductions in poverty and social inequality. The money migrant workers send back to their home countries is linked to lower poverty rates and enhancements in education and health indicators (Fajnzylber and López 2008). Between 2002 and 2008, remittance flows rose substantially each year, at an average rate of 17 percent. However, in 2006, the growth rate, though high, began slowing, and, because of the economic crisis in 2008, remittances fell more than 15 percent in the final two quarters of 2009. Given the importance of these flows for the recipient households, migrants adjusted their spending habits to continue to send money home despite the economic uncertainty. The year

Box 5 The Asset-Based Approach: Indigenous Populations (Continued)

Level of assets: human capital
The positive changes in poverty reduction in the past decade have been accompanied by improvements across various education measures on indigenous populations in the region. Among relevant groups in Brazil and Ecuador, school enrollments among 6- to 15-year-olds rose 9 and 10 percentage points, respectively. In 2000–12, the groups in Brazil also showed the greatest increase in average years of schooling—1.5 additional years—among people aged 18+ years. Guatemala experienced the greatest gains in the literacy rate (12 percentage points) and school enrollments among 6- to 15-year-olds (18 percentage points) during the period. Nonetheless, indigenous groups continue to lag the total population in human capital accumulation. As of 2012, Bolivia, Ecuador, and Guatemala had the widest gaps in educational attainment. Indigenous groups in Ecuador exhibited an average of four years less schooling than the total population. Similarly, in Bolivia, the literacy rate among indigenous groups was 13.7 percentage points lower.

Intensity of asset use: labor force participation
Trends in labor force participation rates among indigenous groups was heterogeneous in 2000–12. In Bolivia, participation rates among indigenous groups expanded by 3.6 percentage points, greater than the 1 percentage point increase among the total population and the largest rise among the countries in the analysis. Enhancements in human capital accumulation and employment have translated into greater poverty reductions in Bolivia. In contrast, labor force participation among indigenous groups in Ecuador declined by 10.7 percentage points, deeper even than the 7.2 percentage point fall among the overall population. The drop occurred mainly because of female labor force participation in both groups, which narrowed by nearly 16 and 10 percentage points, respectively, during the period.

Despite the progress, indigenous groups still lag in the region, and this is hindering advances in shared prosperity and poverty reduction.

a. The share of the indigenous population living on less than $1.25 a day in Guatemala increased from 17.3 to 18.5 percent over the period. However, this was smaller than the rise among the total population (11.8 to 13.7 percent).
2010 marked the start of an upward trend lasting throughout that year and reaching an annual positive growth with respect to the previous year. The flows in 2011 exceeded the amounts sent the previous year by 6 percent, the largest positive growth rate of the previous four years (Maldonado, Bajuk, and Hayem 2012).

Over the past decade, the trends in the growth of private transfers, which includes remittances and other in-kind transfers, varied by country and among the top 60 and the bottom 40 (see figure 17, panel b). However, in most countries, private transfers grew more quickly or fell more slowly
among the bottom 40. The only two countries in which private transfers grew more slowly among the bottom 40 were Mexico and Uruguay. Among the top 60 in most countries on which data are available, private transfers showed negative growth rates.

In El Salvador, one of the largest remittance-receiving countries in the region, private remittances played a major role in poverty reduction. In 2012, private remittances accounted for over 16 percent of GDP, a more than 10-fold increase since 1990. Remittances expanded in both size and scope. In 2000, 4 percent of households received remittances; by 2012, one in five households was receiving remittances, while the amount per migrant rose by almost a third between 2000 and 2010. Remittances do not necessarily go to the poorest households in El Salvador; the average per capita income in households receiving remittances is $8.90 (2005 U.S. dollars), compared with $3.10 among poor households. Reliance on remittances exposes countries to the business cycles of the countries in which the migrants reside. In El Salvador, this means a strong reliance on the U.S. economy because 88 percent of Salvadoran migrants reside in the United States. The sharp decline in remittances that occurred because of the 2008 financial crisis highlights the vulnerability associated with this dependence.

In Paraguay, family transfers may not be an important driver behind the change in the incidence of poverty, but still play an important role in alleviating poverty and as a household mechanism for coping with adverse shocks. Without these transfers, the extreme poverty rate in rural areas would be 4 percentage points higher. The elderly and woman-headed households receive substantially larger family transfers, suggesting that migration is a household income diversification and coping mechanism.

### Prices of goods and services

The market income of households is also directly affected by the prices of the goods and services they consume. During the past decade, macrostability has translated into lower inflation rates, which has helped maintain the purchasing power of households relative to the situation in the 1990s. However, fluctuations in food prices have been an important source of vulnerability among some households in the bottom 40. Evidence shows that households in the lower deciles of the income distribution consume a higher share of food with respect to their total basket of goods, and these households are thus more exposed to changes in food prices (figure 18). Estimates based on the latest recorded worldwide increase in food prices, in 2011, show that high, volatile food prices pushed 44 million people further into poverty primarily in low- and middle-income countries (World Bank 2011a). Box 6 presents an interesting case of the potential negative effects of high food prices on poverty reduction.

### Risk and external shocks

Uninsured risks often have permanent effects on the welfare of households by aggravating poverty traps because low-income people—the poor or the bottom 40—are often more vulnerable to the negative consequences of shocks
Shared Prosperity and Poverty Eradication in Latin America and the Caribbean  

Specifically, negative shocks can directly affect all components of the income generating capacity of households. For instance, the assets of any individual or household could be destroyed by a natural disaster, and such a disaster could also affect household decisions on the accumulation of certain assets. Uncertainty in the realization of shocks may likewise affect the intensity of the use of assets; for example, an expected drought (or flood) could reduce the utilization of land for agricultural activities. Risk is also captured by relative prices similar to the interest rate, which certainly captures the sovereign risk of an economy as a whole. Finally, macroeconomic contagion can cause a fiscal crisis that may reduce a government’s capacity to provide social assistance to the poor by reducing the coverage or the size of cash transfers.

One increasingly important source of risk is climate change, which is expected to raise the frequency and severity of extreme weather events. The Latin America and Caribbean region has already experienced the greater variability, frequency, and strength of natural disasters in recent years. In particular, there appears to be a positive correlation between natural disasters in the region and a worsening trend in welfare indicators (figure 19). Poor and vulnerable populations tend to be more prone to episodes that result in the loss of income or assets. Poor households may be exposed not only to large, unusual shocks, but also to smaller high-frequency events that may prevent the households from escaping poverty.

**Figure 18**  
**Food Consumption in Total Consumption, Latin America and the Caribbean, around 2010**

![Bar chart showing food consumption in total consumption for various countries in Latin America and the Caribbean, around 2010.](source)

*Source: Calculations based on data in SEDLAC.*
Box 6  The Poverty Effects of High Food Prices, Paraguay

Between 2003 and 2013, economic growth and improvements in income distribution combined to contribute to a large reduction in moderate poverty in Paraguay, from 44.0 to 23.7 percent. However, because the extreme poverty line is determined solely based on the price of a selected food basket, the reduction in the extreme poverty rate became less dynamic when food prices began rising at a higher rate than general prices. This was particularly evident in 2003–11, when extreme poverty fell by only 3.2 percentage points. In contrast, a slowdown in food price inflation in 2011–13 was an important contributing factor in the 7.9 percentage point decline in the extreme poverty rate during those years (figure B6.1, panel a).

Figure B6.1 Changes in the Extreme Poverty Rate, Paraguay, 2003–11 and 2011–13


A quantification of the effects of economic growth, redistribution, and an extreme poverty line based solely in food prices helps unpack the changes in extreme poverty over the last decade in Paraguay. Together, high economic growth rates and improved income distribution accounted for a decline by 9.5 percentage points in extreme poverty in 2003–11, while rapidly rising prices for the food items in the basket relative to general prices slowed the reduction in the extreme poverty rate by 6.3 percentage points (figure B6.1, panel b), leading to a net decline of only 3.2 percentage points in the rate. Thus, the food price rise relative to general prices cut into the positive effects on poverty reduction of significant economic growth and gains in redistribution.

In contrast, since 2011, all three forces have been trending in the same direction. The deceleration of the increase in food prices between 2011 and 2013 meant that, in real terms, the extreme poverty line—updated using food price data of the Banco Central del Paraguay—was marginally lower in 2013 than in 2011. As a consequence, prices played a limited, but positive role in the drop-off in the extreme poverty rate, whereas the enhanced income distribution reflected in the widening of the distribution was responsible for 65 percent of the total change in the headcount (5 percentage points out of close to 8), and average income growth (the shift to the right in the distribution) explains the remaining 35 percent of the fall.

An additional contributing factor behind the sensitivity of the extreme poverty line to food prices is the fact that a large share of the population lives in households with incomes near the extreme poverty line. Because of this clustering, even slight shifts in the poverty line can have noticeable impacts on poverty rates.
Báez, de la Fuente, and Santos (2010) show that disasters produce deleterious impacts on education, health, and many income generating processes. They also highlight that, in most disaster events, the poorest carry the heaviest burden of the effects. For instance, in Peru, while 30 percent of...
households in the poorest decile reported experiencing a shock that translated into a loss of income or assets, only 14 percent of households in the richest decile did so. Poor households are especially vulnerable to weather-related events in Peru. While many events that cause shocks affect the bottom 40 and top 60 similarly, households in the bottom 40 are substantially more likely to report they are affected by natural disasters and weather-related crises (figure 20). Box 7 presents the relevant case of Haiti.

Another source of risk among many households in the region is crime and violence. Ongoing crime and violence across Central America and Mexico affect all aspects of development and intensifies inequities. They influence investment in human capital, raise the security costs of businesses, divert funds to combating crime, and discourage domestic and international investment because they impact the general investment climate (Cárdenas and Rozo 2008; Dell 2014; Powell, Manish, and Nair 2010; World Bank 2014d).

For instance, the costs of crime and violence in El Salvador are high. Acevedo (2008) estimates that the costs of crime and violence represented almost 11 percent of GDP there in 2008.21 There is ample evidence of the effects of crime and violence among individuals and firms. Over 45 percent of men and 40 percent of women in El Salvador alter their shopping habits because of fear of crime and violence; 15 percent have moved; and over
5 percent have changed jobs out of concern of being victimized. In 2010, over 85 percent of firms paid for security, which is 25 percentage points above the regional average, and slightly more than half of all firms identified crime, theft, and disorder as the major constraint to doing business, which is also substantially higher than the regional average.

In 2011, the homicide rate reached 90 per 100,000 deaths in Honduras, three times the level in Mexico and higher than the rate in El Salvador, which had the second highest rate. If crime were reduced by 10 percent in Honduras, then GDP could increase by 0.7 percent (World Bank 2011b). In 2012, the majority of Hondurans and Salvadorans reported crime and violence as the number one problem in their countries (Lagos and Dammert 2012).
Mexico has experienced an increase in the number of drug-related homicides, from 28 to 73 percent of total homicides from 2007 to 2011, respectively (SNSP 2012). Enamorado, López-Calva, and Rodríguez Castelán (2014) find a negative impact of drug-related crime on income growth in municipalities in Mexico from 2005 to 2010 and no significant effect of non–drug-related crime on economic growth. Moreover, Enamorado et al. (2014) contend that a 1 percentage point rise in the Gini coefficient translated into an increase of more than 10 drug-related homicides per 100,000 inhabitants between 2006 and 2010.

Despite a lack of data on households, an analysis of municipal data suggests the relationship between poverty and crime in Mexico was convex in 2010: homicide rates were higher in both the poorest and richest municipalities (World Bank 2012b). This may arise because criminal organizations were diversifying their activities into richer municipalities through kidnapping and extortion or because of an effective security strategy in areas with high concentrations of crime and poverty. Using the World Bank (2012b) methodology, the United Nations Development Programme (UNDP 2013) finds parallel results in Brazil in 2011. In Colombia, the results suggest a contrast: the higher homicide rates occur in municipalities with the highest rates of multidimensional poverty.

Drug-related violence is also associated with higher unemployment and poorer school performance and can have long-run detrimental consequences in human capital accumulation (Arias and Esquivel 2012; Caudillo and Torche 2014; Michaelsen and Salardi 2013). Similarly, Velásquez (2014) finds that the violence associated with the Mexican drug war may also have long-term consequences on the wealth and welfare of Mexican households. Not only does the evidence suggest drug-related crime hinders economic growth, but the costs of combating drug trafficking are estimated at $9 billion a year, nearly as much as the Mexican government spends on social development (Keefer and Loayza 2010).

**Links to policies**

The asset-based framework represents a valuable way to approximate the heterogeneity in shared prosperity in the region. The capacity to accumulate assets, use them intensively, and obtain returns from the assets are systematically different among households in the bottom 40 and households in the top 60, and there are large variations across countries. The framework helps highlight how some macro and external variables that are not under the control of households may affect poor and less well-off households differently, such as food prices, climate change, or crime. The specifics largely depend on the context in each country and are examined in the country chapters.

In particular, a meaningful discussion of effective policy interventions to further shared prosperity requires a more detailed analysis within countries to understand the potential determinants of the diversity. The policy framework described below represents a systematic, concrete method to analyze the links between policies and the income growth of the bottom
Interventions in specific policy areas can be weighed for their potential impact on the accumulation of assets, the intensity of asset use, and the returns to assets and on final market incomes. This can help gauge how the policies may eventually allow the less well off to contribute to growth. Thus, this subsection elaborates on the connection between the policies and household market income to provide a road map for profiting from the country chapters.

The asset-based framework assumes that all agents are rational, that markets function perfectly, and, thus, that all individuals can take advantage of the full potential of their assets. However, in reality, the main factors that affect the income generating capacity of households include, for instance, inequality in opportunities, risk, and market failures that explain why some individuals are able to accumulate more productive assets, while others are prevented from doing so. Based on an examination of interventions that address institutional and market imperfections and that are generally used in microeconomic theory, the asset-based approach can be linked to four fundamental policy areas that have a direct impact on the capacity of households in an economy to generate income, but with a special focus on households in the bottom 40. The policies have also been identified in previous studies (World Bank 2013a, 2014a). They are (1) equitable, efficient, and sustainable fiscal policy and macroeconomic stability; (2) fair and transparent institutions capable of delivering good-quality basic services; (3) well-functioning markets; and (4) adequate risk management at the macro and household levels (figure 21). The policies can influence the realization of the total income of households by directly affecting the private income generating capacity of households through asset accumulation,
asset use, returns to assets, and increases in the size of private transfers or adding public transfers, while mitigating the negative effects of external shocks.22

First, equitable and sustainable fiscal policy has an impact on income generating capacity through direct taxation; it also affects the decisions of individuals about the intensity of the use of assets by influencing returns through direct taxes and public transfers. Indirect taxes, such as the value added tax, can have an immediate effect on consumer prices and, thus, have an impact on the relative returns of households. Although there is evidence that fiscal policy has a limited impact on inequality in Latin America and the Caribbean, the expansion of cash transfers and noncontributory pension programs in the region in the last decade has provided a safety net that has pulled people out of poverty by boosting their incomes directly and helping to protect them from falling back into extreme poverty if they are hit by external shocks (World Bank 2014a). While direct cash transfers complement household income directly, these programs assist in incentivizing the accumulation of human capital by making the transfers conditional on school attendance and health care checkups. This also forces governments to supply the schools and clinics necessary to meet the increased demand for these services, thereby boosting human capital.

Moreover, the parameters of monetary policy related to macroeconomic stability, such as inflation targets linked to interest rates, directly affect relative prices in an economy and, thus, the income generating capacity and productive choices of households. For instance, prudent macropolicies have allowed countries in the region to control inflation rates and achieve lower, steadier inflation rates for more than a decade. This regional improvement in the ability to control inflation impacts the real return on household assets. High inflation erodes the purchasing power of household wages, which effectively lowers the real returns on human capital and other types of assets. Prudent fiscal and monetary policies that are conducive to sustainable and acceptable trends in fiscal deficits and inflation are also important in mitigating potential external shocks such as fiscal and financial crises.

Overall, fiscal policies have efficiency and equity implications in both the short and the long run that can differentially affect the bottom 40 and the top 60. In the short run, the net system of fiscal incentives can reinforce or offset market income gaps. In the long run, they can impact decisions related to asset accumulation and use—as in the case of labor force participation or hiring decisions by firms—and may induce factor misallocations or affect the size distribution of firms.

Second, fair and transparent institutions capable of delivering good-quality basic services may directly affect the decisions of individuals to accumulate assets. In particular, strong institutional capacity linked to the delivery of good-quality services in education and health care can enhance the ability of poorer households to improve their accumulation of net assets. More and better health care services and employment systems are fundamental for mitigating the risks that households face from health-related
shocks and the consequences of employment loss. Basic services such as running water, electricity, and sewerage are important contributors to human capital accumulation, particularly among the poor. Over the past decade, there has been a large expansion in access to education, water, improved sanitation, and health care services across the region. However, coverage remains uneven across and within countries and is positively correlated with income levels. The services are often inadequate in quality and only weakly coordinated with other key services, which undermines the overall impact, especially among the bottom 40.

Governance failures can also act as a barrier to progress in achieving the twin goals by imposing constraints on economic growth and job creation. Institutions can promote the protection of property rights and thus improve the investment climate in an economy by boosting the availability of well-paid employment opportunities and affecting the returns to factors of production. Strong regulatory entities are also crucial in overseeing private market behaviors, thereby minimizing the risk of financial and sectoral macroeconomic crises. On a global scale, weaknesses in institutions influence the competitiveness of an economy. Robust competition policy that reduces entry barriers for new firms to certain markets directly affects the relative prices faced by all households by reducing consumer prices. While weak institutions are not considered a binding constraint on growth, there is evidence that they play a negative role. Overall, since the bottom 40 has more limited options, such as a lack of practical access to high-quality services in the private market, governance failures can fundamentally constrain the capacity of the bottom 40 to build their human capital assets or to take advantage of economic opportunities, which undermines shared prosperity.

Third, directly linked to better connectivity and competition, well-functioning markets are central to any effort to reduce the barriers to a more efficient utilization of household productive assets and can help grow the relative returns to assets. Enhanced transportation infrastructure that allows disadvantaged groups to connect to markets is an example of an opportunity to raise the utilization of assets that can create additional income. Poor-quality infrastructure adds to the negative effects of distance between regions and limits the connection of local markets with national and global markets. Infrastructure deficits can also have a negative impact on the investment climate and can compromise the ability of an economy to expand to its full potential. An extensive and well-functioning transportation and communications infrastructure network is a necessary condition for access from poorer areas to major markets and services. Inequalities in coverage across regions limit the returns to other development initiatives such as investments in education, health care, and social programs. Noncompetitive business environments and poor-quality infrastructure limit productivity growth, the labor demand that creates good jobs, and, therefore, the ability of the labor market to translate economic growth into higher incomes among the bottom 40.
Access to financial markets is also important for the income generating capacity of the poor in at least three ways. First, access to savings accounts and investment opportunities allows individuals to employ financial assets (such as savings) to obtain returns (interest rates) and thus complement labor incomes. Second, by encouraging and facilitating savings, access helps mitigate the impact of shocks and therefore protect against risks. If they have access to savings, the poor no longer need to sell assets or underinvest in human capital (by pulling children out of school) if an unexpected crisis strikes. Third, access to financial institutions that include access to credit allows individuals to finance small businesses or invest in fertilizer, physical assets, or human capital and thereby improve the level and intensity of their use of human capital and physical assets.

Finally, adequate risk management can reduce the exposure to and impact of shocks among all households in an economy, but particularly the poor and vulnerable, who usually have a higher probability of risk and are thus forced to engage in negative coping mechanisms. Public safety nets such as public cash transfer schemes that are flexible so they may be scaled up during crisis and scaled down during recovery may be important instruments for supplying temporary income support to households affected by external shocks.

**Final Remarks**

Latin America and the Caribbean has experienced remarkable absolute and relative gains in achieving the twin goals. Moderate growth, combined with falling inequality, has propelled reductions in poverty and income growth among the bottom 40. Between 2002 and 2011, extreme poverty ($2.50 a day per capita) was cut in half, and higher incomes changed the demographic composition of the bottom 40. In 2003, everyone in the bottom 40 was poor, and almost two-thirds of the bottom 40 were among the extreme poor, but, by 2012, only two-thirds of the bottom 40 were poor, and only 30 percent were among the extreme poor, while the largest group were the vulnerable (at 37.2 percent). These trends are reflected in higher household incomes, mainly from higher wages. Greater human capital accumulation, economic growth, and falling inflation rates have been major factors behind the higher real-wage levels. Private and public transfers contributed almost 20 percent to the reduction in poverty. Some projections, drawing on the promising trends of the last decade in the region, estimate the share of households that will be living in extreme poverty ($1.25 a day) at 3.1 percent in 2030, down from 4.6 percent in 2011 (World Bank 2015b).

Despite this impressive performance, extreme poverty is still a salient issue in middle- and low-income countries in the region. More than 75 million people are still living in extreme poverty in the region, half of them in Brazil and Mexico, and extreme poverty rates (based on the $2.50-a-day per capita line) are above 40 percent in Guatemala and reach nearly 60
percent in Haiti. Moreover, combining the share of the poor and vulnerable in the region suggests that nearly two-thirds of the region’s population is either poor or vulnerable to the risk of falling back into poverty. As growth wanes and progress in reducing the region’s high levels of inequality slows, it will be more important than ever for governments to focus policies on inclusive growth. For example, understanding the drivers behind the falling labor force participation rates among the bottom 40 will be critical to ensuring the inclusiveness of growth, especially in a lower growth context that could limit labor market returns. Focusing on expanding the assets and market participation of indigenous households will also be crucial in closing the gaps between the bottom 40 and the top 60. In addition, the specter of climate change suggests that severe weather events may become more frequent, which, the evidence indicates, are likely to affect the poor and the vulnerable more than the middle class.

The goal of this chapter is to provide a baseline description on the standing of the region in the effort to achieve the twin goals and information on a framework that can contribute to a better understanding of the components of the income of households that are directly linked to the monetary elements of the twin goals. The country studies presented in the rest of this book provide a more detailed discussion of recent trends, policy areas, and challenges related to the income generating capacity of the less well off. The presentation in each chapter is organized around four important pillars that are linked directly to the asset-based framework: (1) equitable, efficient, and sustainable fiscal policy and macroeconomic stability (direct and indirect taxes and transfers, inflation targets); (2) fair and transparent institutions capable of delivering universal, good-quality basic services (a greater and better supply of public goods, protection of property rights); (3) well-functioning markets (improved connectivity to markets, competition policy); and (4) adequate risk management at the macro and household levels (macroprudence, safety nets). This comprehensive framework can be useful in approximating the diversity of results in poverty and shared prosperity observed over the past decade and in helping to identify the challenges ahead in the effort to reduce poverty and boost shared prosperity.

Notes
1. The extreme poverty rate is measured by the number of people whose income or consumption falls below an international poverty line of $1.25 a day in 2005 purchasing power parity (PPP) international U.S. dollars, a poverty line that corresponds to an average of the national poverty lines of the 15 poorest developing countries. Because the aim is to end chronic poverty and because frictional poverty—poverty stemming from unexpected economic fluctuations in poor countries, political conflict, and war—cannot be brought to an end yet, the first goal is formalized as a target of bringing the number of people living below the $1.25-a-day poverty line to less than 3 percent of the world’s population (Basu 2013).
The second goal, boosting shared prosperity, places explicit attention on the least well off in a society by focusing on fostering the well-being of the bottom 40 in every country. Specifically, progress toward reaching the goal is assessed by measuring income or consumption growth among the bottom 40 in each country. According to the World Bank (2015a, 10):

One way to think about the . . . shared prosperity goal is as an alternative to average income as the benchmark of development progress. Instead of assessing and measuring economic development in terms of the overall average growth in a country, the shared prosperity goal places emphasis on the bottom 40 percent of the population. In other words, good progress is judged to occur not merely when an economy is growing, but, more specifically, when that growth is reaching the least well off in society.

Although the shared prosperity indicator (SPI) focuses attention on the poorest segments of a country’s population, it does not completely ignore the other segments. People above the bottom 40 may fall back into poverty if growth occurs only among the bottom 40 (Basu 2013).

2. In the region, most countries measure poverty using an income-based aggregate; this implies that it will always be reasonable to expect a positive extreme poverty rate because of frictional factors such as unemployment. For more details about the projections, see Ravallion (2003) and World Bank (2015a).

3. The poverty rate in Haiti is calculated using consumption instead of income as in the case of all other countries in the region for which data are available and harmonized. In the Latin America region, given the level of economic development, analysts use poverty lines that are higher than the global $1.25-a-day line. A $2.50-a-day extreme poverty line (an average of national extreme poverty lines) is considered more appropriate for the region.

4. According to recent World Bank studies (2013a, 2014a), the growth of gross domestic product (GDP) in the region declined from about 6.0 percent in 2010 to an estimated 2.5 percent in 2013, while the Gini coefficient was stagnant between 2010 and 2012.


6. These countries are Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, and Uruguay. Regional poverty rates are population-weighted averages of country-specific poverty rates using international poverty lines. Whenever possible, annual household surveys from 2003 to 2012 have been used to estimate annual poverty rates. However, many countries do not conduct such surveys. To overcome this limitation, regional poverty rates have been estimated by generating artificial surveys using macroeconomic information on private consumption growth rates from the WDI (database), World Bank, Washington, DC, http://data.worldbank.org/data-catalog/world-development-indicators.

7. The World Bank measures poverty rates according to the number of people whose income or consumption falls below a given threshold. To estimate the number of people living in extreme poverty, it currently uses an international poverty line of $1.25 a day in 2005 PPP international U.S. dollars, a poverty line that corresponds to an average of the national poverty lines of the 15
poorest developing countries. In Latin America and the Caribbean, given the level of economic development, analysts use poverty lines that are higher than the global $1.25 a day. A $2.50-a-day extreme poverty line (an average of national extreme poverty lines) and a $4.00-a-day total poverty line are more appropriate for the region.

8. In Latin America and the Caribbean, poverty is measured using income, while, in other regions, the World Bank uses consumption as the welfare aggregate. Consumption is typically assumed to be a better measure of current living standards given that it does not fluctuate as much as income. Consumption is usually more readily measured than income in countries with more informal labor markets. Relative to consumption measures, income measures usually imply that a larger share of households report zeroes and are thus classified as extreme poor.

9. The recent World Bank regional flagship report, *Economic Mobility and the Rise of the Latin American Middle Class* (Ferreira et al. 2013), characterizes the middle class based on the concept of economic security. A defining feature of membership in the group is household economic stability, which implies a low probability of falling back into poverty. The study defines a household as vulnerable if it faces more than a 10 percent likelihood of falling back into poverty over a five-year interval, which, surveys show, is approximately the average probability in countries such as Argentina, Colombia, and Costa Rica. This yields an income threshold of about $10 a day per capita (2005 PPP international U.S. dollars) for the middle class. The report defines three economic classes: (a) the poor (people who have a per capita income below $4 a day), (b) the vulnerable ($4–$10 a day); and (c) the middle class ($10–$50 a day), all in 2005 PPP international U.S. dollars. The remainder, people with more than $50 a day in income, makes up less than 3 percent of the region’s population.

10. Nonetheless, the crisis had a significant negative effect on economic growth and income inequality in the Caribbean, Central America, and Mexico. In Central America and Mexico, labor market incomes and remittances dropped as a direct consequence of the recession in the United States, whereas the Caribbean countries suffered losses in incomes because of a decline in tourism and the higher prices of food imports.

11. The precise growth rates for the decades are sensitive to how the decades are defined. If the year 1990 (2000) is picked as the starting point rather than 1991 (2001), the respective growth rates for the two decades are 2.75 and 2.99 percent.

12. Calculations based on data in SEDLAC.

13. The decline has been documented in several studies using alternative sources of data, time periods, and income and inequality measures (see de la Torre et al. 2014; Gasparini et al. 2008; López-Calva and Lustig 2010; Lustig, López-Calva, and Ortiz-Juarez 2013).

14. Ravallion (2012) constructs a poverty measurement framework that is consistent with the utility theory and can capture the multidimensional aspect of poverty.

15. The proposed asset-based conceptual framework has been supported by academic research and has also been extensively applied in other studies that have analyzed the determinants of progress in poverty reduction and shared prosperity around the world (for example, see Attanasio and Székely 2001; Carter
16. The framework represents private transfers as independent of household income-earning assets, but these, particularly international remittances, may be correlated with access to markets and the probability that households will migrate.

17. Studies that discuss the role of aspirations in household decision making include Diecidue and Van De Ven (2008), Mookherjee, Ray, and Napel (2010), and Ray (2006).

18. Because the distribution of the wages of the top 60 is likely skewed to the right by the top earners, while the bottom 40 is truncated, the average wage may be misleading. So, we use the median wage. The trends hold for average wage as well, although the gaps are larger because the average wage among the top 60 is higher than the median wage.


20. The net effect of changes in food prices needs to be further investigated in light of the fact that poorer households are also more likely to be food producers. For instance, Cuesta el al. (2010) study the distributive repercussions of the 2008 food price crisis in the Andean countries and find substantive poverty impacts ranging from 2 to 6 percentage points, although these results are sensitive to the net consumer (or producer) position of the households.

21. The estimate includes health costs (actual and loss of productivity), the costs of security and judicial procedures in the public sector and among households and firms, and the associated material costs (property loss).

22. Although the asset-based framework and its interaction with policy variables is presented statically, it is important to recognize that the interaction between policies and the elements that define the income generation capacity of households is dynamic. Moreover, government interventions that are associated with these policy areas and that are implemented today may have positive effects on the accumulation and use of assets, the returns to assets, consumer prices, and risk management in the future.

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The focus of the World Bank’s strategy on poverty and equity should be celebrated. The collection here reflects this new emphasis. The book documents the economic gains observed in the Latin America and Caribbean region during the last decade by highlighting the achievements in the reduction of poverty and inequality and in the increase in income growth among the less well off, results that are associated with an improvement in income distribution. The country cases also offer reasons to be concerned about the sustainability of these gains, however, and illustrate the increased vulnerability of large groups in the population that, while living above the income poverty line, could easily fall back into poverty. The framework described at the beginning of the book makes clear that equity-related policies—such as enhancing access to quality education and health care, ending the exclusionary dynamics in specific markets, creating good-quality jobs, and promoting a more comprehensive approach to social protection—are necessary pillars of any policy aimed at sustaining the advances toward more equitable growth.

— Rebeca Grynspan  
Ibero-American Secretary General, former United Nations Under-Secretary-General, and former Vice President of Costa Rica

Latin America is among the brightest spots in demonstrating how prosperity has been shared in the last decade. Shared Prosperity and Poverty Eradication in Latin America and the Caribbean meticulously documents the auspicious trends in the region and delves into their determinants within a comprehensive framework. This is an extremely useful source for scholars and practitioners concerned with what happened, why it happened, and what is next on the policy agenda for building more inclusive societies in the region.

— Nora Lustig  
Samuel Z. Stone Professor of Latin American Economics, Tulane University, and Director, Commitment to Equity Project

This is an excellent contribution to understanding why, despite the recent progress—including reaching income levels equivalent to more than 15 times the resources needed to lift all individuals out of extreme poverty—more than 75 million people are still in this condition in Latin America. Through an integrated framework applied to eight countries and an overview of the region’s performance, the book occupies the forefront of the discussion and will become a central reference for those studying the puzzle of how such a resource-abundant environment coexists with mechanisms of exclusion that prevent sustained and shared prosperity.

— Miguel Széky  
Director, Center for Educational and Social Studies, Tecnológico de Monterrey, and former Undersecretary for Planning and Evaluation, Ministry of Social Development, Mexico