POVERTY ALLEVIATION STRATEGIES IN URBAN AND RURAL AREAS:
The use of fiscal instruments, public services and other policies

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ABSTRACT

The paper presents a holistic approach towards poverty alleviation, within a public policy framework for development. As a point of departure, several fundamental concepts are revisited (inequality, poverty, vulnerability, marginalization, social exclusion, social cohesion and inadequate public policies), arguing that in reality they conform a lessening syndrome that must be addressed at the core of any development strategy. Then, a number of specific public policies are discussed, mapping them to the different elements of the syndrome. It is explained that fiscal policies (use of taxes, transfers and debt instruments) are not sufficient to address deep development challenges related with poverty and inequality, thus a variety of social policies have also to be applied. Finally, the paper highlights that to successfully articulate these policies in a viable and effective manner, that is, to ensure good governance, place-based development strategies offer promising possibilities. In recommending so, human development, social development, economic development and regional development are considered aspects of a unique process (development) that requires to be fostered integrally on the basis of sound public policies, good governance and social participation.

Introduction

Human beings are very complex gregarious organisms, with admirable potentials: biological, psychological and social. The human species has evolved dramatically, extending to all parts of the planet and adapting to highly diverse geographical conditions. Its intelligence has grown even more impressively, with enormous capabilities for learning, thinking, explaining and creating, which have generated accelerated knowledge, varied research and experimental methods, and uncountable transcendental inventions. The inherent tendency of humans to live in groups has adopted a wide range of forms, with corresponding roles and rules for the diverse group members or subgroups, to cope over time with changing particular and collective needs, tasks, behaviors, duties, aspirations, etc., facing varying endowments, constraints and opportunities, purposes and beliefs.

Transformation along these dimensions is interconnected in the long run, thus the complexity of human existence. Considering an ample time span, humanists refer to the ascent of mankind, signaling an overall impressive positive balance of accomplishments by the human species. Due to progress in science and technology, in productive or economic activities, as well as in social and political norms and institutions, mankind has gained a considerably large potential —and often an actual capacity— to affect or control numerous phenomena in the planet. And, very importantly, the human species has increasingly obtained the potential to modify its own living conditions and to transform itself in many ways, at the level of individuals and in the aggregate.

This potential is in our time larger than ever, as in the last centuries several fundamental processes along these dimensions accelerated noticeably: population increased to very high numbers and average lifetime raised significantly, due to massive improvements in public health and nutrition; education, skills and knowledge reached records in coverage, duration, contents and quality, as a result from huge public and private efforts; physical capital formation multiplied, in factories, public infrastructure,
housing, etc., from higher total savings, better financial systems and a more open international economy; urbanization attained the highest levels in history, as agglomeration has proven more efficient within a range to provide public goods, and larger markets have facilitated firms’ activities, all this attracting migration from rural regions; technology has augmented enormously, on the basis of accumulated human capital and larger investments in research, and likewise creative activities have reached the ranks of activity sectors where very large numbers of persons are employed and their works are distributed for their enjoyment by groups larger than at any other period in history; economic income has increased considerably, as goods and services produced for the satisfaction of human needs have reached very high levels in aggregate and in average \textit{per capita}; democracy has extended noticeably in numerous public matters, reflecting historical struggles from growing educated groups, bringing to extraordinarily large numbers of individuals the possibility to influence public policies and enrich decision making with better information on shared priorities and resources available, diverse views and ideas, as well as enhanced ownership and support for such policies; and rights for individuals have broadened in general, as communities and nations succeed in balancing the diversity of interests and power of its members.

The overall transformation of the living conditions for human beings resulting from these changes is denoted as \textit{development}. Different academic disciplines look at it from distinct angles and concentrate on specific aspects: human development, social development, economic development, political and institutional development, regional development, etc. However, development is intrinsically an integral process, given that these distinct aspects are but partial perceptions of a unitary human experience of collective transformation.

Development is not always continuous, nor uniform, nor equitable. Over the long run, progress has not been steady, as some periods have concentrated more rapid change and others have recorded relative stagnation, and even some regression. Advancement has been uneven among regions of the world, and also within these. And the costs and gains of development have accrued to significantly different degrees to diverse individuals and groups in every moment and place\(^2\). Specially, it is observed that, regardless of considerable overall advancement of mankind, there exist in every period and region individuals or groups that lag significantly behind the rest, their backwardness and number being more or less noticeable in relation to the others. So, development is not always inclusive, either. In many cases, those individuals or groups left behind continue to exist in conditions that the rest overcame long time before, in biological, psychological and social terms.

For example, the World Bank has recently updated estimates of population whose daily \textit{per capita} income is below 1.25 dollars, which is roughly the average poverty line for the 10 or 20 least developed countries\(^3\). In 2005, there were in all developing countries 1.4 billion people in this condition (\textit{i.e.}, lacking the minimum income required to satisfy their very basic needs), compared to 1.9 billion in 1981. These figures were equivalent to 26\% and 52\%, respectively, of the total population in the developing countries. Clearly, both in absolute and relative terms, the magnitude of population with income insufficient to satisfy basic needs is still considerably large in our time: one out of every four human beings on average in the developing world\(^4\). Moreover, although these figures indicate that 1\% of the total population of the developing countries crosses this poverty line every year, the Bank foresees that at this pace there will still be 1.0 billion people under that line by the year 2015. And those that cross this line continue to be very poor: the number of people with daily income between 1.25 and 2.00 dollars has doubled from 1981 to 2005, from about 600 million to 1.2 billion. Actually, the number of people under the 2.00 dollars a day poverty line has not changed over the last quarter of a century, remaining in the order of 2.5 billion individuals. And, in relation with the lack of access to basic services, recent estimates indicate that: 884 millions do not have access to safe water; 1 billion lack access to telephone services, 1.6 billion live without electricity and 2.5 billion without sanitation\(^5\).

Large regional differences exist\(^6\). While poverty (measured by the number of individuals with daily income below 1.25 dollars) diminished over the 25-years period as a proportion to total population in
every region of the world, absolute declines were only recorded in East Asia and the Pacific, largely due
to the dramatic reduction of poverty in China (reductions in the number of poor were 750 and 627
million, respectively, although these individuals still have considerable low incomes). Poverty reached
many additional million people: 182 more millions in Sub-Saharan Africa, 38 more in South Asia (most
of them in India) and 17 million more in Europe and Central Asia. The number of poor has not declined
but has remained stable over the period in the Middle East and North African countries, while Latin
America registered large temporary augment because of major macroeconomic crises in the eighties and
nineties (Mexico, Brazil, Argentina, Bolivia, etc.), but has subsequently returned to the pre-crises levels.

Concurrently, disparities between urban and rural areas within these regions remain very significant, in a
context of increasing urbanization (although at different speeds) in the distinct regions of the world. For
example, according to World Bank statistics, access to safe water is not only the lowest in Sub-Saharan
Africa in both urban and rural areas, but the gap between these is also the widest (83% and 44% of the
respective population, with a disparity of 39 percent points between both rates), compared to the highest
coverage for both urban and rural areas (95% and 82%, respectively) observed in Eastern Europe and
Central Asia, where the gap is also the narrowest (13 percent points). With respect to sanitation, Eastern
Europe and Central Asia is also the region with highest urban and rural coverage and smallest disparities
(91% and 81% of coverage in urban and rural areas, respectively, implying a gap of 10 percent points),
followed as a second best performer in the same dimensions by the Middle East and North Africa. Latin
America comes next (an urban coverage of 86%, and a rural coverage of 52%, with a gap of 34 percent
points), followed by East Asia (the same indicators reaching 73%, 35% and 38 percent points,
respectively). In both regions, a marked urban bias is thus observed. Sub-Saharan Africa records low
coverage rates in both areas (73% and 43%, in the same order, with a 30 percent points urban-rural gap,
which is narrower than in Latin America and East Asia). And, finally, the lowest coverage and widest
disparities are found in South Asia (67% and 22% of access in urban and rural areas, respectively,
reflecting a gap of 45 percent points).

These contrasts will undoubtedly be affected in the next 25 years, unless effective strategies are put into
place, as urbanization is expected to continue. Latin America, already the region with the highest
proportion of total population inhabiting urban areas (78%), is foreseen to reach a world record in
urbanization by year 2030 (92%, a further increase of 14 percent points in this indicator). Still, the
increase in urbanization will be faster in East Asia (28 percent points, to arrive at 70%), followed by
Sub-Saharan Africa, and South Asia (where the proportion of population in urban areas will raise by 16
and 11 percent points, to reach 52% and 40%, respectively). Urbanization is expected to advance slowly
in the Middle East and North Africa (from 57% to 61%), and the only region of the world where
urbanization is not foreseen to vary significantly from current proportions (64%) is Eastern Europe and
Central Asia. In all of these major regions of the world, population living in urban areas will exceed 60%
of the respective total by 2030, with the only exceptions of Sub-Saharan Africa (52%) and South Asia
(40%). Thus, rural population will still be sizeable in all regions except in Latin America, but
proportionately much lower than at past epochs. Only in South Asia will there be slightly more than half
of the population inhabiting rural areas.

The magnitude of poverty and disparities, among and within regions of the world, is especially
worrisome, as it occurs in an era when, as mentioned before, mankind has made plentiful achievements
that enable much better living conditions for all human beings. In this context, the United Nations
promoted among all countries an agenda focused on the needs of the most disadvantaged population and
established concrete goals regarding determined aspects of development. The *Millennium Development
Goals*, among other objectives, include a decrease in the proportion of population in every country with
daily income under 1.00 dollars, along the period 1990-2015, to half of the figure observed at the start of
the period, and simultaneous improvements in access to diverse services and other fundamental aspects
of human and social development. Each country is free to choose and implement the strategies that best
lead to the accomplishment of these goals under its specific national circumstances.
This paper succinctly explores different strategies to include in the overall development process those individuals or groups left behind. The paper highlights the importance of combining a variety of policies aimed at integral social, economic and regional development. Throughout the paper, examples about the use of different policies are presented. The case of Mexico is frequently cited, being this a newly industrialized economy with middle-high per capita income, yet with high inequality and poverty indices. However, examples from numerous other countries are also introduced, whenever they illustrate international best practices.

The organization of the paper is as follows. Section 1 revisits some fundamental concepts (inequality, marginalization, vulnerability, social exclusion, fragile social cohesion and inadequate public policies) and proposes to consider them altogether as a lessening syndrome that nullifies, or severely cancels out, for those individuals or groups affected, and for related larger groups, the benefits of development. Section 2 analyzes diverse specific policies and instruments to address that syndrome, ranging from income transfers, taxes and subsidies, upgrading of human capital and social protection, to job creation, microcredit, public goods and services, accumulation of social capital, social participation about policy making, and better governance. Finally, Section 3 makes some concluding remarks. Analytical and Statistical Appendices provide complementing information and insights.

1. Some fundamental concepts.

Diverse disciplines within the social sciences (economics, sociology, anthropology, human geography, etc.) have paid attention in the past to the existence of individuals or groups that suffer from living conditions noticeably worse than others in a larger human group or population. Different notions have been highlighted12, with respect to this reality: two relate to the situation of individuals and groups whose living conditions are worrisome and call for attention from development policies (inequality and poverty, the later in a narrower and a broader definition), and seven other refer to phenomena that ameliorate or weaken such living conditions (productivity, mobility, vulnerability, marginalization, social exclusion, social cohesion and inadequate public policies). This section revisits briefly these concepts, as they help to analyze the characteristics and impacts of public policies to improve development13.

Concepts about relative or absolute low living conditions.

The notion of inequality refers to the fact that individuals or groups within the broader group have differences in incomes or wealth, education and skills, biological and demographic characteristics, social characteristics, etc. As a statistical notion, it useful to describe and analyze in which sense, and by how much, the individuals or subgroups that are in worse conditions differ from the others14. This perspective has a clear quantitative advantage and permits to investigate the matters under consideration in more objective terms15. As such, it is an instrumental notion or tool of analysis, which helps define better development policies, as well as it facilitates the monitoring and evaluation of those policies. Nevertheless, it is also a transcendental notion, as when inequality exhibits considerably large magnitudes, particularly in socially or politically sensitive dimensions16, it generates reactions within the population aimed at altering economic and social structures and policies.

Poverty is a term used to denote two different notions, one in a narrower economic sense and the other in a wider humanistic fashion. In the first case, poverty is the lack of economic means to satisfy certain human needs, by an individual or group (the poor). This concept is commonly translated for empirical purposes into a similar, but different statement: the situation in which an individual or group has
insufficient income to obtain determined quantities of specific goods and services required for consumption. In the broader sense, poverty is defined as the impotence of individuals or groups to exert certain human functions (biological, psychological or social) and rights (social and political freedoms, safety and security, access to justice, etc.). Restrictions upon those individuals or groups (the poor) that impede them to exert those functions and rights may be of economic nature, or due to deficiencies in public institutions—political, juridical, administrative, etc. This broader definition is not limited to economic considerations, but introduces as well elements rooted in socio-political constructions: rights, institutions, power (and lack of power), thus constituting a multi-dimensional concept. A corollary of this approach is that, to overcome poverty, the poor need not only command more economic means to satisfy their needs, but have to be empowered to effectively exert the rights under consideration through accessible institutions. Poverty, in either of these two definitions, implies that individuals or groups affected face major limitations to fully put forth their human and social potential: they are constrained—by economic, social, political or juridical factors—to live under their potential as human beings. For measurement purposes, poverty is most often quantified by the number of individuals in this condition (that is, a headcount) and, sometimes, by the number of households. However, depending on data availability—as from income surveys, for example—the depth or severity of poverty is also considered, combining the number of poor individuals or households with the distance between their respective incomes and the income level established for statistical purposes as the threshold of poverty (in other words, the poverty line), to assess both the extension and gravity of poverty.

Concepts about phenomena that improve or worsen living conditions.

One fundamental notion that determines the living conditions of individuals or groups is their overall productivity, meaning their full capacity to generate by themselves—or through interactions with other individuals or groups—the means to satisfy their diverse needs, including bio-psycho-social ones. This capacity results from the assets they have, the rates to which they utilize these assets and the returns derived from their utilization. Assets include different types of factors of production, each of which has diverse qualities, and which, for simplicity, are classified in broad categories, usually labeled as: land, labor, capital, knowledge, and favorable relationships that lead to cooperation with others in trustful ways. Utilization rates measure the extent and intensity to which these assets are committed to production. And return rates indicate the direct outcomes in terms of the quantity of goods or services obtained from the utilization of every unit of each asset. Individuals or groups that achieve high rates of return and utilize to a high degree large quantities of assets, generate considerable amounts of goods and services, which permit them to satisfy their present or future needs. But other individuals or groups (the poor) generate goods or services in insufficient amounts to satisfy their needs, because: they have only small quantities of assets, or of low quality (small parcels or land of low fertility, unskilled labor, scarce or obsolete tools or machinery and equipment, primitive or updated technology, limited relationships or cooperation with other individuals or groups that can be trusted but who are seemingly poor, etc.); they reach low utilization rates (due to lack of finance to acquire intermediate inputs of production, sales circumscribed to local or regional markets which may be also of low income buyers, labor unemployment, aging, unreliable tools and equipment, interruptions in the supply of intermediate inputs—electricity, transportation, materials, etc.—or limited technical flexibility and innovation); or they obtain low returns (due to adverse climatic conditions, low product prices, and so on).

Another relevant concept is economic and social mobility. This refers to the possibility that individuals or groups in a relative disadvantaged initial situation can improve (upward mobility) or deteriorate (downward mobility) their living conditions over time, specifically in comparative terms, that is, vis-à-vis other individuals or groups, in a permanent or lasting manner. For instance, the poor, or more generally individuals or groups below the highest per capita income levels, could in some cases register...
improvements more rapidly or of greater magnitude than others who were initially better off, as a result of: greater education or work effort, more entrepreneurship, higher savings, shifts in demand towards the assets they hold or the goods and services they produce, favorable access to public services, etc. The concept of mobility is relevant because it sheds light on the possibility that, even under prevailing inequality and poverty, some individuals and groups can change relative positions, because of underlying relative dynamics in these phenomena. In many cases, it is expectations about social or economic upward (downward) mobility that create hope (despair) in the population, and reflect on larger (lower) tolerance with respect to inequality and poverty. The time span to observe mobility may be encompassed within a lifetime or a shorter period, but it may take considerable long time and be recorded in inter-generational terms (as descendants are better off relative to other individuals, compared to the relative position of their parents in their epoch).

The notion of vulnerability points to the possibility that some individuals or groups are susceptible, in the occurrence of some circumstances, to suffer the worsening of their initial economic or social conditions. For example, they could register a diminution of per capita income or a wealth loss and fall into poverty, due to a variety of random causes, such as: natural disasters, wars or social disruptions, catastrophic illnesses or death of income earners in the household, financial crisis that collapse prices of their assets, adverse changes in their terms of trade, incidence of unemployment, etc. The negative impacts from these phenomena may be long lasting or transitory, but it is their unpredictable nature that is to be highlighted: social and economic advancement is not a riskless endeavor. An implication of this is that forms of economic insurance and social protection are needed to secure, within some range, the costly accomplishments of development.

The preceding notions relate with access to private goods and services to satisfy human needs. Nevertheless, public goods have also important effects on the living conditions of individuals and groups. The concept of marginalization refers to the case in which determined public goods are not supplied to the same extent by public entities to the inhabitants of a territory or area, while the same public goods are indeed supplied to a larger extent to other individuals or groups in different geographical zones. Frequently, it is argued by governments that this occurs because of technical reasons (for instance, difficulties to serve distant or sparsely populated areas, or territories with adverse geographical features), or due to budgetary constraints on the public entities that supply these goods. However, it is often the case that the inhabitants of non-served areas are poor (as defined before) and, thus, from the viewpoint of political economy, it can also be argued that it is because of the insufficient power of the inhabitants from marginalized areas that authorities and public entities assign less weight to their demands and, consequently, budgetary resources are allocated to serve other areas. The limited capacity of the poor to exert their right to be served by public entities in the same way as other individuals or groups, results in less access to public goods, with a negative impact on their living conditions. Evidently, this restates the notion of poverty, although specifically in the field of public goods.

Social exclusion is one more relevant notion. It is related with social and political attitudes, behaviors or rules within a group, that prevent some of its members from sharing, with the rest, certain resources, opportunities or institutions that otherwise can be generally available. This concept depicts a phenomenon that originates in other individuals or groups, in contrast to marginalization which results from public entities. It denotes some deprivation provoked by certain individuals or groups against others, selectively identifying these by some forms of discrimination. For example, gender, ethnicity, crede, social origin or income levels sometimes are grounds for prejudice, leading to the exclusion of corresponding individuals or groups from access to certain jobs, or from locating in determined areas, or from accessing certain schools, etc. Once more, the lack of power from those excluded limits their capacity to exert their rights of fair, equitable or equal access to determined things. Yet, while marginalization originates in public entities, and poverty in the broader sense is generated to some extent
(beyond economics) by juridical and political factors, social exclusion comes directly from attitudes and behaviors of diverse social groups.

Another important concept regarding the problems under consideration is social cohesion. Social cohesion designates the underlying willingness of individuals or groups to act together in order to collectively engage in solving their development problems. It reflects beliefs, values, attitudes and interests that motivate the members of a larger group to maintain certain reciprocal ties and form a community, or society, in which benefits obtained are potentially greater for all, than under alternative conditions in which diverse individuals or groups tend to act to some degree in isolation, or without reciprocal interactions with others in the larger group. It is synonymous to solidarity, in a less academic language, and also relates to the sometimes vague notion of social tissue, which in a similar manner directs attention to mutually beneficial relationships among large groups of diverse individuals that, through sharing common interests about development, reinforce particular efforts that articulate in numerous ways with the overall collective advancement. Strong social cohesion facilitates that numerous development challenges faced by members of the community are overcome through fruitful efforts shared to a considerable degree by its members, while under weak social cohesion the disadvantaged individuals or groups receive little or no help from others in the larger group. In this context, it can be seen that public affairs about development can be addressed by strong social cohesion, while weak or fragile social cohesion does not contribute to development. The more socially cohesive the larger group is, better chances arise for the outcomes of development to reach all of its members, and vice versa. However, in cases where social cohesion is weak or fragile, public development affairs call to a greater degree upon interventions from the State, in order to provide the rules, organization or institutions that the larger group is incapable, or unwilling, to provide endogenously. It may happen, in this setting, that overwhelming reliance on State interventions to meet development challenges results over time in a weakening of social cohesion, as people and communities get used to calling on government to solve more of their problems, instead of collectively finding ways to overcome these. Moreover, it is worth to call attention on the multidirectional causes and effects of social cohesion: it roots in all different groups within the wider group, and the nexus which are generated function for the good of all, in larger or lesser degrees, by facilitating a more widespread accumulation of social capital and access to it. For example, to help the poor, the elderly, females, indigenous peoples, persons with special capacities, or, in general, those individuals or groups which are at a disadvantage or excluded in diverse ways, policies aimed at fostering inclusion and cohesion have to be addressed to the entire population, and not just to these specific groups, as awareness and actions from the better off are essential to generate improved living conditions for the collectivity.

And, lastly, the negative effects from inadequate public policies must also be considered among the causes of poverty and inequality. Policy failure or inefficiency may come about because of numerous reasons. But the point to be highlighted here is that most of these policy failures or inefficiencies can be avoided, or significantly reduced, if the institutions about public policy are open to social participation, allowing different groups –and not just government policymakers, in the traditional sense- to be informed and involved in the stages of diagnosis, design, implementation, funding, monitoring and evaluation of such policies. Social participation about development policies is important on several grounds, mainly because it contributes to coherence (that is to say, bringing public policies outcomes closer to the public matters they are aimed at), in contrast with other approaches to policy making that, from the outset, assume that this function is the privilege of a determined group and not necessarily of all, including those which are potentially or actually affected by those policies. Public participation helps identify policy priorities, can enrich the design of policy interventions, facilitates targeting while considering sensitive issues of inclusion and cohesion, strengthens transparency and overseeing thus preventing deviation or misallocation of public resources, enhances accountability, improves evaluation through richer and finer consideration of diverse impacts, promotes social ownership about policies, etc. All this leads to better impacts from development policies and more efficient use of corresponding
resources. Alternatively, policy making in the absence of social participation can be affected by insufficient knowledge, biased views or vested interests about the problems to be solved, may as well suffer from larger administrative deficiencies, and is likely to face insufficient collaboration or even opposition from those individuals or groups to which policy is directed. It is commonly argued, by those traditionally in charge of policy, that social participation is costly and of limited help since most social participants lack technical capabilities required for significant contributions; but the potential gains listed before clearly indicate that it is much more than this which social participation makes possible. And, furthermore, even if the direct participation of individuals or groups in backwardness may in certain cases lack from enough technical elements, they can be assisted by civil society organizations that can bring about, to considerable extent, the contributions expected from social participation. In any case, aversion against social participation about development policy may reflect some social and political motivations, from more powerful individuals or groups, similar to those that result in marginalization or social exclusion. In this context, enhancing openness towards social participation about development policy, contributes to some extent to the empowerment of the poor or excluded, and, consequently, is a basic step to firmly advance in the reduction of poverty. For several years now, leading development institutions around the world advocate for social participation, as a means to address diverse undesirable effects from inadequate public policies.

Overall development and the “lessening syndrome”.

The different phenomena briefly explained in the preceding paragraphs are closely interconnected in intricate ways, and the nature of their interactions usually varies across groups, places and time. The social sciences study these and other related phenomena from different complementary angles, and, if they are distinguished as specific challenges for development, it is mainly for analytical convenience, so as to get deeper understanding about them. Yet, they are just specific aspects of the reality human beings live in, a reality that is multi-faceted and complex, but intrinsically unitary. This reality consists in that, as noted in the introduction, regardless of considerable overall development of wide groups of individuals, it is often the case that within a larger group there exist individuals or groups that lag significantly behind the rest, their backwardness and number being more or less noticeable in relation to the others, and who continue to live in conditions that the rest overcame long time before, in biological, psychological and social terms.

While the wider group faces new conditions that favor a superior exercise of their human potential in all or most bio-psycho-social dimensions, those systematically disadvantaged participate in the collective process, but are simultaneously affected by diverse phenomena generated within the wider group, in such a way that the overall possibilities for progress are nullified, or severely cancelled out, for them. In this context, such diverse contrary phenomena may be thought of as a “lessening syndrome” that invalidates for those particularly affected, and undermines for the wider group, the general ascent.

Indeed, the effects of the lessening syndrome not only deprive the poor from better material and social living conditions, but impinge on the wider group in different ways: evidence suggests that it lowers aggregate economic growth; deteriorates social cohesion; weakens political consensus; induces fragility of the State; debilitates inter-regional or international negotiation capacity; propitiates inefficient land use; deteriorates environmental sustainability by overexploitation of certain natural resources and less effective pollution controls; and is morally offensive to ideologies that praise and seek an egalitarian society.

All these effects, in turn, help explain negative statistical correlations between inequality or poverty, on one side, and aggregate economic growth, on the other. For instance, weak consensus and State fragility
may hamper the adoption of long term development strategies, thus having a negative impact on private
domestic or foreign investment. Similarly, State fragility facilitates the enlargement of an informal or
parallel economy, in which productivity is usually smaller. Lower social cohesion may negatively affect
effective protection to property rights, and may as well reduce opportunities for collaborative productive
efforts among producers who have highly diverse backgrounds and values, thus competitive economic
organization arrangements (such as clusters) may be less frequent. And inefficiency in land use tends to
increase the costs of infrastructure investments, as works have to be undertaken in more distant places
and less apt terrain, possibly also subject to higher risks of natural disasters. Moreover, besides these
indirect effects, numerous concrete challenges for dynamic growth and development also result directly
from poverty and inequality: lower aggregate accumulation of human and physical capital, because of
less investment in education and limited savings by the poor; larger allocation of public revenues to
consumption transfers for the poor, decreasing public investment in infrastructure, scientific and
and technological research and development and, in general, diminishing the provision of public goods (like
security, justice, quality government, clean and safe environment, etc.); markets’ size turn out to be
relatively smaller and scale economies may be hindered, because of excessive costly product
differentiation ("too much variety"), which depending on the total size of the economy may translate to
different degrees in lower economic growth; and so on.

The social sciences have well identified from different perspectives, as discussed in this section, several
of the negative phenomena associated with this *lessening syndrome*. Accordingly, numerous distinct
prescriptions of public policy have been put forward to address these specific phenomena. Yet, a more
comprehensive policy approach has only gradually begun to emerge in the last decade or so, building
upon a variety of specific policies. The following section summarizes some basic considerations about
such particular policies, and, among concrete examples from various countries, readers will perceive how
policies tend to advance in a progressive way towards addressing simultaneously various aspects of the
syndrome, articulating economic, social and regional development strategies.

2. Policies and instruments to address poverty and inequality.

It is very difficult, in the field of poverty alleviation and social development, to conceptually
establish a one-to-one correspondence between every particular policy, program or instrument, and
singular objectives. Quite frequently, a determined policy combines different instruments aimed at
several related elements of the *lessening syndrome*, and often there is policy overlapping as some of
these elements are simultaneously addressed by other policies applied by different entities.

In this context, the present section attempts to depict, in an ordered manner, a variety of policies and
instruments that have been adopted in various countries in relation with distinct elements of the *lessening syndrome*. The purpose is not to argue for streamlining at this point, but simply to present a wide menu
of policies that have been found useful by different countries to attack some of the causes or attenuate
certain effects of the *lessening syndrome*[^30^], to comment on such policies and provide some references to
international best practices.

The sequence with which these policies and instruments are presented parallels the organization of
concepts adopted in the preceding section.

2.1 Policies addressed at inequality and poverty with a distributional approach.
• **Pro-poor growth policies.**

In an economy, demand may go to a larger or smaller degree to goods and services whose production uses relatively intensively the assets or productive factors endowed to the poor, or, more generally, to the individuals or groups in the lower deciles of the personal distribution of income. The greater (smaller) the direct and indirect demand for these assets or factors, the higher (lower) the incomes of the poor and of those in the lower deciles will be, and so poverty and inequality tend to decrease (increase). The asset most frequently endowed to the poor and the lower deciles is unskilled labor, which is intensively used in traditional agriculture, low-price manufactures and low-technology services. Macroeconomic policies that increase (decrease) demand for goods and services from unskilled labor intensive sectors or industries, contribute to diminish (augment) poverty and inequality. Exchange rate policies and public expenditure policies stand out in this sense in market economies. In planned economies, public investment in industries with labor intensive technology contribute in the same direction.

As an example, Brazil registered during the period 2001-2005 a real per capita income increase close to 1% per year, for the whole population. In deciles I, II, II and IV the same indicator reached 8%, 5%, 4% and 3.5%, respectively. In deciles V, VI, VII and VIII, the rates were in the range 1.4% to 2.4%, and in deciles IX and X the figures were 0.5% and -0.1%, in the same order. Clearly, individuals in the lower deciles obtained larger real income increases than those in the upper deciles. Nevertheless, given the highly unequal initial personal distribution of income, it may require a long period of time to significantly diminish the degree of overall inequality (for example, the Gini coefficient). Therefore, policy continuity is of great importance.

In the case of Mexico, high and unpredictable inflation resulting from a major financial crisis in early 1994 increased poverty and inequality very considerably. The recovery of macroeconomic stability –low inflation, stable exchange rate and aggregate growth- contributed over the following decade to reduce poverty and inequality to the levels of poverty and inequality recorded prior to the crisis. As mentioned in the Introduction, similar trends were observed in other Latin American countries affected by macroeconomic crises in the eighties and nineties, like Brazil, Argentina and Bolivia. This underlines the fundamental value of macroeconomic stability for pro-poor growth.

• **Tax policies.**

Higher aggregate growth rates may occur in an economy from a dynamic expansion of sectors that do not demand intensively the assets owned by the individuals or groups in the lower deciles of the personal income distribution. Thus, more dynamic growth could occur, at the cost of non-decreasing or raising income inequality. In this context, progressivity in income taxes comes to mind as a useful policy to attenuate disparities in the personal income distribution. Individuals or groups in the upper deciles pay in this case proportionately more of their income as taxes, than those in lower deciles, so considering the after-tax income distribution, inequality is narrowed. Nevertheless, the decrease in inequality is achieved from lowering net income of individuals in the higher deciles, as the poor do not register a net increase in disposable income (although in practice they do not pay taxes) and, therefore, to both diminish inequality and poverty, additional measures are necessary, as commented later on. Policy trade-offs emerge in this case: high taxes may discourage labor effort of the higher income individuals or groups, and overall growth may be lowered to some degree. (A more detailed analysis is presented in the Technical Appendix, at the end of the paper).

Other taxes commonly used to address inequality are property taxes, or taxes on inheritance, which, instead of affecting the current distribution of income, impact on the distribution of wealth over time.
However, for a variety of reasons (including easier tax administration, diversification and stability of public revenues, political reasons, etc.), governments generally apply a mix of different taxes. In these cases, simulations are often used to estimate the total tax incidence for individuals in the different income deciles and assess the overall progressivity, neutrality or regressivity of tax policy. Moreover, additional consideration must be given in this respect to the overlapping of national, state and municipal taxes.

- **Income transfer policies.**

To complement tax policies so as to reduce personal income inequalities, and also to diminish poverty, countries sometimes recycle part of public revenues as income transfers for individuals in the lower deciles of the personal income distribution. (A more detailed discussion is presented in the Technical Appendix, at the end of the paper). Transfers may be in cash, or in species (consumption goods, like grains, staple foods or milk, for instance). Most often these transfers are periodical to continuously compensate low income individuals or groups, although in some cases transfers are granted just once, to meet sudden impoverishing circumstances (like natural disasters, when food, clothing, medicines and building materials are given to those affected).

In all these cases, a first key issue is the identification of individuals that ought to receive the transfers, as it is certainly inefficient and problematic to grant transfers to the non-poor. This is a major challenge for effective transfer policies. Different approaches are usually applied for focalization: precise targeting (through questionnaires aimed at identifying those households or individuals that deserve getting the transfers, according to the corresponding administrative or juridical guidelines), geographical targeting (directing the transfers to determined areas in urban or rural regions, where most inhabitants meet the criteria for receiving the transfers, although some inhabitants may not strictly meet the conditions and nonetheless would get the transfers), etc. Delicate cost-benefit considerations must be made about targeting: while it contributes to focus transfers more effectively on the objective poverty group, it is intrinsically a costly procedure and is not exempt from selection errors (of both types, including as beneficiaries individuals that should not be chosen, and excluding others that indeed should be benefited). Moreover, in social or community contexts where low incomes prevail and the differences are very slight between the strictly poor and others marginally better off, granting the transfers to some individuals or households (or localities, neighborhoods, villages, etc.), but not to others, damages social cohesion and creates conflicts among beneficiaries and non-beneficiaries, as well as between the later and the authorities who administer the transfer system. Care must be given, also, to avoid clienteles, favoritism or corruption upon targeting and paying the transfers. To reduce these risks, in some cases the lists of beneficiaries are made public, for everyone to verify that transfers are being effectively given to the targeted population.

A second key issue is the determination of the transfer amount. Both, the depth of poverty and the available public budget have to be considered. In relation with the amount to grant to every beneficiary, the monetary equivalent to the basic needs to be satisfied has to be estimated, and the negative effects on work effort must be assessed. Regarding the total budget availability, the priority of poverty alleviation has to be weighed against other development priorities.

A relevant example is the considerably large transfer program originally called Progresa and later renamed Oportunidades, implemented in Mexico since the late nineties. The program is designed to fight poverty, and only indirectly to reduce inequality. Initially the program addressed extreme rural poverty and later it was also extended to urban areas, enlarging gradually, to reach at present about 5 million households (one in every four households in the country). The program is very much targeted, and its distinctive and unique characteristic is that transfers are granted in a conditional manner: to keep
receiving monthly monetary transfers, children from households included in the program must regularly attend free public school (primary, secondary and high school levels), they and their mother must have regular health and nutrition checkups at free public clinics to receive healthcare and nutrition supplements as necessary, and mothers must attend monthly workshops organized by the program in the community to address, in a participatory way, diverse human and social development challenges. Thus, the program not only grants income transfers to extremely poor households, but it also motivates human capital investment so that the next generation may live permanently out of poverty\textsuperscript{38}. In its early stages, the program looked for children to complete up to secondary education, but later on conditional transfers were extended to induce high-school attendance. As an exit element, high-school students are progressively granted points that upon completion of this education level can be exchanged for money, as seed capital to start a business. Another interesting characteristic relates to some gender aspects of the program: transfers are slightly larger for girls than for boys, to further motivate schooling among females (given the considerable multiplier effect for future generations from more educated mothers), cash transfers can only be handed out to mothers (as females allocate the money closer to family priorities than males), and social capital for the mothers is built up (through the periodical community workshops). For transparency and to prevent clienteles or favoritism in the selection of poor households, the universe of beneficiaries is listed publicly through internet. External evaluations of the program have recorded marked positive results, in terms of quantitative and geographical coverage, improved nutrition and health, and school attendance. On the negative side, evaluation shows some undesirable effects on work effort by household heads, some damage to social cohesion in rural villages because of targeting, and some increase in domestic violence against mothers (geared about them receiving the cash transfers directly).

Also in Mexico, another large income transfer program initiated in the nineties, named Procampo, has rendered different results. The program grants income transfers to owners of agricultural land that in the past had been utilized with very low productivity, as it was devoted to production of traditional crops, in rather small lots, without modern technology and, often, for own consumption. Looking forward to agricultural trade liberalization under the North American Free Trade Agreement (NAFTA), the government introduced Procampo to compensate these non-competitive land owners for the expected income losses, with the double objective to provide economic support for land owners not to fall into poverty (or deepen it), and to facilitate their reorientation into more productive agriculture, through investments in technology and equipment. Transfers were paid periodically, over a period of several years, as lump sums proportional to the land owned (up to a given maximum), and conditioned to continuing production of any of several products from a list established in the rules\textsuperscript{39}. After some years, to allow land owners make more efficient decisions on their own, several changes were introduced: conditionality on maintaining production was removed, product selection was liberalized, and future transfer flows could be converted into discounted present receipts. Therefore, transfers adopted a pure form, and only the first of the two objectives previously mentioned was maintained. Beneficiaries of the program can thus continue agricultural activities if they wish, or they can start new activities in other economic sectors, in the same place or migrating to other localities. Equity was also improved by the reformed rules, as aging and feminization in rural areas is gradually increasing the difficulties for land owners to remain in agricultural activities and new uses for their assets have to be explored. The new criteria represented a full-fledged approach towards permitting a free reallocation of productive factors away from agricultural activities, which lacked competitiveness under rural demographic trends and international free trade. Essentially, this underlined that rural development need not be necessarily linked to agricultural activities under emerging conditions of globalization\textsuperscript{40}.

- \textit{Subsidies.}
To augment the purchasing power of low income individuals or groups, and specifically to reduce poverty, sometimes basic consumption goods or services are supplied to them by public entities at subsidized prices. While cash transfers discussed before can be in practice utilized by beneficiaries to buy any kind of goods or services, policy makers expect that these resources would be rationally allocated to buy basic consumption goods. Regarding subsidies, the opposite works: policymakers expect that beneficiaries will consume the goods that are subsidized, but it is possible, under general conditions –except when distinctive labeling is applied and sanctions are applied as a means to increase expected transactions costs-, that the subsidized goods are sold or exchanged in the market by beneficiaries – perhaps even at a discount price under the subsidized price- to obtain different goods and services. Therefore, a priori it is uncertain to establish if transfers or subsidies are more effective to induce consumption of determined basic consumption goods.

As with transfers, the issues about focalization are also relevant in this case. Universal subsidies are not only difficult to fund, but they are also regressive in distributional terms. This is why subsidies targeted to determined low income groups are often recommended as policy: the poor, the elderly or inhabitants of backward regions, for example. Goods and services often chosen for subsidization include, for instance: staple foods, milk, certain medicines, electricity, fuels, public transportation, social housing, etc.

With regard to the amount of subsidy, similarly to the discussion about transfers, both the depth of poverty and the size of the public budget are considered. In some cases, depending on administrative means available, besides determining the subsidy per unit of goods or services, a limit for each beneficiary is also established in terms of maximum monetary equivalent per period of time.

In the case of Mexico, for instance, subsidies for consumption goods of the poor or low income population were widely used a public policy tool in the seventies, under the administration of a public entity called CONASUPO. However, guided by managerial objectives of corporate growth and not by socioeconomic criteria, CONASUPO was a decade later subsidizing a large number of goods –even luxury ones-, in rural and urban areas, including poor and non-poor ones, even in very rich areas. The deficit incurred was enormous and contributed, with many more public entities, to a huge fiscal deficit that provoked very high inflation. For a time, CONASUPO justified expanding even more the supply of subsidized goods to alleviate the negative effects of inflation for the population. However, in the context of macroeconomic stabilization started in the mid-eighties, to reduce the public deficit subsidies were progressively focalized to determined groups and to specific goods (mostly milk and tortillas). The subsidies to tortillas were gradually phased out over the next decade, as major deregulation in the corresponding supply chain was pursued, succeeding in lowering the real costs of this staple food through the elimination of costly distortions in the markets for inputs and final products, as well as by inducing effective competition. Regarding the subsidies to milk, however, political complications have prevented much progress over twenty years and still now subsidies to milk (granted through a public entity known as LICORSA) lack adequate targeting, as these are granted mostly to urban population in deciles IV to VI (a considerable proportion of the sales of LICORSA concentrates in the metropolitan area of Mexico City). Furthermore, there are concerns about the lack of integration between the distributional policies of LICORSA and rural development strategies, given that milk is bought at lowest international prices through public auctions and local producers are most often left out, while international best practices suggest that important synergies can be achieved from articulating these policies41.

Analogously to the case of taxes, subsidies to a variety of goods and services reach individuals and groups in different deciles of the personal income distribution. Therefore, it is useful to analyze the incidence for different deciles of specific subsidies, as well as their aggregate incidence, to assess their progressivity, neutrality or regressivity, and the total effect on inequality. Moreover, such analyses are useful to improve public policies, as often specific subsidies are granted on different grounds by sectoral
entities with particular policy objectives, and thus the overall distributional effects tend to be overlooked. For example, subsidies to different education levels are used to induce higher enrollment rates, but they also impact the personal distribution of income. Similarly, subsidies to health care and housing, to energy consumption, etc. applied by different public entities with particular objectives related with poverty alleviation, but usually with different targeting approaches, may have undesirable effects on the aggregate personal distribution of income\textsuperscript{42}.

As an illustration, a study about the changes in the personal distribution of income for the city of Monterrey\textsuperscript{43}, in Mexico, revealed that over a twenty years period the distribution resulting from market-based earnings, as well as the after-tax distribution, did not exhibit significant changes during the seventies and eighties. However, the study found major impacts from diverse subsidies, without a clear progressive overall impact. Free public education at the primary level was found to be progressive, while subsidies to secondary and high school education had a neutral effect, and free public university education (tertiary level) had a marked regressive impact. Subsidies to healthcare were also neutral, but subsidies to housing and energy consumption were markedly regressive. At that time, focalization of subsidies was not applied and these different subsidies were universally granted, so the distributional effects found resulted from the differences in demand or access to these services from households in distinct deciles. For example, families in deciles IV to VI had comparatively more children attending school than richer families and so subsidies to primary education had a greater incidence on those deciles. In contrast, subsidies to tertiary education—which were considerable, because the service cost per student is larger at this level- had a regressive effect as low-income families had smaller chances than richer ones to send their children to university. A very worrisome finding of the study was that none of these subsidies reached the lowest three deciles in a significant extent\textsuperscript{44}.

2.2 Policies addressed at poverty with an asset-based approach.

As mentioned in Section I, low productivity is one of the key determinants of poverty. Therefore, many countries adopt policies of diverse kinds to: expand the different assets endowed to the poor, increase the utilization rate of these assets, and raise its corresponding rates of return. Assets comprise land and natural resources, labor, knowledge, social capital, etc. This subsection comments on diverse policies aimed at increasing productivity and reducing poverty along these lines.

- **Productive assets endowment policies: (i) land and infrastructure.**

Agrarian reform has been historically a common policy to provide the poor with land they can devote to productive activities, particularly in countries with still relatively low urban population and where poverty is predominantly a rural phenomenon. Besides endowing the poor with this productive asset as a means to address poverty, agrarian reform has also played a role with regard to inequality by distributing this asset more widely across the population\textsuperscript{45}.

After initial reallocations of land, additional complementary actions are usually undertaken, with the aim to raise the rate of utilization and the rate of return on the land originally endowed: construction of infrastructure for transportation and irrigation, technical assistance, research and development and diffusion or extension of new technologies for producers in the primary sector, etc. Transfers or subsidies for acquisition of improved seed, livestock and mechanical equipment complement these policies. And, also, subsidies to reduce production or operation costs, and income transfers, have been used in many cases to raise the returns of agricultural producers—or the rural population, more generally.
Many countries, in all continents, have pursued these efforts in past decades. However, under present conditions of migration, urbanization and globalization, new challenges emerge that call for revisiting earlier approaches. Rural regions are experiencing depopulation in most countries, from massive migration to urban areas or internationally. The younger population, and in a larger proportion males, leave rural communities most frequently and as a result rural population is not only shrinking, but it is also aging and going through a process of feminization. Increasing competition in international markets for agricultural products makes small-farm agriculture less competitive and reorganization of land and production is needed in many cases to reap scale economies in production and commercialization. All these phenomena suggest that traditional approaches to rural development have to be reconsidered, and evidence from many countries indicates that a new rural paradigm is taking place. Indeed, policies tend to favor a diversification of the rural economy to meet the new demographic conditions and to offer rural producers new opportunities to diversify income and risks. Actually, in many rural areas around the world a decreasing share of employment, as well as a diminishing share in households’ income, comes from agriculture nowadays. Therefore, subsidies to agriculture impact less on rural households’ incomes than in the past, and public support to the rural population tends to be distinguished more and more from subsidization to agriculture. For instance, several countries have realized that it makes more sense today to directly support efficient ways to provide diverse services to distant and sparsely populated rural communities, thus reducing somehow the cost disadvantage faced by their inhabitants.

In this new context, public investment infrastructure for production in rural areas tends to shift into projects for the provision of diverse public goods and services –environmental protection, better public administration, telecommunications, financial services, public transportation, security, etc.-, that create enabling local conditions for a variety of productive activities: generation of renewable energy, tourism (rural tourism, farm tourism, environmental tourism, health tourism), services for retirement, etc. And, concurrently, earlier physical investments in rural areas are less seen as the fundamental objective of capital accumulation in the countryside, with more attention going now to investments in human capita (education and health, basically). This reorientation of public investment policy in rural areas makes double sense: on the one hand, it matches the varying needs of rural productive activities and on the other hand it recognizes the geographical mobility of the population; thus, the new rural public investment patterns go in the direction of increasing the socioeconomic rate of return from public investment, at the same time that risks from bulky and irreversible investments is reduced (human capital is portable, while earlier infrastructure works risk under present circumstances becoming less useful as people move to other areas). However, it is clear that coordination among different sectoral authorities and governance of integral rural development policies become increasingly important, as more different public actors play relevant roles for rural development than before, when ministries of agriculture and public works had predominant roles.

Interesting examples of different actions are found in many countries. For instance, Finland has a long history of its own of cumulating steps to differentiate rural development policies from agricultural policies, valuable experience in effective inter-institutional coordination for integral rural development, and a good record of policy innovations for economic and social development in rural areas. Poland has also achieved significant progress in the last years to modernize rural development policy, with institutional reforms to better adapt to European policies, although work ahead remains to be done on several fronts, two of which are worth recalling: first, revisiting agricultural subsidies and transfers (as these have for considerable time contributed to low agricultural productivity levels and pose negative incentives for workers to move into more productive activities, either in rural or urban areas), and consolidating a multi-sectoral policy approach towards rural development (which implies sharing numerous responsibilities among different ministries and meets challenges from traditional bureaucracies and vested interests). And, in Mexico, a multi-sectoral place-based strategy called Microrregiones was put in place in year 2001, targeted to the poorest rural areas, and which consists mainly in consolidating in a geographical pole, for each one of those determined rural areas (often comprising several
neighboring rural municipalities), a variety of basic goods and services provided by different public entities (including health and education, public transportation, energy, supply of staple foods, telecommunications, etc.), something that would be impossible to achieve uniformly over the countryside due to the existence of hundreds of thousands of disperse and very small villages. This program, leaded by the Ministry of Social Development, faces as in the Polish case previously mentioned, challenges to enhance inter-institutional collaboration and governance, as well as challenges to facilitate the economic and geographical mobility of the inhabitants of the targeted areas who stay in their villages (travelling occasionally to the closest pole, which may be at considerable long distance) to a large extent because of subsidies geared to agricultural land.

- **Productive assets endowment policies: (ii) labor and skills upgrading.**

Another asset of the poor is labor. This is in quantitative terms more uniformly distributed across the population than land, although large discrepancies exist in qualitative terms: individuals in the lower deciles of the personal income distribution have mostly unskilled labor, and as higher deciles are considered it is observed that individuals possess more skills. Therefore, to improve in the interpersonal distribution of skills and to endow the poor with higher quality labor as a productive asset, public policies in all countries consider systematic actions for low income groups, within the wider context of education and training policies.

A multiplicity of instruments is commonly used: formal school education at different levels, adult education in diverse formal or flexible modalities, multi-lingual and inter-cultural education for indigenous peoples or other minorities, technical education and training, on-the-job training, etc. The corresponding services are usually subsidized to some degree or provided freely, either universally to all individuals within determined groups (for instance by age, migratory status, etc.), or to targeted groups identifiable through questionnaires or by self-selection. The services may be obtained by beneficiaries on voluntary or mandatory terms. And service providers may be public entities, or private institutions on the basis of public-private partnerships, public or private firms, etc. As for the level of government responsible for skills upgrading policies, it is frequently the case that local government is entrusted with this tasks, given its proximity to the needs expressed in local labor markets. However, it is also common that higher levels of government, as state or country governments, contribute with financing.

Examples from different countries are quite varied. The experience of Korea and Spain is outstanding among OECD member countries. In less than three decades both countries increased very significantly the proportion of young adults with complete tertiary education. While earlier cohorts were at a marked disadvantage relative to most other countries in OECD and in their respective regions of the world, nowadays latest cohorts enjoy similar high schooling levels. Thus, human capital accumulation in these countries has been large and dynamic, contributing to the fast economic growth registered in both economies, and the reduction of poverty. Policy coherence between economic reforms and public investment in infrastructure, on the one hand, and education policies, on the other, has to be underlined. In contrast, Mexico has pursued far reaching economic reforms in the last twenty years, yet the proportion of young adults with complete tertiary education has not improved considerably at the same time and remains very low compared to OECD countries (only about one in every four young Mexicans has finished the tertiary level on average, and large regional disparities exist, with southeastern states exhibiting much lower advance). This has occurred regardless of public education being totally subsidized in the country at all levels.

The variety of education and training models across countries is quite large. Their results are similarly diverse, both in terms of traditional indicators (like average years of schooling in general or by cohorts, coverage, etc.), as in relation with measurements of accomplishments (for instance, competencies developed by students in different fields and at diverse education levels). It must be highlighted that all
these indicators exhibit considerable differences across individuals from distinct deciles in the personal distribution of income, with noticeable positive correlation: higher (lower) deciles show higher (lower) average values in every indicator. Therefore, performance of education systems depends on economic inequality, while the later depends on the possibilities of the education system to augment the human capital owned by diverse individuals.

Even if education and training services are subsidized to some extent with to improve access by lower income individuals, it is often convenient to additionally provide income transfers (as scholarships) to compensate for the labor income forgone by low-income students or trainees that can’t afford not to engage in a remunerated occupation. Without these transfers, individuals with lower income access relatively less the education and training services, resulting in the unequal distribution of skills commented from the outset. Scholarships are also a useful policy instrument to promote social mobility, leading to marked intergenerational advancement. Scholarship programs are common in many countries. In Mexico, for instance, scholarships were very limited for a long time, but after year 2000 a massive program was introduced, named PRONABES.

Regarding the relationship between economic inequality and disparities in education, another relevant aspect is the significant difference observed when comparing urban and rural areas, the former usually attaining better scores in every indicator. This underlines the importance of narrowing the education gaps between urban and rural areas, as an avenue to diminish educational and economic inequality. Rural areas are in most cases at a disadvantage for numerous reasons: infrastructure, equipment and resources for teaching and learning in schools are of lesser quantity and lower quality; teachers are less educated and prepared; programs and curricula may have an underlying urban perspective and thus are comparatively less relevant for students of rural regions; the dispersion of rural population makes it too costly for all schools to offer all grades and students have at some point to attend another school at a greater distance from home, possibly having to move there to live in a dorm, etc. To address to certain degree these problems, distance education has been adopted in different countries, supporting education in rural areas in different manners, geared to information and telecommunications technology (ITC): television, internet, etc. For example, in Mexico some education programs based on ITC have been introduced in the past: Telesecundaria was initiated in the seventies, to strengthen secondary education trough television, and, related with this, important production of academic materials was pursued (sometimes in collaboration with other Latin American countries, through the Inter American Institute for Educational Communication, ILCE); after year 2000, Encyclomedia was introduced, based on interactive ITC technology, etc.

Although ITC means are not perfect substitutes for face-to-face teaching-learning methods, nowadays ITC can be applied much more creatively and successfully to education than some decades ago. Therefore, there is an emerging consensus that investment in wi-fi in rural areas is nowadays one of the most socially profitable and strategic policies for rural development in general (access of communities to healthcare services, connection of firms to markets, access of population to e-government, etc.), and for rural education in particular.

A final comment goes to governance of education and training systems for low income population. Often there exist diverse programs from different authorities and with different objectives: programs geared to general or technical education, to employment, to social inclusion in general and to inclusion of immigrants in particular, etc. There is also variety in terms of occupations targeted and economic sectors of activity. Although this contributes to diversity on the supply side, it also brings about diverse problems, related with: restricted inter-program mobility of beneficiaries; complex recognition of academic credits among programs; lack of systemic design that can result in many terminal options, with lesser opportunities for entering later into other programs; difficulties for particular programs to establish reputation and visibility among the population, high information costs about existing programs, for
potential participants; and economic inefficiencies due to sub-optimal scales and high fixed administrative costs.

- **Productive assets utilization policies: (i) job creation**

  Creation of competitive and sustainable jobs is the only way to secure permanent income to the population. To this aim, a stable macroeconomic environment, with competitive or well regulated markets, dynamic and solid financial institutions, secured access to international trade and investment, and effective legal and judicial systems, constitute most favorable conditions for income and employment growth. However, as explained in the introduction and in the preceding sections, even in this case development may face a *lessening syndrome* for the reasons previously mentioned, and therefore specific policies are required to address issues of inequality, poverty, social exclusion, etc. In connection with labor, the lessening syndrome specifically tends to reflect on the existence of a sizeable informal sector where jobs lack social security, or on permanent unemployment for particular groups (like individuals with no education, indigenous peoples, the elderly, etc.)

In this context, most countries actively pursue different strategies to create more jobs for the poor, directly or indirectly.

Direct job creation nowadays usually consists in offering temporary jobs for simple local public works, offered to the poor, as the skills required are not high. In rural areas, this includes, for instance, construction or maintenance of secondary roads, and similarly, in urban areas, cleaning of streets and other public spaces. Wages offered tend to be low, to induce self-selection of the truly poor and to simultaneously avoid that individuals with better chances recourse to these temporary jobs. And, similarly, hiring is sometimes targeted to females because poor households are more likely to be headed by a woman, as well as for promoting gender empowerment. For illustration, the program *Empleo Temporal*, in Mexico, can be considered. Fixed time employment for low income people had been promoted separately by different ministries (labor, agriculture, transport and communications, social development) with diverse rules. Building on this, *Empleo Temporal* was created, integrating the former under a common approach. This facilitated overall public budgeting, evaluation and visibility for potential beneficiaries.

Indirect job creation occurs through active labor market forces, basically skills upgrading (as commented before) and information to make local labor markets more efficient. Indeed, increasing the labor assets of the lower deciles does not always translate into full utilization of these assets (because of unemployment or underemployment) and the final impact on incomes and poverty may not be as large as possible. To address this fact, other policies besides education and training are generally required to improve employment opportunities, particularly for individuals from low-income households.

Different instruments are commonly used to provide better information to job seekers and employers: information centers that gather job postings and data on job seekers, available in public buildings, community centers, by telephone, through the internet or by private agencies; contracts between labor authorities and trade associations, industrial chambers or large firms, for graduates from education and training programs to temporarily work as trainees and make themselves better known to potential employers; etc. While these instruments are useful for the whole labor market, for the sake of diminishing inequality and reducing poverty, they must be more closely geared to schools or training centers predominantly attended by individuals or groups from the lower deciles, or with a geographical approach in poor urban or rural areas.

However, the number of jobs actually created for the poor by the use of the different instruments under consideration may often fall very short from those actually needed to reduce poverty in a significant
manner. Notwithstanding the usefulness of said instruments, additional ones with considerable potential impact must be considered. Two stand out in this respect: promotion of Small and Medium sized Enterprises (SMEs) and microcredit, These are commented in what follows.

- **Productive assets utilization policies: (ii) support to SMEs and organization of producers.**

SMEs in most economies contribute to the largest proportion of total employment. Nevertheless, it is often the case in many countries that regulations for enterprises (on labor matters, environment, trade and taxes, etc.) do not provide realistic rules considering the actual capabilities of the majority of SMEs, and, instead, uniform regulations are applied to large firms and to SMEs. Improving regulatory frameworks for SMEs can contribute to the growth of this sector and, thus, create very large numbers of jobs. Besides, support programs to SMEs can help achieve larger impacts, in both rural and urban areas, through actions like: technical and administrative assistance; facilitation of access to diverse markets (via trade fairs, use of collective trademarks or appellations of origin, active promotion of purchasing reserves for goods and services from SMEs by public enterprises, etc.); organization of trade associations, clusters or networks of SMEs, and so on.

An interesting example is the program called *Operation Flood*, in India. It was initiated in the early seventies to organize small milk producers through cooperatives. The program has gone through different phases, increasing the number of participating small producer up to 4.25 million at present, in 43,000 village cooperatives, including more milk sheds, and multiplying the markets served to more than 290 urban areas with a vast network of outlets. Small producers are given technical assistance (veterinary services, vaccines, animal nutrition, etc.), village infrastructure has improved to handle increasing volumes, and producers receive also education. With adequate use of foreign grants and loans, the program has created an efficient and self-sustained supply chain, providing quality milk at reasonable prices for consumers, raising regular rural incomes, creating huge numbers of permanent rural jobs, and developing the production skills and self-confidence of millions of small milk producers, a large number of which are women. India evolved in 25 years, from being a milk deficit country, to becoming the largest producer of milk and milk products in the world. African countries are now looking forward to assimilate *Operation Flood* to their own local conditions, with support from the World Bank through a South-South cooperation facility funded by other developing countries.

In the case of Mexico, a recent example regarding regulatory improvements for SMEs consisted in the program called *Talleres Familiares*, initiated in 2005 by two presidential decrees which highlighted favorable administrative tax rules and simplified regulatory procedures with regard to labor, based on legal measures that had been in place for long and that in practice had not been actively applied by the ministries of labor, economy and finance. Initiatives have been presented for promoting clusters of SMEs in the southeastern States where poverty concentrates, based on exploiting revealed comparative advantages at the local level, as reflected in relative labor specialization indices for a number of municipalities, in industries like leather products, textiles and apparel, wood products, minerals, tourism and fishing. The main challenges for these initiatives to prosper consist in coordination and collaboration problems between the national, state and municipal authorities and in the insufficient administrative and promotional capacities of public servants in municipal governments in this backward region. While funding for these initiatives is available from national instruments to support SMEs, leadership to direct these resources to small towns is missing and funding remains largely concentrated in larger cities. As for support to urban or rural SMEs, actions to promote SMEs along the lines mentioned before are coordinated by a public entity named FONAES, as well as by the ministries of agriculture and of social development.
• **Productive assets utilization policies: (iii) finance**

Microcredit is another instrument particularly suited to promote employment among the poor. Historically, the poor have not been considered clients by commercial or development banks, because the loans they require are too small compared to the typical operations of these banks, while the costs of administering those loans are proportionately high. Adding to this alleged low or negative profitability, there was a widespread prejudice from the banks, about the loans to the poor being of rather high risk: either because of their very low and volatile incomes, or from not having sufficient financial education, and from possible lack of legal enforcement of loan contracts from populist governments. Against this state of affairs, the worldwide recognized successful experience from the *Grameen Bank*, in Bangladesh, has established that providing small credits to the poor can be a financially sustainable activity, with considerably large economic and social benefits for the poor, with multiplying effects for other sectors of the economy. As a result, the practices of the *Grameen Bank* have been adopted in many countries, by public or private financial institutions, and microcredit programs are now operating around the world. These programs enable numerous poor individuals, including a majority of women, to pursue profitable small scale entrepreneurial activities that, nonetheless, result for them in significant earnings and in many cases permit them to gradually leave poverty. Either from self-employment or from jobs created by supported poor entrepreneurs, microcredit is proving to be one more viable way to foster occupation and alleviate poverty.

• **Productive assets utilization policies: (iv) regional focus**

In parallel to the policies described above, tax incentives for employers to create jobs for the poor or the disadvantaged are sometimes considered in relation with determined regions. For instance: to attract new national or foreign investments into lagging areas; to promote relocation of existing firms, from more affluent zones into backward regions or areas where jobs are needed, etc. These are policy options that must be analyzed with care, as they can go against regional comparative advantages and, thus, may be unsustainable in the medium or long run, while in the nearer term they are costly for public finances and are inefficient since resulting growth in regional income and employment may be meager. Besides, these policies risk creating tax or regulatory loopholes and unfair competition for other producers.

However, if well designed and closely monitored and evaluated, these policies can work well, especially if they are bounded in time and not permanent, so as to address immediate adjustment costs or costs of the initial part of a learning curve, but not to artificially compensate for missing competitive advantages. For example, *Special Economic Zones* are common in many European countries (like Poland), delimiting territories where such tax incentives are available, to attract international investment to determined territories where jobs are particularly needed. Similarly, Turkey has established specific zones where simplified regulations are applied for the same purpose.

Mexico applied for 25 years a program, called *Maquiladoras*, that evolved over time since the seventies and was very successful to create jobs in determined regions. Initially, the *Maquiladoras* program aimed at creating jobs for low-skilled workers, mostly women, in a narrow band south of the border with the United States, where at that time private investment was very low. The program provided favorable administrative tax treatments for firms importing raw materials to be assembled in the specified territory and later be sent abroad. This created in the following years considerable employment in industries like apparel, consumer electronics, automobiles and electrical appliances or equipment. Labor demand increased significantly, to the extent that immigration grew very noticeably into the zone where the program operated, in turn fostering more integral urban development plans in that region. Later on the program introduced local content requirements as a means to generate increasing industrial integration,
and complementary it was permitted that a proportion of final output be sold in the domestic market. This contributed to indirect job creation along the local supply chain. Finally, the program was geographically extended to other regions where job creation was very much needed, again for unskilled female workers, in states located in the center and southeast of the country. After the Free Trade Agreement between Mexico, the United States and Canada entered into effect in 1994, the *Maquiladoras* program ceased to operate, leaving behind a successful record of job creation for poor unskilled workers.

Complementing all the above measures, support to daycare centers for children and the elderly are crucial to facilitate women to engage in remunerated extra-domestic activities.

- **Enforcement and expansion of rights and empowering policies.**

These policies are by their very nature instrumented usually through legal measures. General laws in this respect refer to non-discrimination, gender equality, etc., while special laws are enacted regarding the rights of specific groups: indigenous peoples, the elderly, the disabled, etc. In some cases, laws establish rights as a matter of public or political discourse, without concrete sanctions against physical or juridical persons that may violate or nullify these rights. Furthermore, the effectiveness of these laws, in practice, depends to a large extent on the characteristics of the judicial system.

For individuals, acting independently, it may be extremely costly in some cases to obtain judicial enforcement of their rights, while it may be also quite difficult to orchestrate a collective movement to this aim. Non-Governmental Organizations (NGOs), institutional Ombudspersons, advocacy groups and so on are important actors to favor enforcement of legislation. In addition, public campaigns to educate and create awareness in the population at large are useful to induce cultural change, so as to extract these matters from the circumscription of tribunals and to bring them into the widest public fora, including academic institutions, the media and so on.

Nevertheless, there are concrete benefits for development, from clearly establishing determined social rights, in constitutions or laws. For instance, laws specifying the rights related with healthcare warranted by the State create certainty for public and private institutions in the health sector about rights and obligations, and may foster public-private partnerships leading to expand and improve health services for the population.

Empowering of women is perhaps the concrete issue most often addressed through concrete programs. The rationale goes beyond equity and inclusion considerations, but encompasses issues of effectiveness and efficiency of development policies: abundant evidence indicates that females are keener than males about human and social development matters, they are better at identifying long-term development priorities, and they prove to allocate scarce resources closer to these priorities than men. Examples of policies that encompass the empowerment of women, among other objectives, include the *Progresa/Oportunidades* program in Mexico, and the *Operation Flood* program in India, commented before. In particular, incentives to favor education of girls and young women are being applied in an increasing number of countries (like Liberia, Rwanda and South Sudan in Africa, and Afghanistan and Nepal in Asia), considering their higher average school achievements compared to males, as well as the stronger intergenerational effects from more educated females. And in the People’s Republic of China, facing demographic trends pointing to a significant higher ratio of men to women in the next twenty years, incentives of several types are being applied to induce among new couples a higher acceptance of female births, against a long cultural tradition in large groups that strongly prefer boys over girls.

- **Social capital policies.**
Social capital, as discussed in the preceding sections\textsuperscript{66}, is a valuable asset that individuals can rely on to reach better living conditions. It consists in the relationships of the individual with others that provide help or support, access to certain opportunities, etc., on the basis of reciprocal trust and shared values. Social capital cannot be created artificially; it is the outcome from earlier interactions, exchanges and experiences that over time incline some individuals to help each other in diverse ways. As such, there is little space for public policies to contribute directly to the accumulation of social capital for individuals in a group, and, yet, indirectly social capital can in some cases result as a byproduct from specific policies with other main objectives.

Among policies directly aimed at constructing social capital, the following are generally observed: support for the operation of community centers, in urban neighborhoods or rural localities, where individuals can interact with others with similar characteristics and build reciprocal knowledge, nexus and trust, from a variety of ordinary activities (like social or cultural events, discussion groups to address local development challenges, courses or workshops to acquire certain abilities, etc.); support to clubs of elderly people, and so on.

Indirectly, social capital can also result from other policies. An interesting example, from Israel, is the program named \textit{Perah}, established in the seventies. For higher education students to obtain a sizeable discount in the payment of university fees, they act as mentors for younger ones enrolled in secondary or high school education, in schools from needy neighborhoods or towns. The program’s original objectives were, on the one hand, to facilitate access and permanence in higher education for students with financial need, and on the other hand, to improve academic achievements of younger disadvantaged students through tutoring from more advanced students. However, the interaction between mentors and trainees in this community service program has also resulted in lasting social relationships from young people of diverse economic and social backgrounds that built considerable social capital for most of them. Currently, 32,000 students participate in the program every year, 20\% of activities take place in Arab villages and towns, and 62\% of mentors work in outlying towns of North and South Israel\textsuperscript{67}.

\textit{Policies addressed at vulnerability.}

Development is not always a cumulative process, but it is subject to a diversity of risky events that may cause costly losses of human, physical and natural capital. Therefore, the development policy agenda has expanded in the majority of countries, giving increasing attention to insurance or protection policies, and not only to investment policies in these different assets. In particular, social protection policies are of great importance in connection with poverty for two reasons: they ought to be accessible to the poor, and they should function so that the non-poor do not fall into poverty as a consequence from adverse risky events (like catastrophic expenses on health services, death of a household’s income earner, a natural disaster, etc.).

\begin{itemize}
  \item \textit{Social security policies.}
  
  Institutions or systems to collectively share health or disability risks, in socially efficient ways, have been created in all countries along the last century. Social security has been introduced to offer protection to individuals against health related risks, like loss of capacities, economic costs or expenditures on health services, or temporary or permanent losses of income because of illnesses, accidents, advanced age or death. However, in many countries, social security is offered not through an authentic system that integrates all relevant entities and provides universal protection to all individuals or groups, but rather through separate institutions and leaving sometimes large groups unprotected.
\end{itemize}
In addition, existing institutions in different countries face problems of varied nature. There are problems related with the quality of services (low average quality, and disparities across institutions or regions, for instance), problems associated with equity and the efficient delivery of service and access for population in diverse regions (for example, due to distance, low population density, gradual depopulation and aging in rural regions), problems connected to the increasing geographical or economic mobility of the population (circular migration of certain agricultural workers, job changes between enterprises covered by distinct social security institutions, and legal frameworks insufficiently adapted to meet emerging requirements of portability of rights), problems caused by insufficient skilled professionals in certain areas (mismatching geographical distribution of patients, doctors and paramedics), problems about financing of services (because of high costs, inadequate fees, obsolete funding schemes, insufficient subsidies or transfers to cover deficits or to carry out new investments as required by changing demographics).

Analyzing this myriad of aspects goes beyond the scope of this paper. Therefore, the following comments are circumscribed to two of the most acute challenges for social security: moving towards universal protection and narrowing urban-rural disparities.

With regard to the transformation of institutions to gradually reach universal social security, actions are needed in many countries along two different lines. The first is about financing for a new system that provides universal coverage. In the past, social security was largely built upon the specific relation of beneficiaries with income generating activities. Benefits were available for formal workers and their dependants, and financed from contributions out of their wages and from earnings of the enterprises or public entities they worked in. However, workers in the informal economy –which in some countries constitute a very numerous group, both in absolute numbers and as proportion to the population- generally do not get social security and it is unrealistic to expect that legal obligations will eventually get them into the system, while adequate incentives offer a more promising avenue. In this context, many countries, for instance in Latin America, are considering to construct universal basic safety nets for healthcare. There is considerable consensus that this should be funded fundamentally from general public revenues (mostly general income taxes), with individuals paying some determined service fees to address fine incentive and equity problems. Individuals with low incomes would likely attend this system, which would be legally and financially accessible to them, while others with higher incomes could access it as well or could obtain additional insurance to access alternative institutions better suited to their particular preferences.

The second aspect to be considered is about the utilization of currently available infrastructure, and the participation of personnel from different existing institutions. The assets already existing are large and valuable, and thus must be the bases for an improved universal system. These may be incorporated in many ways, from legal reforms, to cooperation agreements. However, in countries where a true social security system is not in place, but rather there are separate institutions that can be accessed respectively by different groups of beneficiaries, major political resistance can arise from both sides –the institutions, their executive managers and their employees, as well as from the initial beneficiaries of the diverse institutions that may negatively prejudge getting the services from a new universal system- and their representatives in other areas of the political world, like parliamentarians, union leaders, community leaders, etc. In this context, the success in transforming separate institutions into a universal system depends on the strategies to bring about reform: information, communication, negotiation, compensation, pace, leadership and sharing of responsibilities and outcomes, among other political elements.

In relation with urban-rural disparities, again rural regions are in many cases at a disadvantage in relation with social security. Although a universal safety net with the characteristics described above offers a promising way to narrow social protection gaps, it is true that this would be reflected more on the financial aspects of protection, than on those related with physical access to services and infrastructure. This later issue is discussed in a subsequent section devoted to public service delivery.
As an example of efforts to pursue universal social protection, the program *Seguro Popular*, in Mexico, may be cited. Access to the program is voluntary for individuals of the informal sector (not covered by the formal social security institutions for workers of the private and public sectors). An annual fee is paid by every affiliated household, in an amount that depends on the respective decile (as inferred through a questionnaire applied upon application), and a uniform subsidy per household is paid to *Seguro Popular* by the federal government. The program provides financial insurance for expenditures on health goods and services associated with a catalogue of 285 types of medical interventions. Services are provided in all clinics and hospitals coordinated by the ministry of health. The program started in the first years of this decade (when still 58% of the Mexican population lacked social protection, although social security for formal private and public employees and their dependents was available since the forties) and has enrolled more than 5.1 million households, equivalent to almost one of every four in the country.

- **Unemployment protection policies.**

Falling into unemployment is another major risk that may bring individuals or households into poverty. Insurance for income to the unemployed has been introduced in most developed countries since decades ago, and it is being adopted in different forms in developing countries and transition economies.

A main concern about this policy instrument relates to the negative incentives for job seeking. Diverse formulae have been put in place to bound this problem, like the following: establishing low payments for the unemployed, so that those with better alternatives will not claim these payments; establishing a maximum duration for unemployment payments; gradually diminishing unemployment insurance payments over time, etc.

Usually, insurance of income for the unemployed is accompanied by some active labor market policies, to help the unemployed find another job in a shorter period of time. These include: information mechanisms for job seekers and potential employment; training; etc.

In addition, the policies commented before in connection with job creation to help the poor and low income individuals or groups also contribute to protect the unemployed from entering into poverty.

- **Natural disaster protection policies.**

Earthquakes, volcanic eruptions, hurricanes or typhoons, floods, fires, tsunamis, tornadoes, droughts, landslides, etc. provoke huge losses every year around the world, in terms of lives lost, damages to physical capital (housing, social and productive infrastructure, factories, cultivated land, and so on). Furthermore, the occurrence of many of these phenomena shows an upward trend nowadays, due to world climate change.

Although these natural disasters affect individuals and groups from all deciles of the personal income distribution, in urban as in rural regions, the poor are relatively more exposed to these risks for several reasons: they commonly buy much less private insurance (life insurance, property insurance, crop insurance, etc.); they inhabit in areas where natural factors are more likely to cause large damages (because of geographical characteristics and, to some extent, because of illegal settlements in prohibited high-risk areas); due to non-observance of safe building codes, or overcrowding in dwellings and workplaces; and because of man-provoked causes, often related with poverty, such as deforestation and soil degradation, among many other reasons.
Therefore, protection against these types of risks is getting increasing attention in the policy agenda of most countries. A variety of policy instruments are applied in different countries for preventive and remedial purposes.

Prevention policies normally include, for instance: stricter regulation of land use and better enforcement, to put a stop to settlements or economic activities in dangerous zones; improved building codes; upgrading of special infrastructure, like dikes, water channels, dams, sewage systems, etc.; improved design of energy, transportation and water networks to enhance their reliability and robustness; reforestation programs, cleaning of solid waste from rivers and sewage systems; information campaigns and education strategies to raise awareness among the population; introduction of early alert technologies and monitoring systems; etc. Occasionally, resettlement actions are pursued through incentives for voluntary relocations, or by compulsory means, depending on the magnitude of expected damages. And, evidently, policies to attenuate global climate change are among the most important in the prevention category, although their effects are observed less locally and in the longer run.

Common challenges for the effectiveness of these policies relate to inter-temporal myopia, lack of clarity as to the legal responsibilities from diverse actors, inadequate incentives and corruption. Indeed, the recurrence over time of many of these natural phenomena, over a determined local area, involves rather long periods and, therefore, preventive investments tend to be postponed by local authorities in order to allocate scarce resources to other short-term priorities. Also, the local population (or electorate) often weights more public investments whose usefulness is perceived in the short run, compared to others that could have even greater returns in the long run, or to works that are less visible. Legal and administrative frameworks sometimes call for cooperation among different authorities and across levels of government, but in terms that do not make clear enough respective responsibilities and accountability. And, in some cases, corruption interferes, resulting for instance in public works built or operated below the appropriate technical specifications. Considering the large costs at stake from natural disasters, these problems have to be addressed in a straightforward and effective way. Possible solutions to this aim encompass: elaboration of complete plans for investments of diverse types over a multi-year period, enriched by social participation and subscribed by all competent authorities, to be made publicly available for public monitoring, with sanctions for responsible authorities in case of deviations, and so on.

Remedial policies fundamentally comprise: the use of financial funds to meet emergencies and immediate reconstruction efforts (with operating rules that permit fast and transparent disbursements); the availability of a legal framework establishing sound governance for public interventions in remedial and reconstruction matters, and possibly also the availability of an efficient information system to monitor respective actions from all competent actors in the aftermath of a natural disaster and over the reconstruction period; and the assignment of sufficient, trained and well organized personnel (typically from the armed forces). Building up the funds when macro-financial conditions permit, and permanently preparing the required personnel and emergency plans, must be highlighted in the public agenda for social protection. The contribution of all this to diminish the social and economic costs provoked by a natural disaster is quite significant.

Different countries have achieved noticeable advancement with regard to protection policies about natural disasters. Japan clearly stands out in this respect.

2.5 Policies addressed at marginalization.

Poverty and inequality are not uniformly observed throughout the territory of a county or a large region. Rather, they tend to concentrate to certain extent in determined zones. This may be the result from economic phenomena (land prices, rental costs, external diseconomies or systemic local conditions
harming productivity, larger distance to dynamic markets, lower access to education, slow innovation, for example), or from social processes generated among individuals or groups (social exclusion, discrimination, etc.)\textsuperscript{72}. However, geographical concentration of poverty, or noticeable local components of total inequality, may also be generated by actions (or lack of these) from public entities or government. As commented in Section 1, technical or budgetary reasons are often provided as explanations to concrete cases, but it may also be that public sector strategies are to certain extent influenced by factors that—as in the case of social exclusion—lead to give less weight or attention to some zones that remain marginal for public strategies (hence the term, marginalization).

Although this applies to numerous public policies (education, support to SMEs, public security, etc.), it also has high visibility in connection with physical investments in infrastructure and public services.

- **Infrastructure policies.**

  In numerous countries, infrastructure is larger and of better quality in some regions than others. Even within determined regions (for instance, within a metropolitan area), infrastructure also exhibits geographical disparities among diverse zones. And, sometimes, regions are not well interconnected, which provokes that markets are geographically fragmented, with producers and consumers being circumscribed in certain degree to local markets\textsuperscript{73}; in particular, regions where infrastructure in transports and communications is not being modernized with reasonable speed, are losing opportunities associated with urban-rural linkages and city-networks, in an epoch when urban agglomerations are growing faster. All this influences productivity differentials and income inequality.

  Scarcity of infrastructure investment in certain regions may reflect financial or budgetary constraints of the public sector, inadequate planning or low capacity of local authorities to prepare and pursue relevant projects. In certain cases, different countries recourse to public-private partnerships to overcome these limitations, with public authorities authorizing and being ultimately accountable for the projects—and, most importantly, being responsible for designing and enforcing regulations, as may be required in some cases—, but with private enterprises providing a variety of inputs, from planning and engineering, to project construction, operation and maintenance, and financing, as required in each particular case.

  The availability of infrastructure to diverse regions or areas is also largely influenced by the degree of vertical cooperation among different levels of government, given that national levels usually have larger financial resources and better access to capital markets—and also legal competencies to decide on certain types of infrastructure—, while regional or local levels have better information about particular economic and social needs—plus bigger capacity to negotiate with local interests to create the necessary conditions to put projects into practice—. Unfortunately, in some occasions political differences between actors from distinct levels of government create obstacles for cooperation.

  Moreover, at every level of government, horizontal collaboration among diverse authorities is also very important, since frequently infrastructure projects require approval and participation of different actors. At the national level, pursuing large infrastructure projects usually calls upon decisions or opinions from ministries of planning, finance, the environment and auditing, besides, sector specific ministries, like transportation and telecommunications, energy, water, agriculture, urban development, and so on. At the regional level, it is common that neighboring state or provincial governments have to agree on projects such as highways, ports and airports, railroads, large hydraulic infrastructure, third-level hospitals, specialized universities and research centers, etc. Lastly, at the local level, particularly in metropolitan areas, neighboring municipalities, districts or counties also must agree about projects for water and sewage, public transportation, urban highways, waste management, and so on.
The difficulties of governance for public investment cannot be neglected, as they affect the costs, technical specifications, scale, location, efficiency and timing of investment projects, and ultimately their impacts on income growth and welfare at the national, regional and local levels. To deal with this reality, different countries adopt diverse strategies and institutional arrangements: creation of an inter-ministerial committee for public investment, that may be competent on general matters –financing, regulation, sequencing, etc.- and for final approval for all major infrastructure projects; ad-hoc commission to promote and oversee particular projects, whose functions cease to exist once the projects are finished; and so on. In any case, it is useful to maintain reasonably complete and updated databanks on historical, ongoing or potential projects, to provide these inter-institutional bodies with adequate information for decision making and evaluation.74

For example, Mexico has adopted over the past decades different institutional arrangements. In the seventies, a Secretariat was created, reporting directly to the President, for coordination of all public federal investments. In the early eighties, this role was entrusted to a new ministry –Programming and Budgeting, SPP–, in charge of total federal expenditures, framing investment policies in a wider setting of development and financial planning, which included the regional dimension. This ministry was downsized at the end of the decade and transformed into the Vice Ministry of the Budget, in the Ministry of Finance, and, to avoid an excessive bias towards budgetary aspects, an Inter-Ministerial Commission (named Gasto-Financiamiento) was created, in which other relevant ministries participated to provide specialized sectoral expertise. Nonetheless, the regional perspective was lost. After large privatization efforts and to promote greater participation of the private sector in infrastructure investment, a National Commission for Infrastructure was created in 2004. This was coordinated by the Office of the President, with participation of relevant major private sector associations and authorities from the ministries of energy, transportation and telecommunications, environment, finance and auditing. Among its main functions were: exchanges of information about macroeconomic and sectoral trends, as well as of public finances; open discussion of infrastructure needs; monitoring of evolving financial instruments and institutions; improvement of public procurement regulations; analysis of new forms of public-private partnerships, and so on. This National Commission complements the work of Gasto-Financiamiento, which continues to oversee investment expenditures by public entities. Finally, both the public and private sectors coincided in that regional approaches to infrastructure development were convenient, to better involve state and local authorities within a sound governance framework. To this aim, the Senate, after consultations with the Association of State Governors and the Office of the President, in 2005 approved reforms to the National Planning Law (still pending approval in the Chamber of Representatives), to incorporate regional perspectives in overall development policies, facilitate vertical and horizontal collaboration among competent authorities, and induce private and social participation at the regional and metropolitan levels about development strategies. As an instrument to achieve this, the creation of Regional Development Agencies for five major regions, and for certain metropolitan areas as it may be required, is foreseen within the reformed law.76

However, construction of infrastructure in lagging regions doesn’t automatically result in income growth and, thus, it is not a straightforward avenue to diminish income inequality. Political and economic considerations interplay in the decisions to invest in infrastructure in diverse regions. Very often, for political calculations, authorities pursue emblematic projects, whose effects on the regional or local economy may be minor in the mid- and long-term. Thus, it is a wasteful or inefficient use of capital that could have alternatively been allocated to other projects with higher social and economic impacts. In fact, regional growth depends to certain extent on infrastructure investment, but the outcomes from regional infrastructure projects intrinsically depend on the overall economic performance of the region. Indeed, the higher (lower) the competitiveness and dynamism of the regional economy, the bigger (smaller) the capacity utilization rate and the economic rate of return of every regional infrastructure investment. For this reason, infrastructure investment planning, and executive decisions, should not be dissociated from overall regional development strategies. Diverse sectoral policies for economic and
social development, including infrastructure policies, need to be defined in a coherent way, and with a regional approach to introduce the challenges and opportunities, strengths and weaknesses, of every region.

Given the intrinsic complexity of this task, markets offer the most efficient way to process information about the allocation of resources to achieve development goals. Yet, the contribution from the public sector can be very significant, by providing: information useful for decision making by particular actors, enhancing governance for public policies, branding the region internationally to call attention from investors and talented individuals, and, of course, through careful allocation of capital to infrastructure.

Poland can be cited as an interesting example. The country has recently created a Regional Development Ministry and a number of Regional Development Agencies for the voivodeships (provinces), which work together to decide on infrastructure investments for regional development. This institutional system was put in place since Poland is nowadays the largest recipient of European regional development funds and, therefore, the domestic and international responsibilities about allocating these valuable resources is very large. Although these new institutions are still young, they have made already significant progress in speeding up the allocation of European funds and domestic resources to regional development projects and increasing their quality. However, the new system is facing some difficulties in the more backward eastern voivodeships —where unfortunately poverty and low-income population are relatively higher— due to insufficient capacities among local public servants, thus emphasizing the need of enhancing local public administration, training, etc. Looking into the future, an organizational development challenge will be to go beyond the timely and efficient execution of infrastructure projects, to apply full-fledged coherent multi-sectoral strategies in the diverse voivodeships to accelerate regional and national growth, in inclusive, equitable and sustainable ways.

Another relevant example is Chile, where for more than 20 years a public entity has been evaluating investment project proposals, to screen those that are more viable and have the highest expected economic and social impacts. While this has contributed to increase the impact from infrastructure on national growth, the regional perspective has not been dominant. Moreover, it is considered that the expertise accumulated by this entity could be better applied in the future through a more decentralized scheme. And, in Mexico, similar tasks are performed by a department within the Vice Ministry for the budget, in the Ministry of Finance.

- **Public services policies.**

  The supply of public services also exhibits significant geographical disparities between regions, and within these. This phenomenon is closely related with the uneven distribution of infrastructure over different areas in a territory and, therefore, it is largely explained by considerations as the ones presented in the preceding subsection. The consequences of the geographical disparities in public services are unequal productivity, incomes and welfare. And the lack of affordable access to public services increases poverty.

  Affordable access means both, physical access and economic access. Thus, geographical inequality in this respect may be due to uneven infrastructure for the delivery of services, or different services costs, or both. Infrastructure for delivery may be relatively more difficult to bring to some areas because of technological or engineering, and if it is to be done it may be only at a higher cost than in other areas. Factors like distance, population density or geographical features can result in different investment or operation costs for infrastructure and the provision of services. If prices to consumers are determined to recover costs, the consumers in some regions may face higher prices, that in some cases they may not be able to afford. Private and public suppliers would then not make the necessary investments, unless
subsidies are applied to recover costs—and normal profits—while consumers in those regions would pay less than total cost, with public support on equity reasons.

Indeed, in different countries some funds are created for this purpose, for instance to subsidize electricity, telephony, healthcare, railroads, ferries, distribution of staple foods, etc. But there may be problems, in some cases, when the number of consumers is too large and there is not enough funding to pay the total amount of subsidy required. Or when the services subsidized are partly used for final consumption, and partly as inputs for productive activities, implying in the later case that subsidies are compensating the lack of comparative advantages in the region or locality. While subsidizing consumption for equity reasons may be justifiable, it would not be recommendable on economic efficiency grounds to subsidize production at places where it is just unacceptably costly. If applicable prices or tariffs can be differentiated this may solve the issue, but politically this may be unsustainable, or illegal arbitrage and corruption may occur.

In extreme cases, it may just be economically more rational to facilitate the population from very high cost areas to relocate in others easier to serve, through lump sum transfers. But this usually faces very large political and legal problems. Resettlements have lead to large abuses in some cases, because of authoritarian procedures have been applied, excessive use of force and violation of human rights.

Fortunately, in some other cases, evolving technology offers new economic and technically viable possibilities to serve regions that with previous technologies would not have been served. For instance, the dynamic pace of innovation in information and telecommunication technologies (ITC), has permitted access to telephone to hundreds of millions individuals, in hundreds of thousands of disperse villages in most countries, and access to internet is moving in the same way. Similarly, solar and wind generation are allowing access to electricity to numerous small and isolated localities.

Actually, confronted with depopulation and aging in rural areas, in addition to secular problems of distance, dispersion and low population density, many countries are pursuing innovative strategies to improve affordable access to determined public services for their inhabitants. These strategies look at the issues of subsidization and technological innovation commented before, but also at innovative organizational models, experimenting with practical solutions that may be acceptable for the population in rural areas of high service cost. In Finland, as some schools have had to close because of the decrease in the number of students in some localities, private taxis owned and operated by community members are being subsidized for children to attend more distant schools, and for people to receive healthcare services in far away clinics or hospitals. In Germany, as medical doctors have migrated from the poorer eastern part to more developed regions in the country, certain healthcare services for the elderly are now provided by nurses, after pilot tests to assess the reactions from beneficiaries, which found in this a practical adaptation to maintain quality services in their localities. In some countries, tele-medicine is also contributing to support doctors and paramedics in localities at considerable distance from specialized technological units, like labs or high-tech facilities. Similarly, tele-education is playing a similar role. And in many developing countries, innovation in organizational models to enhance public services to rural areas is also moving forward, not necessarily geared to technological means. For example, vehicles previously used as buses are adapted to periodically bring to numerous localities, in road tours: libraries, computing facilities, science labs, etc. for schools; dentistry, optometry and other specific medical interventions to clinics; art exhibitions to community centers, and so on.

Finally, in certain cases, supply may be unfeasible or may occur only after long periods of time, because of legal or regulatory restrictions. For instance, geographical or demographic characteristics may require certain infrastructure specifications that are incompatible with existing regulation (water treatment plants too small, gas pipelines through dangerous or risky zones, etc.). Similarly, illegal settlements, on land whose property is contentious, may not get the necessary infrastructure until a definitive judicial sentence is made and takes away juridical risks for the supplier.
Infrastructure and public services interventions targeted to determined areas.

The preceding subsections have presented an overview of challenges related with regional disparities in infrastructure and public services, as factors of economic inequality and poverty. In what follows, a succinct discussion is centered about focalized efforts to overcome marginalization in urban and areas.

In urban areas or metropolitan regions, in many countries, it is easy to observe that certain neighborhoods exhibit concentration of poor people, lack of sufficient or adequate infrastructure (water and sewage, paved streets and sidewalks, green areas, schools, etc.), and low or nil coverage, and low quality, of certain public services (electricity, water, public transportation, distribution of staple foods, healthcare, etc.). As a consequence, the inhabitants of these neighborhoods—who are usually poor or low income-, in a very regressive manner, incur in high travelling costs to get some of these services or goods in other parts of the city (healthcare, staple foods, etc.), and also pay high prices to private and usually informal suppliers, who come into the neighborhood to sell some of these goods or services (water, fuels, etc.). In addition, they commonly not have safety for persons and property, because police services are seldom available in these neighborhoods; and they also are short of a clean and healthy environment, due to lack of waste collection services, sewage and green areas. Businesses from local entrepreneurs are very small, and inhabitants must commute to other zones to find jobs. Social cohesion is endangered by the lack of public spaces and by the incidence of crime, drugs, etc.

The most common causes of this relate to the illegality of settlements as a result from fast immigration, inadequate urban planning, scarcity of land for housing, inefficient social housing programs, weak finance of local authorities to expand infrastructure and services (insufficient revenues, budgets that do not allocate enough resources to meet these deficits in infrastructure and public services, regulations that restrict flexibility to reallocate budgets, etc.). Political factors, as explained in Section 1, also play some role in prioritizing the allocation of scarce public resources to other neighborhoods in the city or metropolitan area.

Turning around these problems is a complex task that involves aspects of public finance, horizontal and vertical coordination among different authorities from local and upper levels of government, and social participation. Nonetheless, most countries—and cities—have different programs aimed at distressed neighborhoods, decaying central areas, marginal and peripheral zones, etc. For example, Toronto has pursued diverse initiatives for regeneration of impoverished or conflictive neighborhoods, comprising elements of social housing, public spaces, articulation with other areas by better avenues, social programs for ethnical diversity, skills upgrading for immigrants, finance for entrepreneurs, etc. In this, the City of Toronto cooperates with others in the metropolitan area, and with the federal government that is in charge of some of the relevant programs.

In the case of Mexico, a program called Habitat was initiated in 2003. Zones for intervention were delimited within every city above certain population, based on statistical analyses, at a very low geographical level, about the spatial concentration of poverty and marginalization as reflected by certain indicators (household income, quality of dwellings, coverage of water and electricity, etc.). In coordination with municipal and state governments, the federal government allocates funds for local authorities to build or improve necessary infrastructure in those zones, and matching funds are provided by the other two levels of government. The selection of projects for every zone is made at the local level, by municipal authorities in consultation with the community in the respective zone, while a specialized unit in the federal government conducts overseeing of costs and general specifications. It is required that projects for every zone combine both urban services and infrastructure (streets, sidewalks, water, sewage, electricity, waste collection, police stations, etc.), with social services and infrastructure (community
centers, healthcare, daycare for children and the elderly, refuges for victims of domestic violence, green areas, sporting facilities, ICT centers, community development workshops, etc.).

To go beyond the infrastructure and public services approach to these marginalized zones, a pilot test of a complementary strategy named SUMA con Habitat was performed in 2006 on a sample of the zones originally delimited. Federal programs operated by diverse entities, which in the past had been not geographically focalized and operated separately without creating synergies, were invited by the specialized unit in charge of Habitat, to join in a coordinated effort to promote their benefits in the sample of zones during a five-months period. Each of the invited programs maintained full autonomy, their original operating rules were followed without any modification, and there were not requirements or goals as to the amount of resources that every program had to devote to the pilot test. The innovation was just about coordination to jointly serve the sample of zones, in a way that significantly reduced information costs and transportation costs for the inhabitants of the sample of zones. The programs that accepted to temporarily join in SUMA con Habitat were about: basic education with ICT, adult education, financial services (popular savings, microcredit), support to SMEs, social security, finance for low income housing, legal identity (birth certificates, population registry numbers, etc.), and of course infrastructure and public services by Habitat continued normally. Promotion shows about these additional programs were organized (sometimes with festivals for larger attraction), in every zone in the sample, to provide information for the local community, which in many cases did not know about those programs or could not afford time and money to get to the regular places where they could be informed or enrolled. A one-stop shop was established by agreement between the coordinating unit and the respective local government, in every zone in the sample, to daily provide information on a personal basis, or enroll on a personal basis, and periodical workshops were organized to which all inhabitants of the zone were invited, with special attention to women. The coordinating unit trained local public servants for the pilot test, offered especially prepared manuals in simple language for they to tear about all programs (benefits, access, rules, etc.), distributed printed and internet materials with similar information for the population, and monitored progress in enrollment in every program, in every zone in the sample, along the test period. Monthly enrollment progress reports were shared with all participating programs, local governments and population in the sample of zones, for transparency and to induce competition among public servants. An independent evaluation of the strategy was carried out at the end by two universities, including interviews with public servants and population in the sample zones. Significant increases were detected in: awareness about the programs, satisfaction of individuals about these, and enrollment; differences were analyzed in terms of interest to the population and promotion effort by the respective municipal or federal public officials (comparing across programs and across zones). The evaluation underlined important tasks for the future: to provide additional federal funding as incentives for training of municipal civil servants in social work (as their skills had been developed around matters more related with infrastructure and public services), and to initiate, with the participation of the community in every zone, micro-planning and permanent participatory methods to foster local ownership and community driven development, with premia subject to achievements.

In rural areas, another multi-sectoral place-based strategy for integral development has been applied in Mexico since year 2000, named Microregiones, as explained in preceding subsections.

2.6 Policies addressed at social cohesion.

Creating favorable conditions for diverse individuals and groups to share more closely their own visions and efforts about development, is tantamount to paving the road for the vehicle of human, social and economic progress to transit. Public interventions to foster development can be potentiated by stronger social support, easier to get where social cohesion is stronger. Social cohesion also reinforces
actions from individuals or groups to their collective advancement. Thus, promoting social cohesion contributes to accelerate social development out of community, private or public actions.

Social cohesion is nurtured by personal knowledge about others, trust, justice and equity, shared values and common references among individuals and groups. It emerges naturally from: family relationships; sharing culture and traditions; frequent and close interaction among individuals (meeting and spending time in public spaces, sharing public goods, etc.); recurrent participation in collective activities satisfactory to all participants (sports or artistic events, school events, festivals, and so on); collaboration in successful community projects (about public schools, improvements to public infrastructure, public celebrations, etc.). Moreover, social cohesion may be facilitated by spatial factors, as the adequate layout of cities, towns and housing projects that propitiate convenient interactions among individuals or groups, and collective activities, as it has been stressed by urban planners for decades. It is likely to be negatively affected by socially unacceptable degrees of inequality, and vice versa. And certainly it is damaged to considerable degree by discrimination, segregation, social exclusion and public policies that create division. In turn, deterioration of social cohesion may not only slow down development, but may influence sensitive matters as criminality, violence and public governance.

The conditions that favor social cohesion are in many cases endogenous to stable and not very large communities, where individuals and groups tend to know each other well over time and construct public spaces (both in the social and physical senses), although occasional conflicts or disruptive events may sporadically have negative impacts that call for the constructive intervention from elected politicians or public leaders. This is commonly the case in rural areas. The difficulties for maintaining social cohesion look increasingly complex in large cities and metropolitan areas, which tend to be more numerous in most countries as a result from fast urbanization.

In this context, strategies to build social cohesion cannot be limited to sporadic interventions in critical moments, nor to the occasional organization of some events or activities like those mentioned before. It calls for continuous efforts along the different lines commented before. Diverse policies are applied to this aim in different countries and regions. At the local level, the following are common examples: general improvements in the spatial layout of cities, with particular emphasis in public spaces, quality public transportation and green areas to raise the standards of life, and active measures to prevent marked spatial segregation; regulation of housing projects, as to the quality of public infrastructure, public services (schools, police stations, waste management, etc.), and the availability of public spaces and green areas; support to community centers and permanent activities in these, like artistic, cultural and sports events, festivals, etc.

Examples of policies of this sort are numerous in European countries. In Spain, cities like Bilbao and Barcelona illustrate this quite clearly, with impressive urban transformation projects accomplished in the last twenty years. Many other relevant cases can be cited for France, Germany, etc. In other regions of the world, like Latin America, policies like these need to be combined with policies towards distressed urban neighborhoods or marginalized areas. In the case of Mexico, for instance, the program *Habitat* commented previously goes in this direction. And in Brazil, urban development has turned into a priority, with public policies at the national level leaded by a specialized ministry.

Massive and rapid immigration into many cities or metropolitan areas—from rural areas or smaller settlements in the same country, or international—, is perceived nowadays in diverse nations as one of the major challenges for social cohesion. However, it is recognized that immigration has numerous positive impacts for local development, like expansion of the labor force and diversification of the local skills pool, increase of diverse local markets, influx of entrepreneurs, and higher potential growth. Yet, immigration also results in higher demand for infrastructure, housing and public services, and more competition for existing jobs. The overall balance for economic growth and social development, out of this multiplicity of phenomena, depends crucially on the success from different public policies required
to address these issues. And maintaining adequate social cohesion, in the interim, is also perceived as a key factor for a positive balance in the long run.

An interesting example in this respect is provided by the public strategy followed in the City of Toronto and its metropolitan region. The proportion of immigrant population relative to total population, and also the number of diverse nationalities in the metropolitan area, are among the highest in urban areas of developed countries, and this has come about in the last two decades because of legal international migration, resulting from migration policies determined at the national level. In this context, local public policy is aimed at making ethnical and cultural diversity a factor of international competitiveness. Promoting social inclusion and cohesion is at the heart of the strategy, seeking to attract more talent and direct investment from around the world. Labor training, language skills, access to public services and to financing, are actively promoted. Besides, these social policies are coupled with sound urban development policies and social housing to favor social cohesion, prevent segregation and to make the area more livable.

Cities in Latin America also face dynamic immigration, not from foreign countries, but from rural areas. Lima, for instance, has received in the last decades several millions of rural immigrants. These have often settled in irregular areas and have engaged in the informal economy. Together with their local born descendants, the group of migrant origin has reached a majority within the metropolitan population. However, economic, social and cultural processes in the area have not resulted in assimilation, and social development of immigrants has been considered as divergent, in the sense that it consolidated a lifestyle markedly different from earlier Lima born groups.

Migration should not be looked at only from the side of destination, circumscribing analysis to the benefits and challenges it brings for the recipient cities. Migration has also very important effects on the localities of origin of out-migrants, although the fact that these are relatively more disperse –large numbers of villages, towns or smaller cities- obscures to some degree the local effects from migration. Among these, the following are important: changes in the local age and sex structure of the population and the labor force, as young males and adults leave more than any other group; dilution of social networks and informal social protection institutions; and, increasingly –due to higher costs associated with international migration- permanent outmigration of entire compact families. Therefore, public policies are often required to address the social development challenges for these localities.

Mexico provides an interesting example of policy. Migrant workers from determined localities usually migrate to cities where relatives or friends from the community have moved already, and, thus, diasporas tend to concentrate to some extent in certain destinations. Migrants maintain for some time a flow of remittances to their families left behind, which helps these increase their incomes and leave poverty. However, this increases local inequality. In addition, remittances are often used to pay for consumption expenditures, with lesser effects on local investment, job creation or improvements in local infrastructure or public services. In this context, the program 3x1 para migrantes was created in 2001. The program helps the organization of clubs of migrants that share the same locality of origin and incentivizes that part of their individual remittances be contributed to a fund allocated to their locality for public infrastructure and public services. The collective contribution from every club receives a triple amount of matching funds, from the federal, state and municipal government. Therefore, localities of origin of migrants get not only private transfers for consumption through closed family networks, but also significant injections of resources or public investment. Sharing on public goods helps maintain local social cohesion.

Another illustration is provided by the program named Albergo Diffuso, initiated in Southern Italy. Because of a long record of out-migration, some localities have not only suffered from the aging and feminization of the remaining population, but have lost considerable social capital and are left with significant amounts of unoccupied rooms in private houses owned by the elderly. In some cases, these
towns have beautiful natural, architectural, cultural or gastronomical amenities. Thus, Albergo Diffuso consists in an association of local residents providing unoccupied rooms to a pool, which constitutes a hotel spreaded throughout the town. The association finances and administers a call center for reservations via phone or internet, a reception desk and bellboys, and a restaurant. It also collects all revenues from tourists coming into this dispersed hotel, provides room owners with training and specifications for quality about services, and pays them depending on occupancy. Tourists can afford to stay for longer periods and enjoy a truly town life experience. This strategy has several positive outcomes: it generates incomes, mostly for the elderly, geared to the utilization of existing capital (little additional investment is required); it builds social capital for the elderly through their interaction in the association; it also enhances social cohesion in the town, as all residents perceive the benefits from attracting tourism, and are incentivized to keep public spaces in clean and safe conditions; and it generates additional jobs in service activities, contributing to diversification of the local economy initially more dependent on agricultural activities.

2.7 Policies addressed at improving development policy-making and social participation.

For a long time public policies have been considered as a task of the public sector, not of the public. Indeed, strategies for development are commonly understood by actors and stakeholders as a responsibility of government at all levels, from which private and social parties abstain themselves, but the outcomes of which affect their living conditions and assets to considerable degrees.

This traditional view is being challenged, in many cases and in different countries, by outcomes from public policies that fall short from expected results. New approaches are being progressively adopted with the aim to increase the effectiveness and efficiency of public policies.

Participation from social and private parties can contribute in various modes. These may have information that can be taken into consideration by government for better decision making, or to correct and apply sanctions in case of deviations of policy, as well as in relation with program management wrongdoings because of mistakes, corruption or political reasons. For instance, in relation with enhancing policy effectiveness, their contributions help in diagnosis and design: to understand problems in finer ways; to better set development priorities; to assess collateral negative effects; to enhance focalization or targeting, etc. Their participation is useful also for monitoring and evaluation: to oversee the allocation and use of public resources, so as to avoid deviations from administrative faults or corruption; to assess the impacts over time, etc. And, similarly, social participation contributes in general to the permanence or continuity of policies over time, which is crucial in some matters for policy effectiveness. In this respect, social participation is highly valuable: to enhance legitimacy of policy in more democratic contexts, because of reduced authoritarian methods; to induce ownership of policy by its recipients, through their active engagement in the various stages of policy making, and so on.

Also, participation from non-government parties serves with regard to policy efficiency: to identify more practical ways to intervene; to increase collective acceptance or consensus about policies and, thus, reducing opposition or conflicts that may delay the application of policies or increase their economic and political costs, etc.

Social participation about policies to reduce inequality and poverty may be brought in diverse ways, according to the characteristics of different policies. Direct participation from groups and communities is more feasible, for example, about local projects to improve public services, improved use of natural resources (water, reforestation, etc.), or scrutiny of lists of beneficiaries from social programs. However, communities may need to be technically assisted and financially supported by civil society organizations to enhance their participation regarding policies on more technical or political matters (for example,
taxes, subsidies or transfers for equity and distribution purposes), as well as for relatively complex infrastructure or environmental projects (like water treatment, sustainable exploitation of animal or vegetal species or ecosystems, etc.).

Therefore, faced to numerous different or unique cases, a public policy to foster social participation needs to be constructed around fundamental and general principles, whose applicability is beneficial for the public in all cases. In this respect, the following principles clearly stand out, and are at the bases of social participation policies in many countries: transparency (full information sharing between authorities and the public, about policy making, implementation and evaluation); accountability (precise and clear definition of the responsibilities accruing to every policy actor, so as to permit a fair application of rewards or sanctions for success or failure); monitoring and reporting of outputs and impacts (permanent commitment to immediate and final results); bounded discretionarily of public officials (definition of limits on the capacity of public officials to interpret regulations and decide on concrete cases how these should be applied), and so on.

For example, transparency is applied through the publication, by easily accessible means, of rules applicable to every program for poverty, in order for the public to know who and under what conditions is entitled to what, how much and how. Transparency is also put forward by the publication of financial reports for every program, presenting receipts from different sources, and their allocation to all administrative functions through the use of determined resources, so that the public is completely informed about honest and efficient public resource utilization and program management. And, similarly, transparency is honored by the publication of complete lists of beneficiaries (individuals, groups or communities), allowing the public to verify that programs are effectively directed to the targeted population, regions, etc.

In the case of Mexico, for illustration, social participation around development planning was mandated by reforms introduced into the Constitution since the early eighties. Therefore, public consultations were made every six years, to obtain views from interested groups or Civil Society Organizations as to priorities of social development, new programs and instruments, and allocation of public funds. Initially, this participation was organized through special fora accessible only by invitation, but over time participation became entirely open\textsuperscript{84}. Moreover, as elections became more competitive in the political system in the nineties, increasing measures were taken to reinforce credibility among the population about the fact that social programs are applied strictly for development purposes, and not with political or electoral goals. Operating rules for social programs began to be regularly published in the Official Gazette about a decade ago. Lists of beneficiaries from the most important programs aimed at poverty and inequality began to be published in the late nineties, even if these consisted of millions of individuals (for instance, among many others, programs like Progresa/Oportunidades, or Procampo, and later on Seguro Popular, discussed in previous subsections). And, as an overarching measure encompassing not just social policy related matters, but the whole functioning of the federal public sector, a \textit{General Law for Transparency and Access to Public Sector Information} was enacted in 2002. This law established the right for physical or moral persons to receive the information they request about any matter related with the federal public sector, under determined conditions and procedures. The law defines the cases in which federal government or public entities may treat certain information as restricted or confidential.

3. Final remarks.

Public policies towards poverty and inequality are high in the agenda of countries and international organizations. This can be explained, evidently, by the very large number of individuals in poverty and without access to basic public services, in many countries around the world. The great number of individuals that are not strictly poor, but that lack sufficient social protection and are vulnerable to fall into poverty, underlines the same priority.
Taking effective and sustainable actions to overcome this situation constitutes a major concern for governments, civil society organizations, social groups and individuals, for many reasons: moral, political, social and economic. Indeed, to the inherent suffering and anxiety of the poor and vulnerable, additional worries emerge from different perspectives: risks for social cohesion and of social unrest; fragility of political institutions; damage to the credibility on economic policies, etc.

As mentioned in the outset to this paper, poverty has declined noticeably in the last 15 years, yet with noticeable differences around of the world and within regions. This is in line with the fact that mankind faces nowadays historically high levels of productivity, assets and innovation, although with inter- and intra-regional disparities. The still very high levels of poverty and inequality are symptomatic of a lessening syndrome rooted in economic, social and political grounds. To eradicate poverty, many conditions are necessary. Not only productivity and physical capital accumulation need to accelerate in the economy, but also pro-poor growth strategies have to be considered; social exclusion must vanish or at least decrease, and social cohesion requires strengthening; and, in connection with government, policy making has to transcend traditional schemes, to eliminate marginalization, incorporate active social participation and create adequate governance.

The variety of public policies and instruments to move in these directions is quite large, as illustrated by the experience of many countries. Nonetheless, still much remains to be done. With the greatest importance, policies and instruments should not be chosen separately or in isolation, but several ones have to be simultaneously used to act on the diverse aspects of the syndrome. This poses great challenges to achieve coherence among policies and coordination of all actors and stakeholders.

Some of the fundamental policies of that mix are of a macro nature and belong to the realm of national authorities, like macroeconomic policies to control inflation and maintain financial stability, generate enough savings to meet infrastructure investment needs, and favor pro-poor growth. These authorities must play a central role, as it may required, regarding taxes, subsidies and transfers to attain socially desirable aggregate distributive effects. Moreover, these authorities must also secure efficient and reliable physical networks for the supply of key goods and services, like energy, long distance transportation, telecommunications, environment, public health, etc. And, with equal importance, national authorities are called to provide: justice, quality public administration, effective regulation for key markets (such as labor, credit, technology, etc.), social protection and enforcement of rights for all individuals and groups, looking for the necessary empowerment of the poor so as to avoid that their rights are impaired by discrimination or other forms of social exclusion.

Many other policies are closer to the capacities of local or regional authorities, such as: active labor market policies, most infrastructure projects, social housing, and provision of local public services (water, sewage, public transportation, police, etc). Policies for education, labor training, healthcare and others equally aimed at human capital accumulation, can well be pursued by local authorities. Yet, under circumstances of dynamic geographical mobility of the population, some intervention from the national authorities is required in these fields, to warranty that public investments in human capital are made to the most convenient extent and with the desirable quality for the whole population, reducing local miscalculations from negative or positive externalities.

It is also important that national authorities look after equity and social cohesion at the highest levels. So, it may be required, to higher or lesser degrees, that these authorities join in the efforts of local ones, in many –if not all- policies mentioned in the preceding paragraph. Local and national authorities should share in these responsibilities, in matters of financial, technical, administrative or political character, in ways in which each level of government contributes more in what it has a comparative advantage, based on information, economic resources, expertise of public servants, political leverage, and so on.
Finally, governance is fundamental for all these diverse elements to perform well as a system. In the public sector, this must be reflected on: vertical cooperation across levels of government, horizontal collaboration among sectoral authorities at each level, and also horizontal coordination among authorities from neighboring territories or jurisdictions (states or provinces, districts, municipalities or counties). And, considering the fundamental roles of the private sector and civil society organizations, these have to be closer to public policy making to achieve, overall, people’s driven development.

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United Nations Development Program, UNDP Millenium Development Goals


World Bank(XXXX), ARTICLE ON SOCIAL RIGHTS AVAILABLE THROUGH INTERNET
STATISTICAL APPENDIX

Table 1
People with daily income below 1.25 dollars, in millions of individuals and as percent of total population, by regions of the world, 1981-2005

<table>
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<td>1087.6</td>
<td>968.8</td>
<td>826.2</td>
<td>893.4</td>
<td>851.7</td>
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<td>635.8</td>
<td>543.9</td>
<td>336.9</td>
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<td>Of which China</td>
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<td>683.2</td>
<td>632.7</td>
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<td>363.2</td>
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<td>-627.4</td>
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<td>17.8</td>
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<td>51.4</td>
<td>46.7</td>
<td>49.7</td>
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<td>58.4</td>
<td>53.7</td>
<td>45.1</td>
<td>0.2</td>
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<td>12.9</td>
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<td>12.7</td>
<td>13.7</td>
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<td>591.5</td>
<td>588.9</td>
<td>616.4</td>
<td>595.8</td>
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<td>Of which India</td>
<td>420.5</td>
<td>416.0</td>
<td>428.0</td>
<td>435.5</td>
<td>444.3</td>
<td>441.8</td>
<td>447.2</td>
<td>460.5</td>
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<td>Sub-Saharan Africa</td>
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<td>238.5</td>
<td>252.9</td>
<td>283.7</td>
<td>305.6</td>
<td>347.6</td>
<td>370.1</td>
<td>375.3</td>
<td>384.2</td>
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<td>1827.1</td>
<td>1718.2</td>
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<td>1785.1</td>
<td>1672.0</td>
<td>1694.8</td>
<td>1629.4</td>
<td>1399.8</td>
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(b) Percentage of the region’s population

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<td>33.7</td>
<td>31.1</td>
<td>25.7</td>
<td>-26.5</td>
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Table 2
Access to infrastructure in 2005, by regions of the world

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<th>Europe and Central Asia</th>
<th>Latin America and Caribbean</th>
<th>Middle East, North Africa</th>
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<td><strong>Total population (millions)</strong></td>
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<tr>
<td><strong>Population with income under $1/day (millions)</strong></td>
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<tr>
<td><strong>Population with income under $1/day (%)</strong></td>
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<td><strong>Urban population in 2030 (%)</strong></td>
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<td><strong>Expected increase in % urban population (ppt)</strong></td>
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<td><strong>Access to water supply (urban) (%)</strong></td>
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<td><strong>Water supply rural-urban gap (ppt)</strong></td>
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<td><strong>Access to sanitation (urban) (%)</strong></td>
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<td><strong>Access to sanitation (rural) (%)</strong></td>
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<td><strong>Sanitation rural-urban gap (ppt)</strong></td>
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<td><strong>Access to telephone mobile-fixed gap (ppt)</strong></td>
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<td><strong>Access to transport rural (%)</strong></td>
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Notes:
* Own calculations, expressed in percent points (ppt)
4 International Energy Agency (IEA), 2005. East Asia and Pacific data include China, while Middle East and North Africa does not include Northern African States.
5 Joint Monitoring Program Database (wssinfo.org), 2004 Data.
6 World Development Indicators, 2006.
7 Rural Access Index (RAI) estimates the proportion of rural population, which has access to an all-weather road based on household survey data: 2002–04.

ANALYTICAL APPENDIX

This appendix is intended to provide a clear and ordered discussion about the use of fiscal instruments (taxes, transfers and debt) to reduce inequality and poverty. First, the role of these different instruments is analyzed with some simple graphical devices. Then some comments are made about practical considerations that limit to certain extent the applicability of these fiscal instruments and call for the adoption of complementing social development programs.

Diagram 1 represents in a stylized manner the personal distribution of income. On the horizontal axes, every individual (i) is included, numbering them from 1 (the individual with the lowest income among all) to N (the individual with the highest income of all). The curve Y indicates, on the vertical axis, the income of the corresponding individual (Y_i), from the lowest Y_1 (accruing to individual 1), to the highest Y_N (of individual N). The diagram shows some significant inequality in personal incomes, reflected in the range INEQ_0, corresponding to the difference between the highest and lowest incomes Y_N - Y_1. The differences in personal income, as explained in the text, can come about from numerous causes: different endowments of diverse assets (in terms of quantity and quality), different utilization rates of such assets, or different rates of return for these.
housing and energy, transportation, and essential public services education, healthcare, etc.), given the prevailing prices or tariffs of these goods and services. This is shown in Diagram 2. The individual whose income is just below PL is denoted as P, and thus there are P individuals that are poor (i.e., their income is below PL and, thus, insufficient to satisfy basic needs), and N-P individuals who are non-poor. The area between the curve Y and the Poverty Line PL represents the total additional income that would have to be given to the poor, to enable all of them to barely satisfy basic needs. This amount is denoted as the income deficit of the poor (YD). Similarly, the area between the curve Y and the Poverty Line PL represents the income available to the non-poor, which they can devote to consumption or savings, on top of satisfying basic needs. This amount is denoted as the income surplus of the non-poor (YS). By construction, Diagram 2 shows that in this case YS is larger than YD, so poverty is depicted here as a problem arising from an inadequate distribution of income, and not from an overall lack of productivity of the N individuals (as it would occur when YS is smaller than YD).

Pro-poor growth can be depicted as a shift of curve Y to Y', in Diagram 3. Essentially, it is about a general increase of income for all individuals, when the incomes of the poor increase in a larger proportion than the incomes of the non-poor. For instance, individual 1 sees his income increase from Y₁ to Y₁', while the increase in income for individual N is depicted as negligible. As the diagram shows, pro-poor growth reduces inequality (to INEQ', the difference between Yₙ and Y₁') and poverty (as the
number of poor individuals lowers from P to P'). Pro-poor growth, and its consequent effects, can come for example from circumstances –or public policies- resulting in higher utilization rates of the assets proportionately more available to the poor.

Diagram 4 portrays the effect of income taxes. It is assumed that all poor individuals are untaxed, and their income remains on the curve Y. But income is taken away for every non-poor individuals and their remaining net income (or after tax income) is now on the curve Y-T. For instance, individual N sees his income reduced from YN initially, to YN-TN after taxes. The aggregate income taxes collected from all non-poor individuals is depicted as the area between the curves Y and Y-T, (equivalent to a fraction of the original YS, denoted by T). The non-poor are still left with a surplus (YS-T) beyond the income required to satisfy basic needs, and therefore YS-T can be allocated by them to other consumption expenditures or savings. As a result from this tax policy, the picture shows that inequality is reduced to INEQ_T (the difference between YN-TN and Y1), but the number of poor remains unchanged, P.
Next, income transfers are considered. Diagram 5 shows that part of the income taxes collected on the non-poor are distributed to the poor, in such a way that every poor individual gets a transfer just enough to raise his \textit{income cum transfers} to the level PL. (The diagram assumes that T is larger than YD, so total tax revenues suffice to fully compensate for the aggregate income deficit of the poor). It is assumed that the non-poor receive no transfers. So, the curve Y-T+TR denotes the resources available to every individual after taxes are collected and transfers distributed. The diagram shows that inequality is further reduced (to INEQ\textsubscript{TR}) and poverty is eliminated as all the poor reach the income level PL due to the transfers they receive.
It must be underlined that the preceding arguments are only about redistribution of income (by means of taxes and transfers) among individuals at a given moment of time, or in other words, a cross-sectional or horizontal interpersonal redistribution.

Other redistributions can additionally be pursued, of intertemporal or intergenerational character. Concretely, public debt may be issued, to be repaid in the future from taxes collected afterwards (on the same individuals, but later in time, or on future generations), so that resources available for redistribution at present are enlarged. This may be within a sustainable financial scenario, if as a consequence from additional transfers, the poor can increase faster their capital endowment (human capital, physical capital, etc.), increasing faster their productivity and becoming richer in a shorter period of time, to the extent that they (and other individuals that may also benefit indirectly from the faster increase of income by the original poor, such as their descendants, or groups of non-poor that may trade in beneficial ways with the enriching poor) can be subsequently taxed to repay the public debt. This case is represented in Diagram 6. For instance, individual 1 could command resources equivalent to $Y_1 + TR_1 + ITR_1$, higher than those just sufficient to satisfy his basic needs (PL), allowing him to reach higher consumption and some savings (to invest). As it is shown in the diagram, this policy can reduce inequality even more (to $\text{INEQ}_{\text{ITR}}$).
This simplified argumentation illustrates the usefulness of fiscal policies to reduce inequality and poverty. Nevertheless, several major problems are encountered in practice, which limit these possibilities to significant degrees. First, high taxes on the high-income individuals may have negative effects on their productive effort, reducing their amount of work or their willingness to save (or invest). So, aggregate and taxable income may decrease in comparable terms. Second, high taxes (or progressively higher taxes on the individuals with higher incomes), may induce larger tax evasion or elusion, increasing the administrative and judicial costs for authorities to collect these. Thirdly, individuals that consider that they are taxed too high may leave the country and migrate to other places where taxes are lower. Fourth, it may be difficult to compensate the poor by transfers, as information for public officials may be imperfect about who are the poor and by how much each individual ought to be compensated. Fifth, the transfer system may be costly, or corrupt, and resources left for actual redistribution may be significantly lower. Sixth, transfers may also provide negative incentives to the poor, reducing their own work and productive efforts. And seventh, differential transfers to poor individuals in a close community may diminish social cohesion, so to avoid this less efficient redistributions may be practically preferred.

To cope with these different problems, practical solutions have to be explored. For instance, schemes of flat income taxes may be considered, by which all non-poor individuals are taxed in the same percentage, so as to reduce the negative effects from progressive taxation on the high-income individuals and to facilitate tax collection and make it less costly. The relative disadvantage of flat taxes to reduce inequality, after all, may be corrected if it results in higher tax revenues that can be used more effectively to reduce inequality via transfers.
Also, the preceding analysis can lead to the wrong impression that transfers are of a pure income nature. In practice, transfers may be in species (in the form of determined goods and services), like subsidized or free access to safe water, electricity, education, healthcare, other types of social protection, credit, etc. In this case, universal subsidies must be avoided to focus limited resources available for redistribution on the individuals that need them most, but the costs of focalization (both, administrative costs, and those related with weakening of social cohesion) must be taken into account. And, it should not be overlooked that transfers can be made not only in tie-less ways, but conditional on certain desirable conducts from recipients (like school attendance, health checkups and preventive health care, etc.) to improve outcomes.

The simplified analysis presented above also erases the important fact that the public sector consists of different layers of government, and different authorities within each, which must effectively and efficiently cooperate for a tax and transfer system to function well. Tax revenues have to be shared in practice, and collaboration for the delivery of income or other types of transfers must be assured. Information sharing, monitoring and evaluation, and adequate incentives, might be needed for the whole system to function well.

Finally, as explained in Section 1, reducing inequality and eradicating poverty cannot be circumscribed to economic measures, like the ones described in this appendix to artificially compensate for deficiencies in the distribution of income that can come from problems in the endowments of assets, disparities in their utilization rates and differences in their rates of return. Inequality and poverty are largely influenced by social and political factors as well, like social exclusion, marginalization and inadequate public policies. Therefore, coherent policies have to be adopted on the fiscal side and on the social and economic development fronts.
NOTES

1 Paper presented at the International Seminar on Social Policies, organized by GTZ, the Konrad Adenauer Foundation and the Chinese Academy of Social Sciences, in Beijing, October 29-30, 2008. The author has been Undersecretary in the Ministry of Social Development of the Federal Government of Mexico, Head of the Unit for Social and Regional Development Policies in the Executive Office of the President of Mexico, and Head of Division for Regional Competitiveness and Governance in the Organization for Economic Cooperation and Development (OECD). The author is grateful to GTZ for the invitation to participate in this seminar and for financial support for this paper. The contents of the paper are the sole responsibility of the author and do not necessarily reflect the opinions of the organizers of this seminar, nor of any of the institutions in which the author has previously collaborated.

2 The costs of such advancement are of diverse types. These include the work effort of people and the sacrifice of leisure time; the postponement of consumption to later dates, so as to invest in the immediate future; and the degradation of the natural environment (pollution of air, water and earth; decrease of exhaustible resources; loss of fertile soil; diminution of varied plant and animal populations and extinction of many species; damage to diverse ecosystems and loss of biodiversity, etc.)

3 The data available worldwide for these calculations are better than ever before, as they come from 675 income surveys performed by 116 countries (whose total population represents 96% of the developing world). Those surveys included interviews with 1.2 million of randomly selected households. The corresponding estimates for different regions over the last 25 years are summarized in Table 1 in the Appendix.

4 The World Bank estimates indicate that the proportion of population with daily income below 1.25 dollars is much higher in some regions: 50.4% in Sub-Saharan Africa and 40.4% in South Asia, compared to 4.6% in the Middle East and North Africa, 5.0% in Eastern Europe and Central Asia, 8.2% in Latin America and the Caribbean and 17.9% in East Asia and the Pacific. The Bank mentions as one dramatic example the case of China, where the number of people under that poverty line decreased by 627 million, from 835 million in 1985 to 208 million in 2005, or in relative terms, from 84% to 16% of total population in 20 years. See Table 1 in the Appendix. Similarly, noticeable discrepancies among regions of the world with regard to access to public services, as it can be seen in Table 2.


6 See Tables 1 and 2 in the Appendix.

7 This does not take the considerable subsequent increases occurred between 2005 and today as a result of very high raises in food and energy prices. See: “Rising Food and Fuel Prices: Addressing the risks to future generations”, Human Development Network (HDN) and Poverty Reduction and Economic Management (PREM) Network, The World Bank, October 12, 2008. The following quote is from that publication: “There are converging estimates on the global increase in the number of poor due to the food crisis, averaging between 3-5 percentage points in global poverty rates and equivalent to around 100 million people…poverty is deepening, and that it is the really poor that are being hit hardest. Eighty-eight percent of the increase in urban poverty depth in the wake of rising food prices is from poor households becoming poorer and only 12 percent from households falling into poverty. This increase in poverty depth is roughly equivalent to 1 percent of GDP for a typical less developed country”.

8 See Table 2 in the Statistical Appendix.

9 All these figures are from Table 2 in the Appendix and reflect best available data from different entities within the World Bank Group. Nevertheless, further monitoring of trends and refining of calculations will be needed, as projections are largely based on demographic and economic trends, yet the subsequent impacts from global climate change and from eventual regional or sub-regional conflicts are difficult to estimate within reasonable intervals.

10 See UNDP (2000).
The World Bank considers that the present trend of decrease in the number of people with daily income below 1.25 dollars, at the rate of 1% annually, is in line with achieving this goal. Nevertheless, as mentioned in the text, efforts should go beyond to further improve the living conditions of 1 billion people that would still be under that poverty line, or 2.5 billion under the 2 dollars a day line.

Due to distinct analytical methods, conceptual frameworks and research foci.

In the sense that their benefits reach all individuals or subgroups more uniformly.

Statistical analysis looks at all individuals in the wider group and describes how a vector of characteristics attached to each of them takes on different values across individuals, or among or within subgroups. The characteristics most often considered, on the basis of censuses or survey data, are of different nature: economic (income per capita, wage income, profit or rent income, income from remittances by migrants, taxes paid and transfers or subsidies received, unemployment, hours or days worked, sector or activity and type of occupation, assets owned as land or physical or financial investments, expenditures on or prices paid for determined goods and services –like food, clothing, healthcare, education, housing, transportation, etc.-, insurance of different kinds, etc.); biological and demographic (age, life expectancy, number of children and age at birth, incidence of determined diseases, death causes, nutrition, etc.); education and skills (years of schooling, highest education level attained, proficiency in different fields –like languages, reading, math and sciences, etc.-, time spent on formal or on-the-job training, etc.); social (size of household, type of household head, ratio of dependents to working members, number of migrants from the household, membership in diverse associations or time spent in their activities –faith related, community organizations, etc.-, degree of trust on diverse institutions –family networks, communal organizations, trade or labor unions, or governmental, military, judiciary, religious and other kinds of institutions–, etc.); access to public services or infrastructure (treated water and sewage, electricity, roads of different types, information and telecommunication technologies, etc.); types of dwelling (space, different rooms, number of inhabitants, construction materials, etc.); geographical (size of locality of residence, location, distance to key infrastructure, commuting time from home to work; etc.) and so on. The subgroups of population usually analyzed to assess differences in these characteristics include: men or women; rural or urban, or size of locality, or geographical region. And, of course, multivariate distributional analysis is often performed, as allowed by the availability of data. In this respect, of great importance for the study of poverty, marginalization and social exclusion are the contrasts in these characteristics among subgroups defined by income range (quintiles, deciles, etc.).

Its applicability is growing, as statistics become available with greater detail, periodicity and timeliness. (The availability of statistics in developing countries has increased in a remarkable way. As mentioned in footnote 3, for example, income surveys that were carried out only for a few countries and sporadically two decades ago, are now available for a large number of countries, even periodically. Yet, some statistics are more common than others, and some exist only for a few developed countries, like commuting times from home to work, migration, etc.). However, while it is relatively straightforward to apply statistical analysis when and where datasets are available, it is often difficult, costly and time-consuming for policy makers to induce the gathering of new or different statistics as required by evolving economic, social or geographical phenomena and, thus, emerging challenges need to be analyzed by different methods.

The degree of tolerance for inequality varies over time and from one human group to another. For example, Gini coefficients (as a measurement of overall inequality) of the distribution of personal income vary largely across countries and tend to remain without significant change over long periods of time.

This definition used for empirical analysis has two shortcomings. First, conceptually, it is wealth, and not income, that should be considered. Wealth can translate into an income stream over different periods through financial transactions, thus it is the true constraint on intertemporal consumption; but, since wealth is usually unobservable, empirical researchers finds practical to use income as a relevant variable. Second, income is usually taken in empirical research as monetary income, and the term “obtained” is referred to exchanges or transactions through markets. These are restrictive notions, as often the poor satisfy needs through self-production. Therefore, empirical researchers circumvent these facts by imputing monetary equivalents to self-produced goods and services, on both the income and expenditure sides. Both shortcomings are not found in the definition phrased in terms of “economic means”.
The quantity and types of goods and services expressly considered when this definition is empirically applied depends on the objectives of analysis. When these are circumscribed to the most basic consumption goods (like essential foodstuffs, medicines and healthcare, minimal housing services, for example), the individuals or groups that can’t afford this are denoted as extremely poor. If the quantities and types of goods and services include other less basic items, still within the category of necessities (like transportation, education or recreation services, for instance), poverty is defined by degree, according to the needs considered: moderate poverty, light poverty, etc.

Actually, these concepts about poverty are not only applicable with regard to the members of a subgroup vis a vis other groups, but also within the subgroup itself. Indeed, it has been recognized that there are poor within the poor. Moreover, even within a poor household, anthropologists and sociologists perceive that there are poorer individuals, usually females. Indeed, in poor households in many developing countries, women command less economic means and enjoy more limited rights than men, which make them poor among the poor.

The threshold between poverty and non-poverty is commonly reduced, for analytical purposes, to a line (the poverty line). However, the difference in living conditions between individuals or groups slightly on either side of the line may be practically unnoticeable. This is why it makes sense to think in terms of degrees of poverty, or poverty depth, looking at how far every individual or group is from the poverty line. A statistical index to measure this was developed by Foster-Greer-Thorbecke. A similar approach is to consider several poverty lines, corresponding to the satisfaction of very essential needs, basic needs and other important although less crucial needs, to analyze the conditions of the different degrees of poverty between those lines. This is the approach taken in Villarreal and Sojo (2004). However, the truly fundamental issue is that poverty in real life is not an objective, but a subjective reality: the perceptions about poverty by the individuals or groups themselves, and not by an external analyst or policy maker, is crucial for determining welfare, as well as to understand economic, social and political behavior. Some empirical research on perceptions about poverty has been carried out in diverse countries. See for example The World Bank (2000), based on direct interviews to 60,000 direct interviews to poor women and men, in 60 countries around the world. Clearly, perceptions about poverty vary across individuals and groups at a given point in time, among different regions and in different epochs. Perceptions about poverty, for instance, are quite different between rural and urban areas in a given country at any time. Poverty, in sum, must be framed in cultural and historical settings, as the situation in which an individual or group perceives himself as lacking what is socially necessary in his lifetime to attain the minimal conditions for a satisfactory human life.

In some countries, “poverty” is officially defined as the situation of those individuals or groups whose income per capita is below 60% of the median per capita income of the population. This should not be misleading: it is a particular coding for administration of certain social development programs. Indeed, although the term “poverty” is employed, the underlying concept clearly refers to a notion of inequality. Sometimes this is also taken as a concept of relative poverty, to distinguish it from the notions discussed in the text, which refer to absolute poverty.

For instance, this is the way world poverty is measured in the Introduction.

Alternatively, these are sometimes named natural capital, human capital, physical capital, intellectual capital and social capital, in the same order. The term capital—from its etymology, based on the notion of livestock, seen as a number of heads (capitae) of cattle- alludes to something that an individual manages to satisfy his or her needs, and which is reproducible, can be accumulated or consumed depending on investment-savings and consumption decisions, can depreciate, etc. As these essential characteristics are observed about natural assets (land, water, woods, fisheries, etc.), human assets (skills, strengths, capacities, health, etc.), physical assets (buildings, equipment, machinery, etc.), intellectual assets (knowledge, inventions, etc.) and social assets (relationships with others that provide help or support, access to certain opportunities, etc., on the basis of reciprocal trust and shared values), the term capital is applied to all of these.

Contrary to private goods, whose consumption or use by someone precludes its availability for others, public goods can simultaneously be enjoyed by all or by large numbers of individuals. For example: safe and lighted streets, police and security services, community centers, etc. Since it is impossible to charge each individual
directly for his utilization of these goods, cost recovery through user fees is not viable and, therefore, the supply of public goods is entrusted on public entities financed by transfers of public income.

25 This should be distinguished from the concept of social capital discussed before (See footnote 18). Social cohesion is kind of a public good that (like macroeconomic stability or the Rule of Law) can be simultaneously enjoyed by all individuals or groups, and the more some of these benefit from it do not diminish the capacity of others to also enjoy its favorable effects. Social capital, in contrast, is more of a private nature: it corresponds only to the respective individual who, through his or her personal connections, knowledge or relationships with other individuals can call upon them to obtain support for his or her actions.

26 To mention only a few examples: misleading diagnoses regarding the nature and causes of poverty or inequality (for instance, circumscribing these to economic interventions and ignoring social and political factors, concentrating on interventions suited for the extreme poor but actually applied on the moderately poor, or following urban contexts approaches that are suited rather for rural regions and vice versa, etc.); errors in targeting of specific policies, or from directing these to individuals or groups that are not always those that policies are conceptually aimed at (for instance, due to political biases), or from failed information or communication to the individuals or groups supposed to self-select themselves to obtain the benefits; miscalculations about the time and resources required for policies to attain desired impacts; mismanagement of resources devoted to these policies (untimely disbursements, high administrative or bureaucratic costs, insufficient coordination among diverse entities in charge of policy application, insufficient monitoring and evaluation of resources and impacts, inadequate capabilities of public officials in charge of policy application, corruption, etc.); and overlooking of undesired effects on the poor resulting from other policies (like destabilizing macroeconomic policies that result in high inflation and abrupt exchange rate movements or large contractions of aggregate demand and major losses of employment, regulations that increase the costs of basic consumption goods and services -including trade related policies-, ineffective application of competition laws that tolerate monopolistic or oligopolistic practices in the markets accessed by the poor, incomplete land use and infrastructure planning that result in excessive costs of housing and transportation for the poor, ineffective environmental regulations that do not ensure sustainability of development or do not prevent negative impacts on the natural resources of regions where the poor inhabit, etc.), and innumerable other errors or inefficiencies in public policies.

27 Besides contributing to policy coherence, as discussed in the text, public participation about public policy making is important for creating transparency, ownership and accountability. All this reinforces policy effectiveness and efficiency.

28 For instance, the World Bank. See The Voices of the Poor.


30 Streamlining is of course highly important and can contribute to enhance coherence, effectiveness and efficiency of overall development policy, but moves in this direction require that fundamental tasks be pursued at the outset. From the policy supply side, basic steps would encompass more systematic evaluation (to compare performance, outcomes and impacts from diverse policies) and assessment of different capacities, incentives and governance of entities in charge. Concurrently, from the policy demand side, much research is needed as well, including cultural factors, values and incentives, reactions from diverse groups and interactions among these regarding different policies, perceptions about entities in charge, relative acceptance (in general and under specific circumstances) of local or higher-level development policies, etc.

31 However, these sectors or industries seldom exhibit dynamic innovation and productivity growth, so even if their expansion may help reduce inequality and poverty, it is not necessary the case that this fosters overall economic growth at high rates. To attain both, decreasing inequality and poverty, with more rapid aggregate growth, a policy mix would be called for, combining certain bias towards unskilled labor intensive sectors, with additional policies – like labor training and diffusion of better technology in these sectors- in order to accelerate growth in a pro-poor fashion.
Justin Lin (2003) argues, for the case of China, that if regional comparative advantages had been adopted as a criterion to guide investment in public enterprises in the People’s Republic of China in the second half of the Twentieth First century, income disparities across Chinese regions would have been smaller, as more demand for labor would have increased incomes for larger numbers of workers, particularly in labor abundant regions. His analyses indicate that, on the contrary, income distribution became more unequal, because those comparative advantages were not utilized and, instead, public enterprises adopted highly capital intensive technologies.

De Aragao, Murillo (2008).

See Table 2 in the Appendix.


As consumption taxes are in some ways easier to administer than income taxes, they are commonly used in many countries. These have the advantage of inducing lower consumption and higher savings, thus facilitating finance of higher aggregate economic growth. But these taxes are regressive in terms of the personal income distribution, as individuals with lower incomes spend a higher proportion to satisfy their consumption needs, and thus pay proportionately higher taxes. Other countries rely on a flat income tax, to eliminate excessive administrative burden, reduce evasion and raise collection. In this case, tax neutrality is achieved as all individuals pay the same proportion of their income, regardless of the decile they are in the personal income distribution, and while this may be efficient to generate public revenues (and finance public goods) it does not bound or diminish income inequality.

Certainly, transfers are most commonly used to address poverty, while progressive taxing is more suitable in relation with income inequality. In practice, a close connection tends to be established in countries where poverty is large, as public revenues to fund transfers come from taxes collected within a general public revenue system, to some extent designed also for distributional purposes.

For a complete description of the program, see: www.oportunidades.gob.mx

In the past, transfers had been granted to agricultural producers by means of guaranteed product purchases at official prices, which usually translated into a reasonable return. Although changes in relative prices (from recalculations of official prices year after year) biased over time the producers’ decisions regarding crops, transfer income for every producer under this earlier policy was proportional to output and, therefore, it provided incentives for effort and productivity. With this as a background, the initial rules of Procampo mentioned in the text represented a compromise between the policy approaches of the ministries of agriculture and finance, the first seeking agricultural output goals, and the second looking for a more liberal reallocation of productive factors away from agricultural activities that were not internationally competitive.

However, many public entities have still not fully assimilated this notion and numerous rural development policies remain linked to agricultural objectives: training, technical assistance, infrastructure investment, finance, etc.

The program for milk production by rural cooperatives in India, known as Operation Flood, is commented.

See for example Scott, J. (XXXX).

See Vellinga and López (XXXX). For more recent periods, although at the national level, see Scott, J. (XXXX)

Taking as background this inefficacy of disperse non-targetted subsidies, the strict focalization on the extreme poor from programs like Progresa/Oportunidades (previously commented in the text) must be appraised.
It has been documented that in some countries agrarian reform distributed land more evenly in quantitative grounds, but not in qualitative terms, since land of best quality was not always distributed to the same extent.

In Mexico, for example, agrarian reform began immediately after the armed phase of the Revolution (1910-1917). Redistribution of land advanced at different speeds over the next decades and continued until the eighties. Since the twenties, major programs to build hydraulic and irrigation infrastructure were initiated. Development banks for rural activities were created over time (BANJIDAL to finance collective agriculture in ejidos, BANRURAL for direct loans to rural producers, FINAZA for the sugar cane industrial chain, FIRA a guarantee fund in the Central Bank to induce commercial banks to provide credit to agricultural activities, etc.).


These are nowadays policy challenges common to many countries. As a reference, see the discussion about the Mexican agricultural transfers program, Procampo, in the preceding sections.


In practice, skills are difficult to observe and measure directly through surveys. Therefore, some indicators based on measurable terms and that a priori are correlated with skills are commonly considered: years of schooling, time spent on different productive activities, length of training courses taken, etc. One systematic effort to measure intellectual skills is the yearly survey (PISA) performed by OECD among enrolled students of age 15. Yet, skills of diverse nature and among different age groups need to be further researched.

Beyond increasing human capital, formal education or training, because of credentials that function through screening mechanisms in the labor market, facilitate access to better segments of the labor market, in which jobs are of better quality because they provide social security (healthcare insurance, retirement pensions, etc.).

There is some highly technical policy debate regarding subsidies for education and training. Microeconomic theory, assuming perfect foresight and complete information, concludes that individuals make optimal education investment decisions considering the returns to education through labor markets, and the direct and opportunity costs for individuals from going through education. In this framework, human capital acquired through education is seen as a private good and, therefore, it is argued that subsidies distort optimal individual decisions. However, this perspective is challenged on theoretical grounds, when it is considered that individuals do not have perfect foresight (but actually have intertemporal myopia and their plans are decided more on short- and medium-run horizons), they do not have either perfect information (they are not well aware of the marginal wage increases that the market pays to additional education) and there are externalities to other economic actors from the education received by every individual (as in clubs, networks or language economies, the larger the number of individuals that participate, the better for all others), and therefore, under these conditions, rational decisions by individuals result in an underinvestment in education that requires subsidy policies to reach socially optimal levels. Nevertheless, policy makers generally do not circumscribe their policy decisions to this debate, but additionally take into consideration matters as equity and inequality.

In some cases, the cost of mandatory on-the-job training for private firms is compensated by tax deductions.

The causes of this relationship are many. Among these, four clearly stand out. First, children from low-income households quite often need to enter into income generating activities, and abandon school at earlier grades. Second, these children have fewer resources to acquire books and utensils, pay for public transportation to school, etc. Third, their health and nutrition is lower, and absenteeism is therefore more frequent. And fourth, poverty in their households is commonly a reflection of low human capital of their parents, so the limited cultural and educational background at home is not an adequate platform for their formal education. For these and other reasons, both attendance and accomplishments are lower among kids of poor or low income households.
56 See www.sep.gob.mx


58 See www.nddb.org/aboutnddb/operationflood

59 See www.economia.gob.mx

60 See the discussion on inadequate public policies, social exclusion and the lessening syndrome, in Section 1.

61 For more information, see: www.fonaes.gob.mx, www.sagarpa.gob.mx and www.sedesol.gob.mx

62 The successful experience of the Grameen Bank in Bangladesh has not always been replicated with similar positive results. In the case of Mexico, as commercial banks were not actively promoting microcredit as a business, the government created several public microcredit programs (PROMUR, for rural female entrepreneurs; PRONAFIM, for a more diverse clientele, etc.). The dispersion of programs’ operating rules, objectives, geographical presence, etc., resulted in relatively inefficient operations and low visibility before the targeted population. Therefore, in 2005 a major restructuring was pursued. In the meanwhile, several private banks have started different microcredit programs. Yet, insufficient competition has resulted in considerably high real interest rates, as publicly pointed out by Mohammed Yunus, Nobel Laureate with world experience in microcredit after his pioneering activities in the Grameen Bank.

63 For examples on this in the case of the People’s Republic of China, see Lin (2003).

64 In Mexico, public funding to support NGOs is coordinated by the National Institute for Social Development, INDESOL.

65 See World Bank(XXXX), ARTICLE ON SOCIAL RIGHTS AVAILABLE THROUGH INTERNET

66 See footnote s 18 and 20.

67 See www.haaretz.com/hasen/spages/968459.html

68 Like total population growth, geographical disparities due to differential rates of birth and mortality or because of migration, aging, and changing morbidity.

69 This includes workers in private firms and in public enterprises, which get social security on mandatory terms, and the self-employed in the formal economy, which contract social security on mandatory or voluntary terms.

70 Funding of pensions is another key challenge for the financing of social security systems. Regardless of its undoubted higher importance, this problem is not discussed in the paper because of its inherent extension and because the debate in most countries has already generate large amounts of literature and information.

71 See www.seguro-popular.salud.gob.mx

72 Of course, geographical differences in poverty and inequality are not only explained by factors that cause certain zones to lag, but also by phenomena that contribute to faster progress in others. The latter case is related to considerable extent with diverse economies of agglomeration that favor stronger growth in urban or metropolitan areas.

73 This has several implications. First, the degree of competition is lower in this case, and the local economy faces fewer incentives for price and cost reductions, and innovation, so efficiency and productivity increase at a lower pace; in large urban agglomerations, the opposite occurs. Second, many markets just do not exist in relatively
isolated areas, particularly if they are distant from major areas, such as modern financial markets, markets for certain capital goods, technology, labor with special skills, high-level health services, etc.; thus, options for consumers and producers are relatively limited, lowering welfare and business opportunities. Thirdly, given the limited size and low growth of the local market, competitive producers invest less, resulting in lower income growth; access to larger markets, outside the region, would permit larger sales, and in some cases exploitation of scale economies. However, a fourth effect (which is just a short run implication of the first one) goes in the opposite direction: increasing infrastructure to interconnect a region with others, brings competition from extra-regional goods into the local market, so local producers must adapt to the new conditions and make adjustments to increase their own competitiveness; doubtless this has beneficial effects in the future, but immediately it creates some local pressures for change.

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74 This is not a simple task. The World Bank and the European Commission (through DGRegio) started in 2007 a collaborative effort to this aim, recognizing that available databanks are very limited and that modern information technologies (like Geo-referenced Information Systems, GIS) have not been sufficiently applied. An important point, moreover, is that existing databanks do not capture many key technical specification data about infrastructure projects. Usually, attention has privileged data on costs, capacity and total investment, but data to assess efficiency, access, reliability, etc. have not been systematically collected.

75 The Constitution of Mexico mandates since the mid-eighties, in article 25, that a Nation Planning System must exist and that a National Development Plan must be published, applied and evaluated in every 6-year presidential term. The broad concepts provided in the Constitution are made more precise in the National Planning Law. Over time, successive National Development Plans have adopted more flexible approaches. Nowadays, planning is circumscribed to establishing development priorities in economic, social, environmental and political fronts for every new federal administration, presenting respective strategies to be followed and determining responsible authorities, as well as expressing ways in which the private and social sectors may contribute to development along these lines. No detailed or quantitative elements are comprised. The National Development Plan enhances accountability for public entities and serves as a basis for public sector budgeting every year within the presidential term.

76 The model for governance in relation to regional development introduced by the reforms to the Mexican Law was positively inspired by the model of Canada, in which four Regional Development Agencies serve both, federal and provincial entities, to articulate effective and equitable policies.


78 According to the narrow economic definition of poverty, the lack of access to public services augments the probability of being poor, in two ways. On the income side, to the extent that lack of access to certain public services lowers productivity and income, it augments the probability of individuals or groups of generating not enough income. On the side of prices for basic goods, if some public services (like water or fuels) are included among these, the fact that individuals or groups not served regularly or formally by public utilizes in determined areas implies that they must buy these elsewhere at higher prices, which also reflects on a higher probability of being poor. Moreover, the broader humanist definition of poverty directly captures the effect from lack of access to public services: individuals are deprived of some basic goods and services required to fully exert their human potential in several concrete ways: health is negatively affected by the lack of water and sewage as infectious diseases are more likely, similarly the lack of electricity makes food conservation more difficult and again affects health and nutrition, the lack of electric power also prevents children from studying at home and makes domestic work more labor intensive preventing females to engage in other activities (including extra-domestic paid work), and so on. For all this, lack of affordable access to public services tends to increase poverty.

79 There are also cases in which for normal consumption volumes the population in some regions can pay the adequate prices, but due to local conditions (such as climate) they may have demand extraordinarily larger volumes that they cannot afford. This is observed about electricity in very hot regions, or fuels in very cold ones, etc.

80 These concerns have been publicly expressed for example, by public authorities and private sector leaders in quite diverse metropolitan areas, like Toronto, Madrid, Amsterdam, etc.

82 See Arellano Cueva, Rolando (2008).

83 Thus, it makes complementary and not mutually exclusive the top-down and bottom up approaches to social policy.

84 In 2001, for example, any person or organization could participate through mail or internet.