

Financiamiento del Desarrollo Productivo e Inclusion Social – Lecciones para America Latina

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Vice Presidente

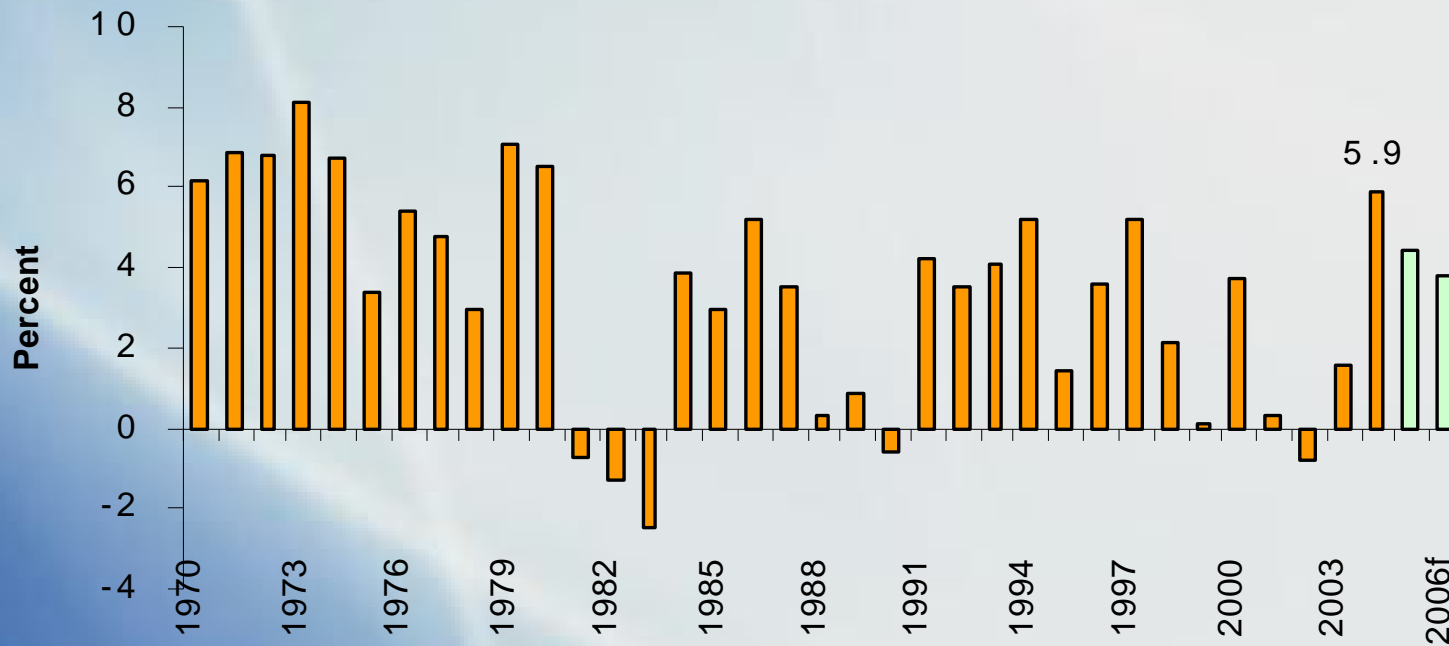
**Poverty Reduction and Economic
Management, Banco Mundial**



Poverty Reduction and Economic Management
The World Bank

LAC economic growth has improved recently...

Real GDP growth in Latin America & Caribbean



Source: GDF & WDI database and DECPG for forecasts.



..but, it lags other regions and may not be sustained over time.

**Annual Rates of Real GDP Growth
(Percent)**

	2004	2005f
High Income		
North America	4.3	3.7
European Union	2.3	1.9
Developing		
Latin America and Caribbean	6.3	4.4
Eastern Europe	6.8	4.8
South East Asia	6.4	5
China	9.5	8.6
Singapore	8.4	4.2
Malaysia	7.1	5.5
Thailand	6.1	5.1

Source: Consensus Forecast, April 2005

Note: North America comprises United States and Canada

European Union includes Euro zone countries plus Denmark, Sweden and United Kingdom.

South East Asia includes Indonesia, Malaysia, Singapore, Thailand and the Philippines.

Latin America and the Caribbean region includes Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Rep., Ecuador, Mexico, Panama, Paraguay, Peru, Uruguay, and Venezuela.



Lessons from the 1990s: There is no one reform “formula.”

- Research on growth determinants (Rodrik)
 - Fundamentals matter: well developed institutions, technological innovation, access to markets, financial market development
 - Sound economic principles: competition, property rights, appropriate monetary policy, fiscal solvency
 - Provides little guidance on specific reforms
- Reforms that yield growth in one country don't always work in others
- What ignites growth is different than what sustains it



Despite significant reforms, LAC performed poorly.

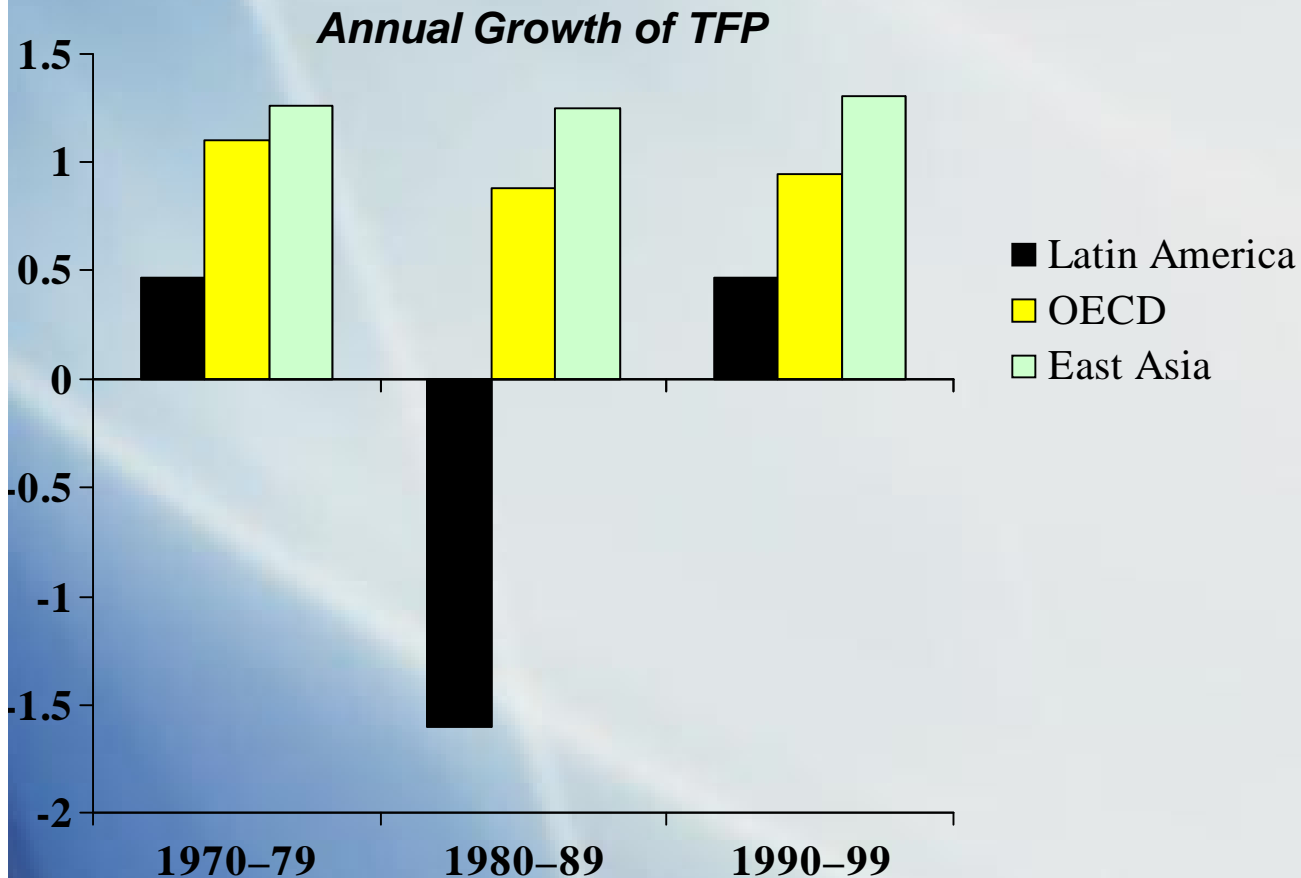
Quality and intensity of LAC reforms increased significantly during the 1990s...

- Notable improvements in macroeconomic policy and stability
- Embraced globalization, market opening, trade and financial liberalization, and privatization

...but, they were incomplete, and gaps remain



Productivity has grown slowly in LAC.



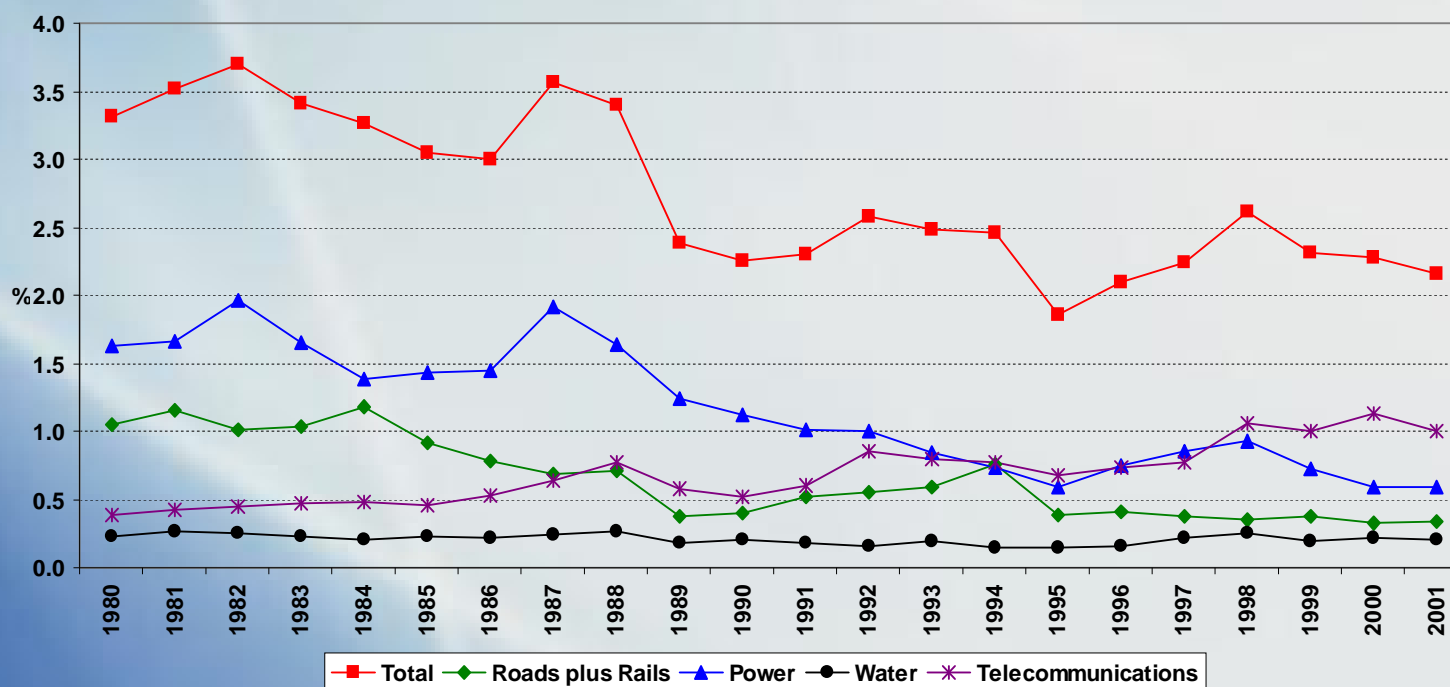
Research shows that over 50 percent of cross country differences of per capita income levels and growth rates is accounted for by differences in productivity growth.

Source: Loayza, Fajnzylber, and Calderon (2002).



Physical infrastructure gaps reflect fiscal compression.

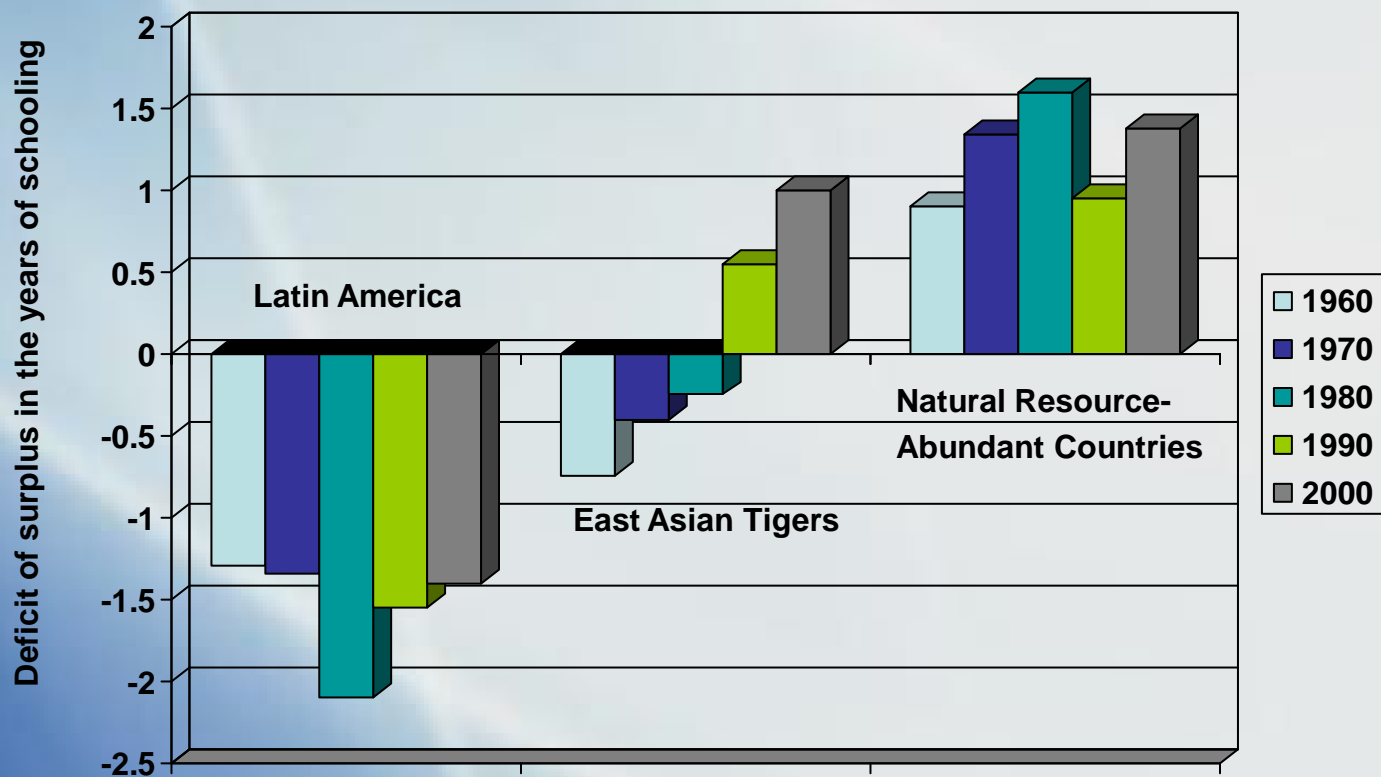
Latin America: Investment in Infrastructure (public + private)
(weighted average of 7 countries, percent of GDP)



Note: 7 Latin America countries, ARG, BOL, BRA, CHL, COL, MEX, PER



Schooling gaps persist over time.

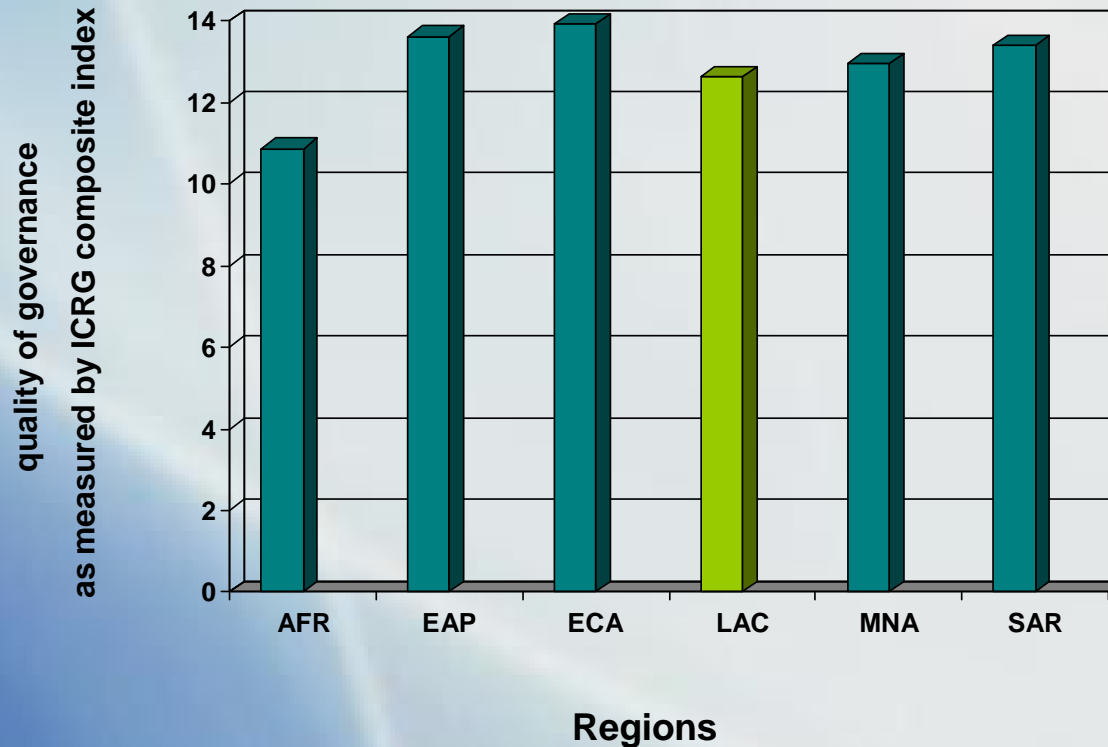


Source: Authors' calculations based on data from Barro and Lee (2002)



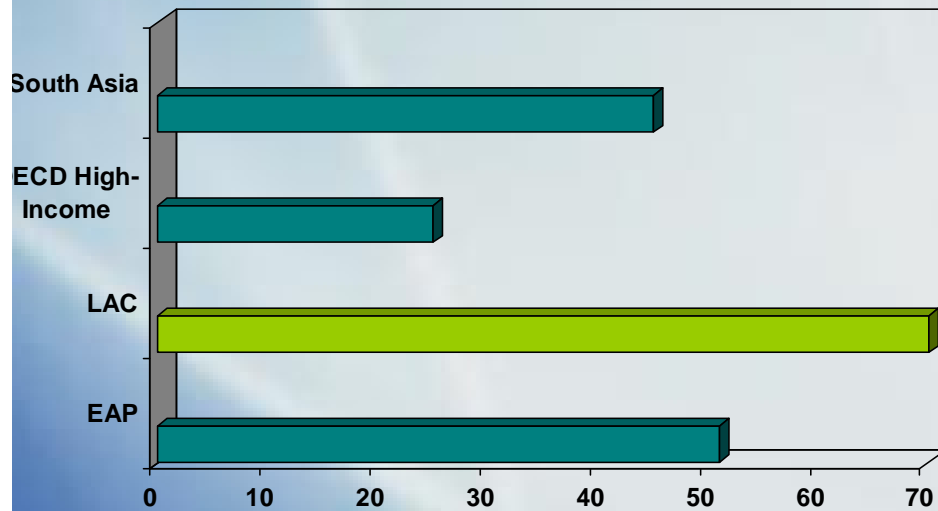
Gaps in the quality of governance persist.

LAC scores lower than all regions except sub-Saharan Africa on the World Bank index of quality of governance.

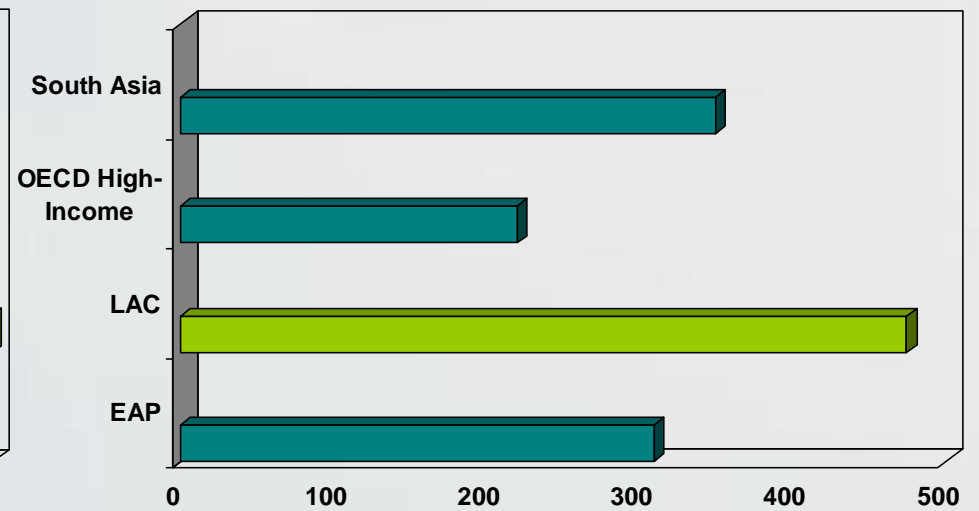


It's costly and slow to do business in LAC.

Time to Start a Business (in days)

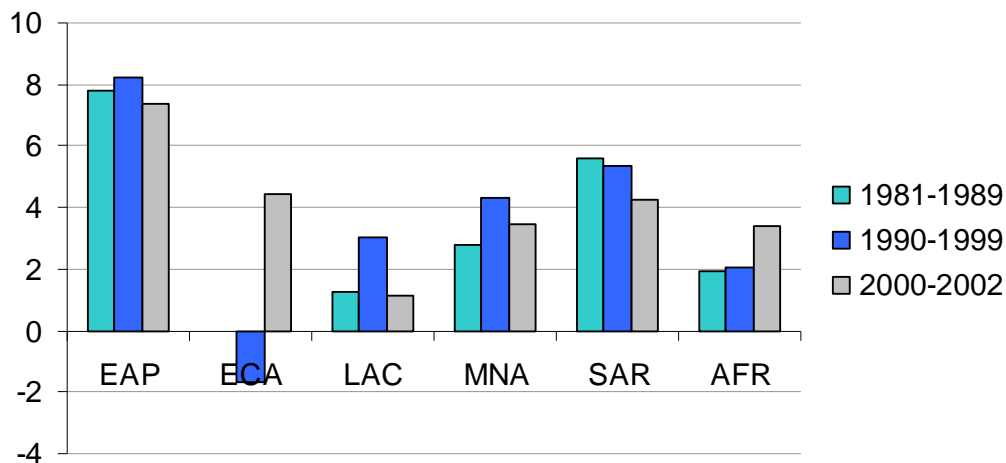


Time to Enforce a Contract (in days)



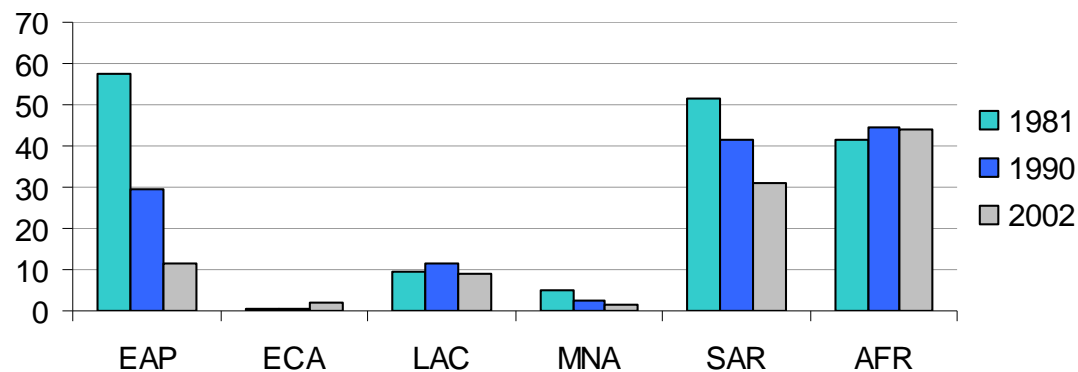
Growth is vital for poverty reduction.

Average growth rate

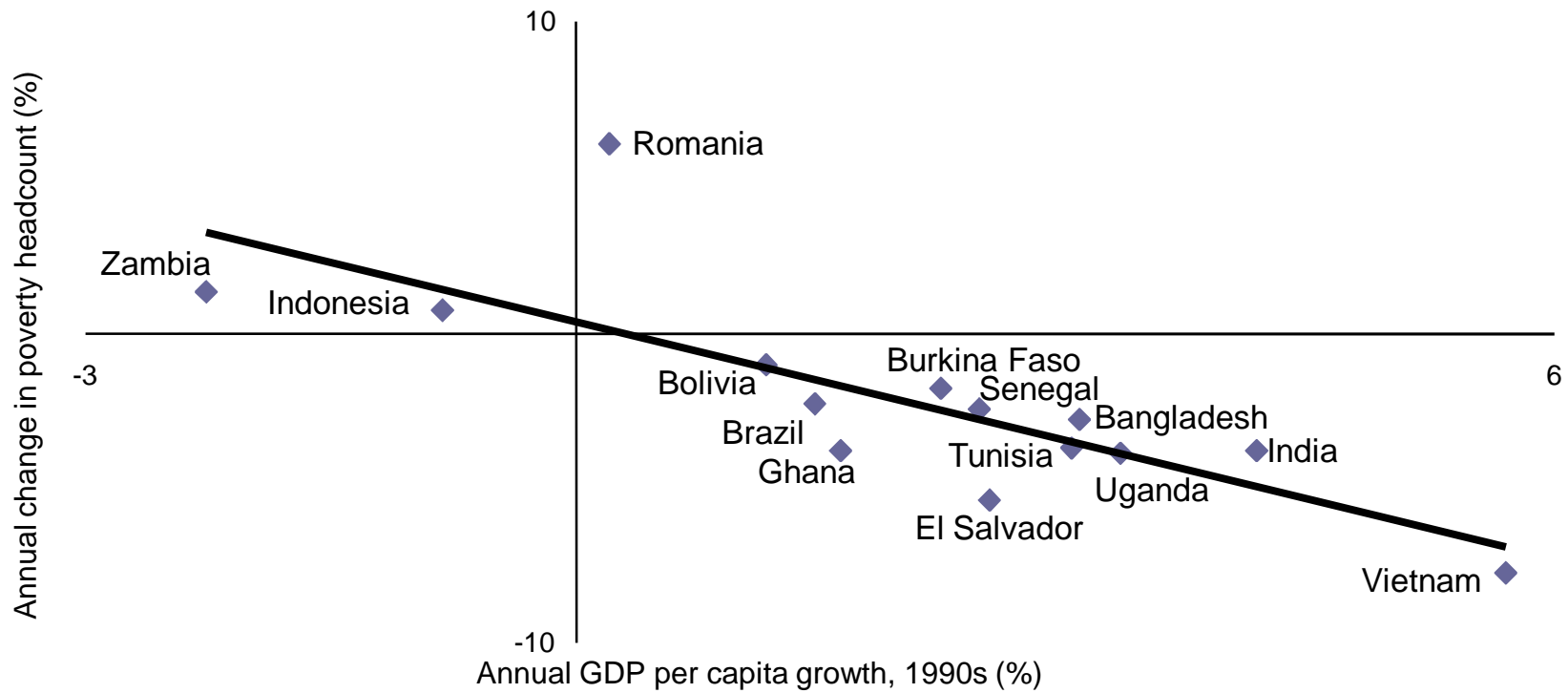


East Asia's rapid economic growth enabled substantial and sustained poverty reduction. LAC lags far behind in growth, and it has achieved limited progress in poverty reduction over 20 years.

Poverty headcount ratio at \$1 a day (PPP)
(% of population)



Sustained growth enables poverty reduction.

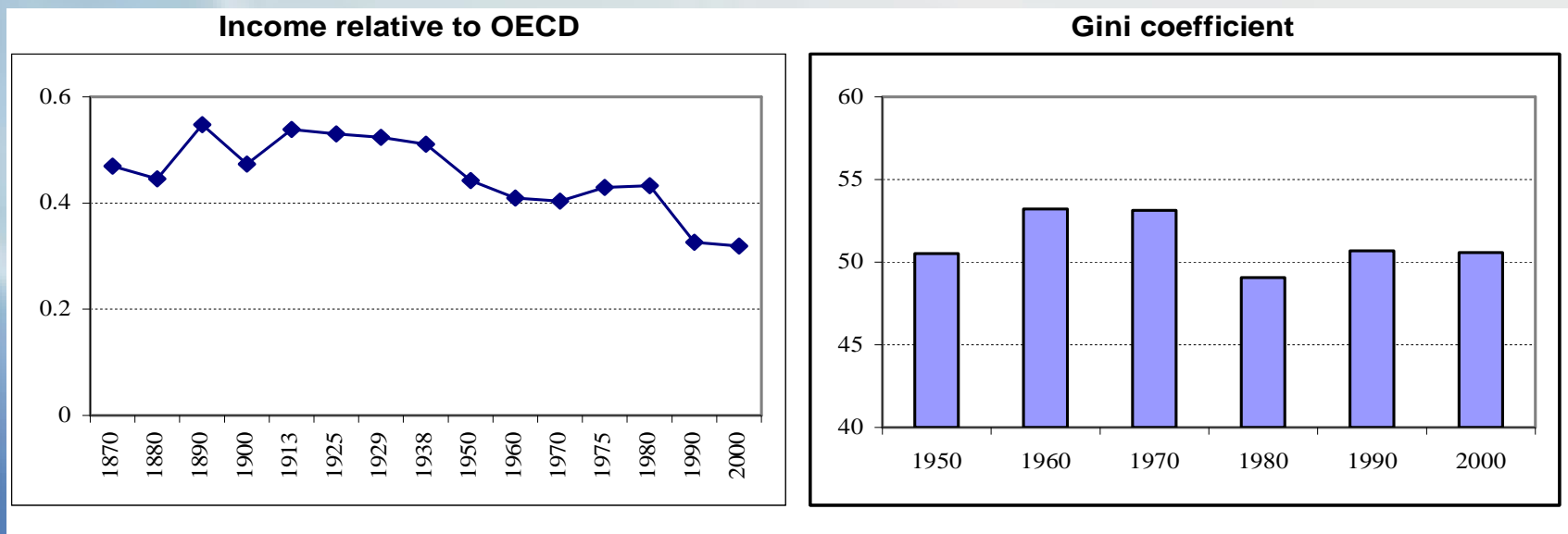


Source: Pro Poor Growth in the 1990s. Country Case studies



Low growth + high inequality = persistent poverty

Disappointing growth over the past 100+ years & persistently high inequality levels...

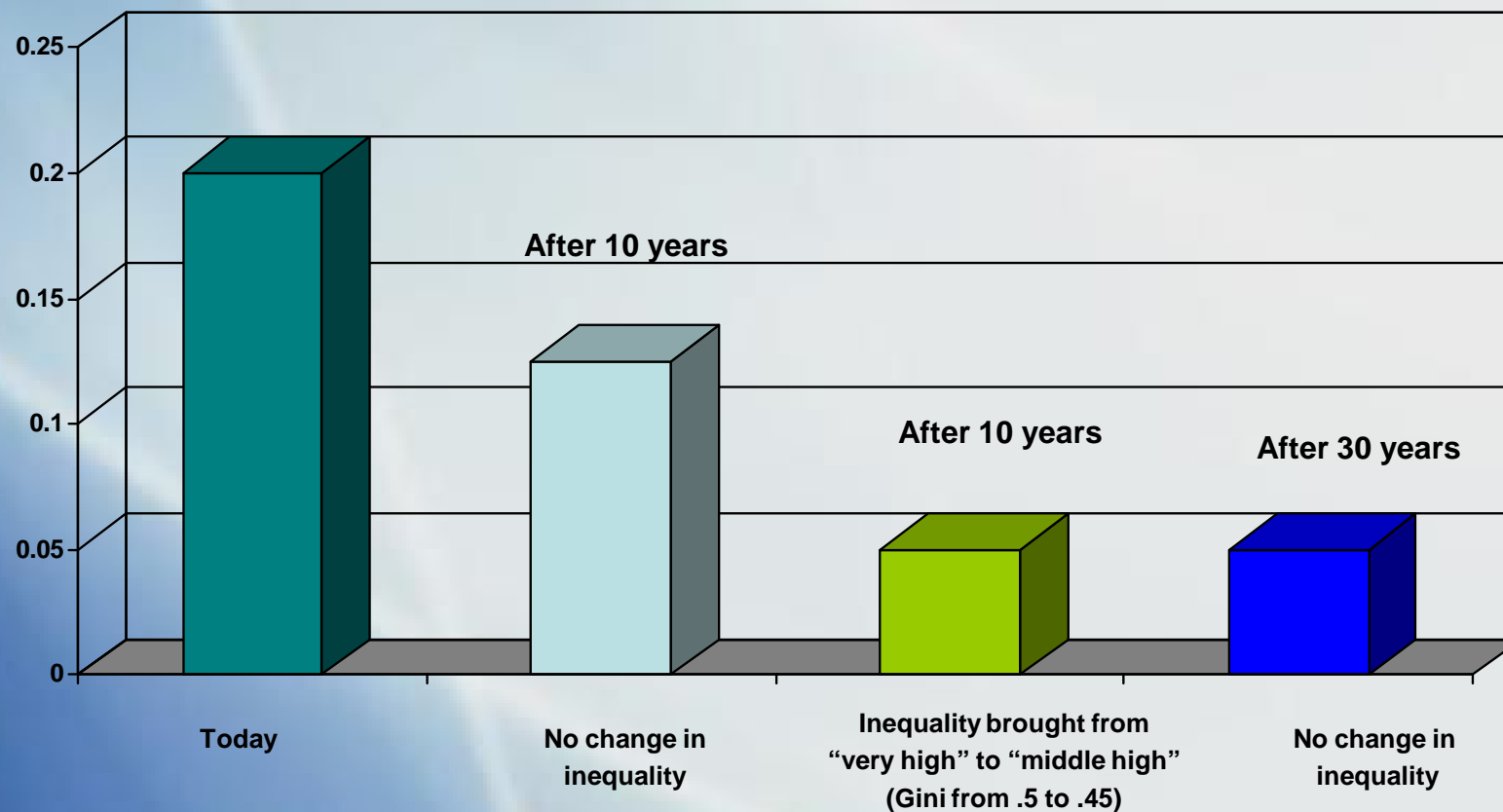


...explain why LAC poverty levels are so high (about 25% of population below US\$2 a day).



Lessening inequality can contribute much to poverty reduction.

Simulated change in poverty in Mexico (high inequality): 3% annual growth in income per capita



Source: F. Bourguignon. The Poverty-Growth-Inequality Triangle (2004).



Greater inequality requires higher growth to reduce poverty.

- What is the main driver of poverty reduction?
 - Poorer and more equal countries: **Growth**
 - Richer and more unequal countries: **Changes in inequality**

Growth rates that have the same poverty impact as a 1 percent decline in the gini coefficient

Country	Compensatory growth rate	Country	Compensatory growth rate
Argentina	2.5	Peru	1.6
Chile	2.4	St. Lucia	1.5
Brazil	2.3	Guatemala	1.5
Mexico	2.0	Paraguay	1.5
Costa Rica	1.0	El Salvador	1.4
Columbia	2.1	Venezuela	1.2
Trinidad and Tobago	2.0	Ecuador	1.1
Dominican Republic	1.9	Nicaragua	1.1
Panama	1.9	Guyana	1.1
Belize	1.8	Bolivia	1.0
Uruguay	1.8	Honduras	0.8
Jamaica	1.7		

Source: Guillermo Perry, Humberto Lopez, William Maloney, Omar Arias, Luis Serven. 2006. Poverty Reduction and Growth: Vicious to Virtuous Circles. The World Bank



Virtuous circle: growth reduces poverty, but reducing poverty also enhances growth.

- Poor countries
 - Have weak business environments: lower investment, poor allocation of resources
- Poor regions
 - Have lower human and physical capital and are less attractive to investors
- Poor families
 - Face imperfect credit markets and hence invest less in physical and human capital
 - Face worse schools and low returns to education and hence underinvest in human capital
 - Face worse health care and hence are less productive

Source: Guillermo Perry, Humberto Lopez, William Maloney, Omar Arias, Luis Servén. 2006. Poverty Reduction and Growth: Vicious to Virtuous Circles. The World Bank



Policy reforms can enhance the potential synergy between growth and poverty reduction.

- Complement more equal incomes with redistribution through taxes/transfers
 - Enhance distributional impact of existing transfers
 - Improve amount and progressivity of tax collections
- Enhance poverty reduction effects on growth
 - Use conditional cash transfers: lower short-run poverty and increase human capital
 - Establish safety nets that encourage efficient risk taking



What is the World Bank doing for shared growth?

- Growth and Development Commission
- Growth diagnostics
- Fiscal space for development
- Analytics of shared growth for poverty reduction
- Gender and economic development
- Lagging regions program
- Labor markets and migration diagnostics



Muchas Gracias



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