

# Quarterly Knowledge Report



## INTERVIEW



**14** Jorge Abrahão de Castro, director of the reputed Social Studies and Policy Department of Brazil's Applied Economic Research Institute—IPEA, explains some of the dynamics of the country's poverty and inequality gains.

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## KEY DATES

- **Launch of the 2012 World Development Report: Gender and Development**—Washington, September 19
- **Latin America Gender Report Launch**—Washington, October
- **World Conference on Social Determinants of Health**—Rio, October 19-21
- **Brazil CPS Board discussion**—Washington, November 1
- **America's Conference**—Miami, November 14

## GOBIND NANKANI: A FRIEND OF BRAZIL

EDITORIAL BY MAKHTAR DIOP

This edition of the Brazil Quarterly Report is dedicated to the memory of Gobind T. Nankani, Director of the World Bank for Brazil from 1997 to 2001, Vice-President of the Bank and Executive Director of the International Growth Centre. He passed away on September 9.

No one who worked with him will forget the passion and dedication with which he labored for the good of the others, his deep commitment to improving the lives of the poor and his affection, respect, and generosity in dealing with everyone. Gobind was truly someone you do not come across every day.

He never shrunk at adversity, always embracing the most difficult jobs in the most thorny circumstances with enthusiasm. This was true when Gobind came to Brasília as the first Director of the World Bank to be based here, in 1997.

The world was experiencing the Asian and Russian financial crisis and Brazil was being particularly hard hit, because of its exchange regime.

Gobind was instrumental in helping Brazil engineer a protection package with other multilaterals that greatly attenuated the effects of the crisis and helped the survival of the Real Plan.

He led a “dream team” to help Brazil consolidate its fledgling fiscal responsibility, social security and social protection reforms, all of which are recognized as fundamental to what Brazil has accomplished since.

It was under Gobind that the landmark PPG7 environmental initiatives gathered strength and reached their peak. Their innumerable fruits have opened whole new dimensions for Brazil's environmental agenda and achievements, many of which will be celebrated in next year's Rio +20.

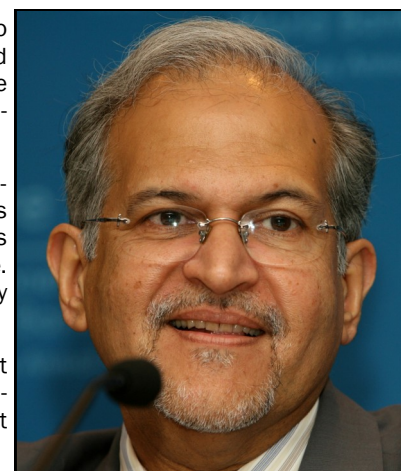
Knowledge was a central part of all this, and Gobind had remarkable analytical skills and was known for his intellect and the high quality of his advice. Many of the knowledge activities done by the Brazil CMU under his leadership are recognized as among the best produced by any country team.

Gobind's passion for knowledge and ideas is also clear from his last two positions, as head of the Global Development Network and the Growth Commission. Both entities are fundamentally knowledge-based, and Gobind was the perfect choice to lead them and push for debate at the highest levels of academia, governments and the development community.

However, despite his keen intelligence, deep knowledge and many accomplishments, Gobind was a quiet, modest and unassuming man. He emanated a natural elegance as a person – in his always warm and caring politeness, a source of sound advice for all who came to him.

In his passing we have lost a great and good friend, whose encouragement, counsel and wisdom have meant so much to so many of us over the years.

Gobind was a true friend of Brazil, and Brazil will always be indebted to this remarkable African.



Makhtar Diop  
Brazil Country Director

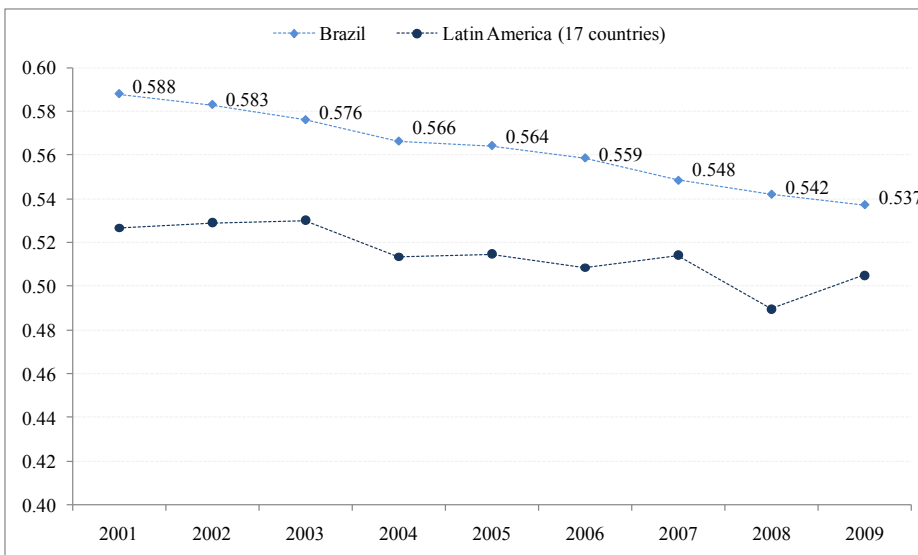


# DECLINING INCOME INEQUALITY IN BRAZIL: WHAT DO WE KNOW?

Luis F. Lopez-Calva

Figure 1: Gini Coefficient in Brazil and Latin America (17 countries)

After decades of persistent disparities, inequality in Brazil has fallen steadily over the last fifteen years. The country's robust rate of decline, which has surpassed the pace of the Latin American region as a whole, befits taking a closer look at some of its main drivers. Macroeconomic stability, educational improvements, and government transfers have all played a role in the reduction of income inequality. This article highlights the main points of a World Bank note by Lopez-Calva and Rocha that examines the recent trend in income inequality in Brazil, its key policy drivers and some of the challenges ahead.



Source: Own calculations based on data from SEDLAC (CEDLAS and the World Bank).

## Inequality in Brazil – Past and Present

Brazil has long been known as an unequal country, not only in terms of income but in the various dimensions of inequality. Inequalities have been manifest in disparities in access to basic services, concomitant outcomes in health, education, and other measures of wellbeing, as well as differences in income, which is the principal theme of this note.

Income inequality in 1960, already high by international standards as indicated by a Gini coefficient of 0.504, continued to increase in the following decades. It rose during Brazil's period of economic expansion in the 1970s, as well as in the low-

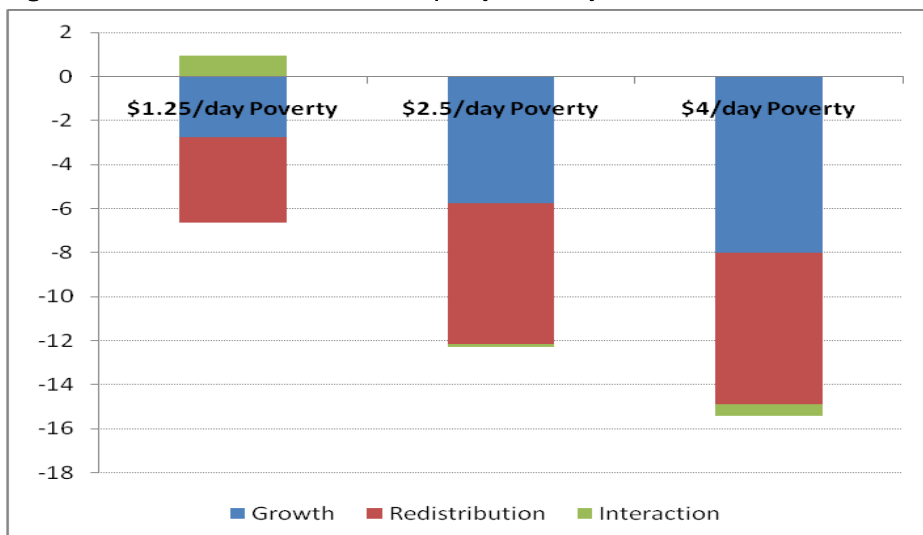
growth, high-inflation years of the 1980s (the Gini rose from 0.561 in 1970 to 0.592 in 1980; and reached 0.607 in 1990, PNAD). High levels of inequality persisted in the mid 1990s, even as Brazil achieved monetary stabilization and attained middle-income status. The higher average income of these years (US\$ 4,800 annual per capita income) concealed a profound inequality: the poorest 50 percent of the population accounted for the same share of total income as the

richest one percent (around 13 percent).

Over the last fifteen years, however, income inequality in Brazil has declined, reaching a Gini coefficient of 0.537 in 2009. Although still high by regional and international standards, inequality in the country is on the path to converge to the regional average (0.501). Declining inequality is not unique to Brazil in the region, yet inequality here has declined at a faster pace than elsewhere in Latin America: after 1997, inequality declined by 0.8 percent per year; while from 2001 on, the rate accelerated to 1.07 percent per year, well above the regional pace of 0.63 percent.

Reducing inequality matters in a normative sense. Yet, declining inequality has also played an instrumental role in the mediation of the relationship between economic growth and poverty, by enhancing the poverty-reduction impact of growth. Decomposing changes in poverty between 2001-2009, we assess the relative importance of the improvement in income distribution vis-à-vis that of economic growth to the reduction in poverty. The estimates suggest that the decline in inequality has been crucial, accounting for 45 percent of the total poverty reduction during that period, and an even higher

Figure 2: Contributions of Growth and Inequality to Poverty Reduction in Brazil, 2001-2009



Source: Own calculations using data from SEDLAC (CEDLAS and The World Bank). Decomposition follows Datt and Ravallion (1992).

share in the case of extreme poverty (52 percent and 68 percent of total poverty changes at US\$ 2.5/day and US\$ 1.25/day, respectively) (Figure 2).

A common tool to illustrate the pro-poor quality of growth is the growth incidence curve (GIC) that shows the income change in real terms by income group. Displaying the income growth rate between two points in time at each percentile of the distribution, the downward sloping GICs indicate that poorer groups benefited more from growth than the richer ones (Figure 3). The curves reinforce the evidence provided by a falling Gini coefficient: economic growth has had a decisively progressive impact in Brazil over the last decade or more.

But, what do we know about the sources of inequality decline? The following sections review the evidence.

**Explaining the decline**

From an analytical perspective, the classic Tinbergen’s observations on the tension between educational upgrading and technological change may provide important insights into Brazil’s declining inequality. As in Latin America as a

**Figure 3: Growth Incidence Curves for Brazil, 2006-2009 and 2008-2009**



Source: World Bank (2011).

whole, Brazil’s declining earnings gap between high and low-skilled workers is associated with the educational improvements that changed the profile of the labor force, making relatively unskilled labor scarcer. In the region, the educational upgrading allowed a skills ‘catch up’ vis-à-vis the impact of skill-biased technological change that took place after structural reforms in the 1990s.<sup>1</sup>

To analyze the change in inequality in Brazil, the decomposition exercises have

focused on the two main sources of income, namely, income from labor; and income from transfers<sup>2</sup>. Income from labor accounted for the largest share of changes between 1997 and 2009; representing by some estimates more than two-thirds of the reduction in income inequality. Within labor income, the expansion in education and subsequent declining returns played a predominant role in the change in inequality. On the other hand, although income from non-labor sources accounts for a relatively low-share of per capita household income, it has had a significant impact on the reduction of income inequalities. The rest of this section will address the roles of education policy, government transfers, changes in macroeconomics and demographics, and the minimum wage, in reducing inequality over the last fifteen years, through their impact on labor and non-labor income.

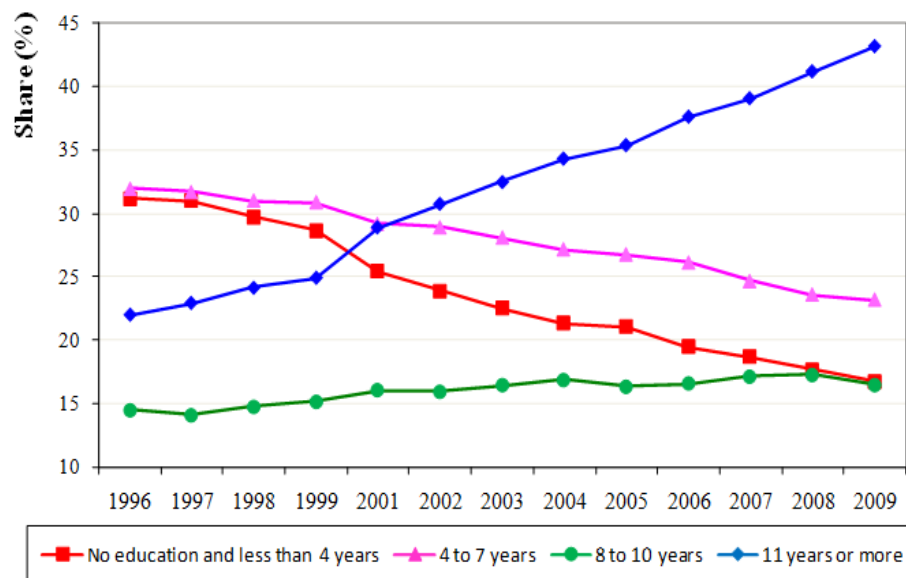
Income from labor, accounting for 76.2 percent of Brazilians households’ income in 2009, has been the main observed

1. See World Bank (2011) and Lopez-Calva, L.F. & N. Lustig (eds.) (2010) *Declining Inequality in Latin America: a Decade of Progress?* Washington, DC: Brookings Institution.

World Bank (2011) “A Break with History: Fifteen Years of Inequality Reduction in Latin America”, LAC Poverty and Labor Brief.

2. For specific references see the complete report, Lopez-Calva, L.F. & S. Rocha (2011) “Declining Income Inequality in Brazil: Learning and Looking Forward”, The World Bank.

**Figure 4: Percentage Share of Workers by Years of Schooling, 1996-2009**



Source: IBGE/PNAD (excluding the North Region rural area).

determinant of decreasing inequality, both in periods of economic buoyancy as well as during slumps. Although low rates of economic growth between 1997 and 2003 led to declining incomes, the negative impact on workers in the bottom strata was less drastic than on workers higher up the distribution scale (partly due to the fact that wages at the lower end of the spectrum were protected by reforms to the minimum wage; between 1997 and 2009 the value of the minimum wage increased by 70 percent). Workers in the bottom income groups experienced real pay increases between 1997 and 2003 while the groups at the top faced losses, equalizing incomes. When economic growth resumed and incomes recovered from 2004 on, the positive distributive trend was maintained. The higher income growth rates in the lower income percentiles - enabling continued convergence of labor incomes across earnings groups - have been strongly associated with educational improvements.

Brazil's historical inequality in labor income derived in large part from inequali-

ties in education. The concerted policy reforms from the mid 1990s altered the state of affairs, leading to education improvements that, in turn, were largely responsible for a more equitable income distribution. The reforms, and in particular *Bolsa Família* contributed to the equalization of educational attainment, including the reduction of intergenerational inequality: in 1993, the child of a father with no formal education would complete on average 4 years of schooling; currently, Brazilian students complete between 9 and 11 years of schooling, regardless of their parents' education. While educational developments initially benefited everyone, the rise in average years of schooling (from 6.4 in 1997 to 8.2 in 2007) progressively led to a decline in educational inequality. As average education levels rose (by 2009 workers with 11+ years of schooling represented over 40 percent of employed people, see Figure 4) the premium commanded in the labor market by an additional year of schooling began to fall. The schooling profile of the labor force changed, making relatively unskilled labor scarcer, thereby driving down the

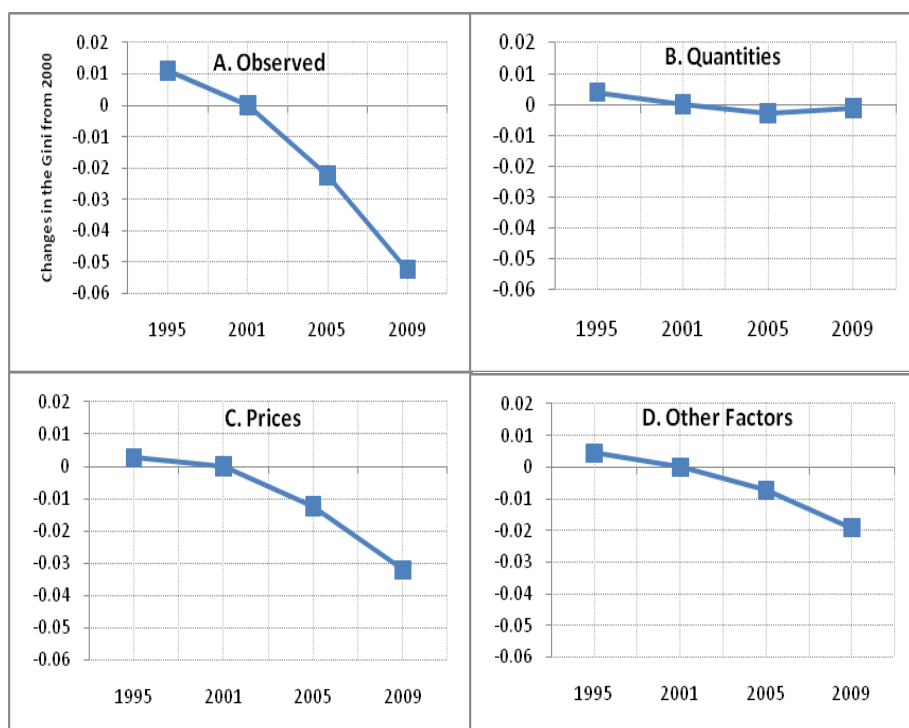
wage premium: average returns to education fell from 14.5 percent in 1997 to 12.2 percent in 2005 (Barros et al., 2010). The reduction in education inequality and the closing of wage differentials by workers' schooling levels has been estimated to account for over 50 percent of the decline in income inequality.

The importance of declining returns to explain the change in inequality is illustrated in Figure 5. Decomposing labor income into the quantity effect (the distribution of education and experience), the price effect (returns to education and experience), and unobservable characteristics, we find that from 2001 on, a decline in returns to skills (price) drove a reduction in labor income inequalities.

Other factors, including macroeconomic and institutional changes, also contributed to the decline in income inequality. Macroeconomic stability, following the introduction of the Real Plan in 1994, became an enabling environment for inequality reduction in Brazil - including through the reduction of the "inflation tax", which had harmed less wealthy individuals disproportionately. Demographic changes, including lower fertility rates in the lower income strata, also had positive redistributive effects.

Turning to the non-labor sources of income, social security and social assistance programs have played an increasingly important role in the reduction of inequality. Although non-labor sources still account for a relatively low-share of households' income, social policy reforms since 1988 have led to expanded coverage and increases in the value of social security and cash benefits paid out. By some estimates, the increase in contributory and noncontributory government transfers was responsible for more than 40 percent of the reduction of the Gini index during the 2001-2007 period. Not all transfers have had the same effect. Targeted transfers, indexed to the minimum wage such as the *Benefício de Prestação Continuada* (BPC) have shown a positive redistributive effect, while social security programs that are not targeted to the poor have shown to be regressive (i.e.

**Figure 5: Decomposition of the Labor Income Gini Coefficient in Brazil**



Source: World Bank (2011) using data from SEDLAC (CEDLAS and The World Bank). Labor income is based on individual hourly wages. Decomposition follows Juhn, Murphy & Pierce (1993), and Foguel & Azevedo (2007).

the Public Servants Pensions System, RPSP). The impact of federal programs also varies according to their different scope. For instance, *Bolsa Família* accounted for a much higher share of the reduction in Brazil's Gini coefficient between 1997 and 2009 than *Benefício de Prestação Continuada*, in spite of the lower amount of the former's transfers<sup>3</sup>.

On the other hand, the role of the minimum wage as a driver of declining income inequality is yet to be analyzed in its entirety. Increases in the minimum wage since the mid 1990s appear to have had a positive effect on inequality. In addition to its redistributive impact as an index for social security programs, the wage increases have acted as a signal for salary renegotiations at the lower end of the earnings spectrum, with suggested positive impacts on distribution. Nevertheless, no study to date

**3. *Bolsa Família* pays smaller benefits but reaches more beneficiaries, with a cost of transfers 35 percent lower than BPC expenditures.**

has convincingly established the impact of the rise in the minimum wage on labor market distortions. Alternatively, whether the wage policy is the most efficient path to reduce income disparities - for instance in comparison to allocating its resources to social programs - remains a matter of debate.

### Looking forward

Sustained inequality reduction without compromising efficiency and growth represents a key challenge for Brazil. While the country has made strides in reducing income inequality over the last fifteen years, the future pace of transformation could be compromised by skills shortages. In addition to consolidating the stable macroeconomic environment, the following avenues represent potential sources for sustained inequality reduction in the future.

In terms of education, efforts to date have focused on *quantity*, yet equalizing the *quality* of education across income groups represents an important challenge. Further reform of the education system is

necessary to ensure that income from labor continues to evolve progressively. Addressing the fiscal sphere from an inequality viewpoint also constitutes a key challenge. Brazil's heavy reliance on indirect taxes burdens the poor disproportionately, while the current personal income tax framework has no impact on income inequality. Concurrently, delinking social transfers from the minimum wage can help minimize potential distortions in the labor market and free up resources to invest in more efficient pro-poor mechanisms, potentially strengthening more ambitious strategies such as *Brasil sem Miséria*. In terms of social programs, effectively focusing on the most vulnerable groups (the *distribution* of services) could improve the equitable distribution of basic services provision, creating a virtuous cycle between greater equality of income and greater equality of opportunities. Finally, ensuring that the composition of future economic growth demands high-skilled labor will also contribute to sustain inequality declines [BET](#)



Wardscorner Community Coalition

**Paradise City** - A view of the Paraisópolis shantytown, embedded in São Paulo's wealthy Morumbi neighborhood.

# MAKING BRAZILIANS SAFER

By Rodrigo Serrano-Berthet

**B**razil is a country of strong internal contrasts; crime and violence is no exception. Over the past ten years, Brazil's southeast region has experienced a massive decline in its homicide rate, while the northeast and northern regions have seen marked deteriorations. The net result of these opposing trends has been a modest decline in the national homicide rate. A recent report looked at the determinants of the crime shift at the national level, reviewed the experience of the high-performing states, and generated new evidence on the impact of education policies on youth violence prevention.<sup>1</sup>

### A modest but significant national decline

Although modest, the recent decline in the national average represents a welcome departure from the overall trend of the past thirty years. The annual homicide rate, the leading indicator for levels of crime and violence, has gradually come down from its peak of 28.9 in 2003 to 25.2 in 2007 and 26.4 in 2008 (per 100,000 inhabitants). This is a significant accomplishment. Several decades of continued increases in violence have made Brazil an outlier with respect to similar middle-income countries inside and out-

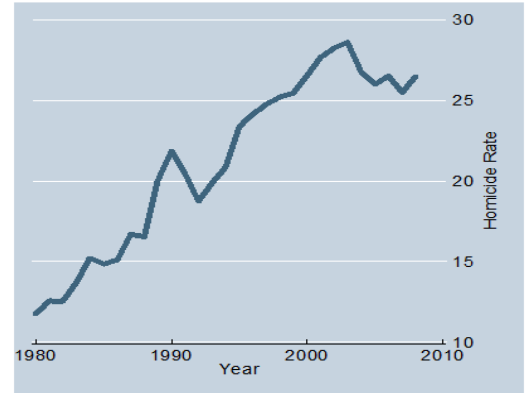
side the region. While Brazil's homicide rate has always scored much higher than the Latin American average, 2008 was the first time in which it scored lower, due in part to the growing problem of violence in other countries in the region. This shift in the trajectory of crime over the last eight years signals that important forces are working to drive homicides down in Brazil.

As a first step toward understanding the drivers behind the change in homicide rates, we estimated the correlation between six well-known risk factors and homicide rates. We compiled a unique database with 32,000 observations (in contrast to other studies in Brazil that have used at most 300 observations). We found that the decline at the national level is strongly correlated with the reduction of the male youth cohort (ages 15 to 19), the reduction in inequality, and to a lesser extent the reduction in the dropout rate among public high school students.

### Dramatic decline in the Southeast and increase in the Northeast and North

However, the much-heralded national decline masks extreme heterogeneity in

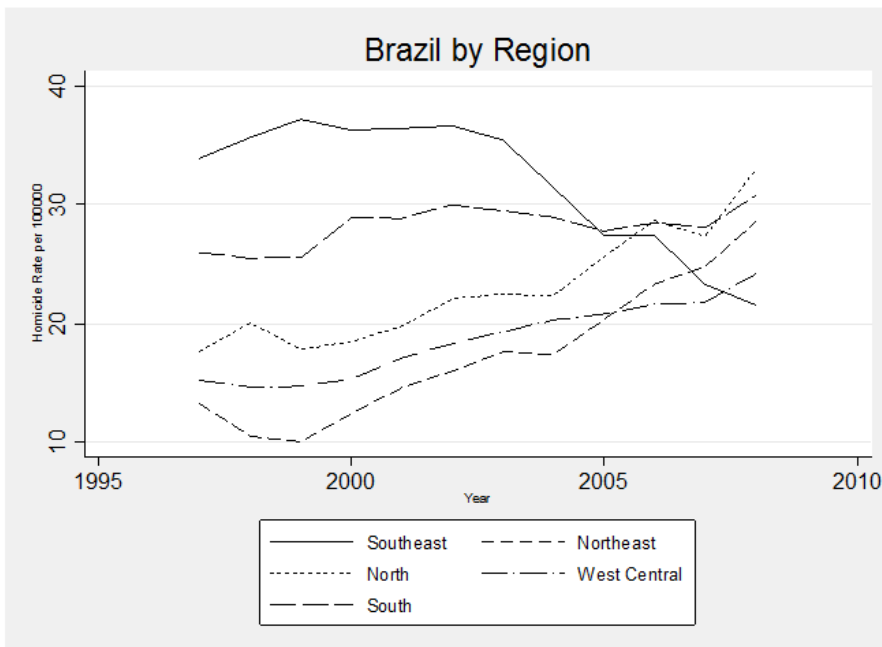
Figure 1: Brazil Homicide Rates 1980–2008



Source: DataSUS

trends across regions, states and municipalities. Unlike other countries, such as Colombia or the United States, which have experienced similar drops in crime, crime trends at the subnational level in Brazil have not accompanied the national decline in a homogeneous manner. As mentioned above, the dramatic decline in homicides in the Southeastern region contrasts with the equally dramatic increase in the Northern and Northeastern regions. While São Paulo saw its homicide rate drop by 71.2 percent between 2003 and 2008, cities such as Salvador (+113%), Maceió (+79.8%), and Curitiba (+57.2%) all experienced increased homicide rates of more than 50 percent in this same time frame.

Figure 2: Homicide Rates by Region, 1997–2008



Source: DataSUS

The results of our analysis suggest that a higher reduction in income inequality, school dropout rates and better labor market conditions in the Southeast are consistent with the observed reduction in homicides. In the Northeast, however, we observe a smaller reduction in inequality compared to all other regions, and an increase in high school dropout rates. In addition, the Northeast's increase in urbanization is also associated with increases in crime. For the Northeast and Southeast regions, we find that changes in coefficients of these variables largely account for most of the observed change in homicides since 2003. This means that the marginal propensity to commit crime is very sensitive to changes in these variables. Crime prevention policies should therefore pay special attention to inequality, high school dropout rates, and urbanization as strong risk factors to be tackled. However, we should remember that these

are simple correlations, which do not capture causation. The policy recommendations stemming from these results should thus be cautious, since these variables could be simply markers of underlying causal mechanisms.

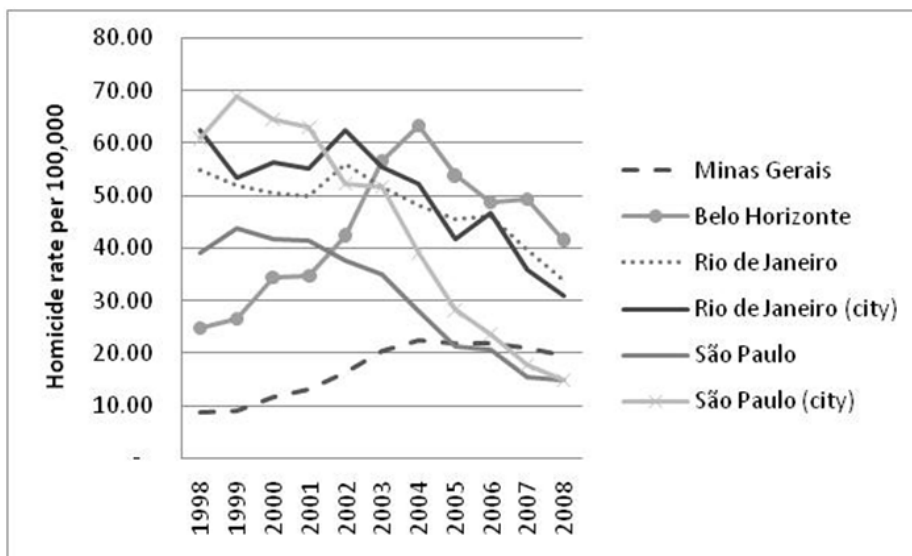
**Reviewing the policies implemented in the Southeast**

The experience of the Southeast offers important lessons for states with deteriorating conditions. First, there is no silver bullet to bring down violent crime. Similar to findings in the literature on the North American crime drop during the 1990s, in Brazil no single factor is sufficient to explain the overall decline. While factors that are not directly related to subnational policies appear to have played an important role (i.e., demographic change and reduced income inequality), a wide range of policies also appear to have contributed to this decline.

What are the policies that have distinguished the Southeast from the rest? At the top of the list are results-oriented policing, gun and alcohol control, and programs targeting youth at risk and hot-spots of crime and violence, all guided by integrated and multi-stakeholder citizen security subnational strategies. While much more rigorous, empirical research remains to be done before drawing direct causal inferences between policies and outcomes, this learning agenda should include five themes that appear to have been important in the policy experience of the southeastern states:

- *Reduce youth fragility.* Although there is little that policy can do to influence the type of demographic shift that contributed to the recent national crime decrease, policies can be put in place to reduce the fragility of youth. The report summarizes the experience of programs which can offer useful insights on how to adopt a multisectoral, territorially based strategy focused on youth at risk. In addition, compelling evidence from the CCT evaluation shows the power of education as a key protective factor (see below).

**Figure 3: Homicide Rates for State and State Capital of São Paulo, Rio de Janeiro, and Minas Gerais, 1998-2008**



- *Develop comprehensive crime-prevention strategies* that combine territorially based interventions targeting crime and violence hotspots with generalized policies that reduce risks across the board. Reviewing the determinants of violent crime identified in this study gives a sense of the multiple factors and dimensions influencing it: rapid urbanization, increased circulation of firearms, and reduced inequality are all complex phenomena that call for comprehensive strategies dealing with different risks and determinants through different instruments.
- *Sequence and integrate crime-control and crime-prevention activities.* It is very difficult to provide opportunities in contexts where local governance is in the hands of gangs or organized crime. As the recent example of UPP and UPP Social reveals, in contexts such as the slums of Rio de Janeiro, peace is a precondition for social development, and social development is a precondition for the sustainability of the peace process. The apparent synergies among UPP, UPP Social and social programs in Rio de Janeiro are an example of the gains to be made through sequenced and integrated approaches.
- *Introduce a results orientation that rewards innovation and performance accountability.* Both Minas Gerais and São Paulo were at the forefront of efforts to reform the police through the adoption of results- and information-based management, through better integration of the civilian and military police, and through improved training and professionalization of the police force.
- *Build monitoring and evaluation systems* that enable shared diagnostics, policy learning and experimentation among the key actors involved in the public safety agenda. Several of the innovations presented in the report were the result of carefully designed pilots, accompanied by impact assessments that guided decisions regarding their rollout.

**Evidence on Education as a protective factor**

Our analysis of the determinants of crime showed that large male youth cohorts and elevated high school dropout rates are strongly correlated with observed homicide trends at the national and subnational levels in Brazil for the period 1998-2008. Understanding the impact that schooling can have on reducing juvenile crime is thus a critical topic for the re-

# IMPROVING OUR UNDERSTANDING OF THE DRIVERS OF JOB QUALITY IN BRAZIL

By Ian Walker

Brazil's recent record of economic success is impressive. Employment grew by 4 percent per year in the last decade. Poverty has been greatly reduced, inequality is declining markedly and the economy has proved resilient during the recent global economic crisis. However, there is an ongoing debate about the interactions between labor market dynamics, policy choices and the "quality" of jobs. In the 1990s and early 2000s, there were worries that the growth in employment was coming, in part, at the cost of reduced job quality. More recently, pro-worker changes in labor market regu-

lations have led to the opposite concern - that the cost of labor might run ahead of productivity and undermine growth.

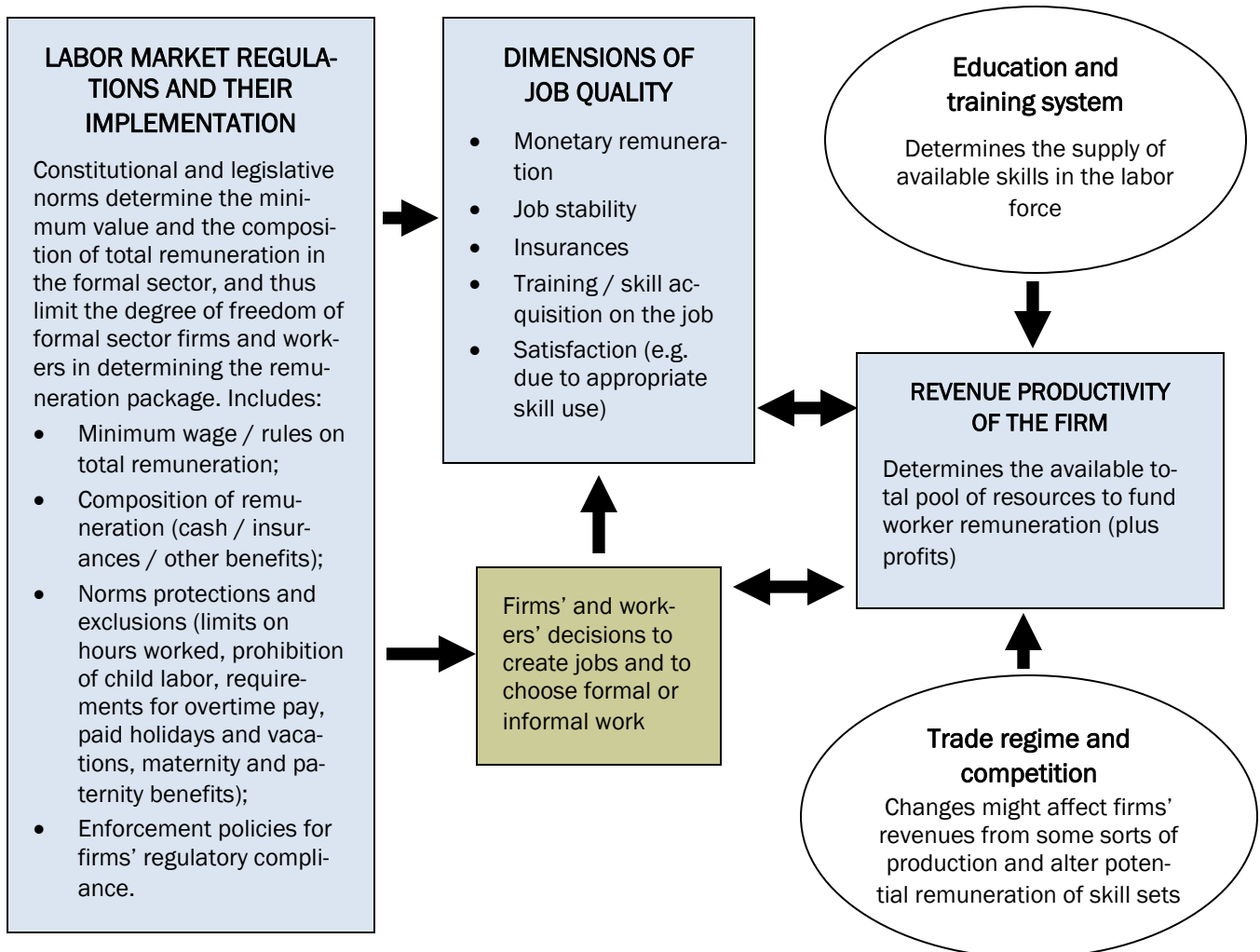
As a contribution to this debate, a new study by the World Bank's Social Protection unit reviews the evidence on drivers of job quality (JQ) over the last two decades in Brazil (Murrugarra and Walker, 2011). The report argues that JQ cannot be reduced simply to the distinction between formality (good quality) and informality (bad quality). JQ is best understood as a vector of job attributes, including earnings, benefits, rights and guarantees, and on-the-job training opportunities, which individuals can value differently,

and which are affected by a broad range of policy variables (Figure 1).

The study looks at how policy choices about education and training, trade and competition and labor market regulation have played out, in terms the costs and benefits for workers, in recent years. There have been radical changes on all of these fronts:

- Large increases in secondary and tertiary education improved average "employability" and earnings;
- The Constitutional reform of 1988 and social security reforms in 1991

Figure 1: Factors determining the dimensions of Job Quality



strengthened statutory guarantees for workers and made mandatory benefits more generous;

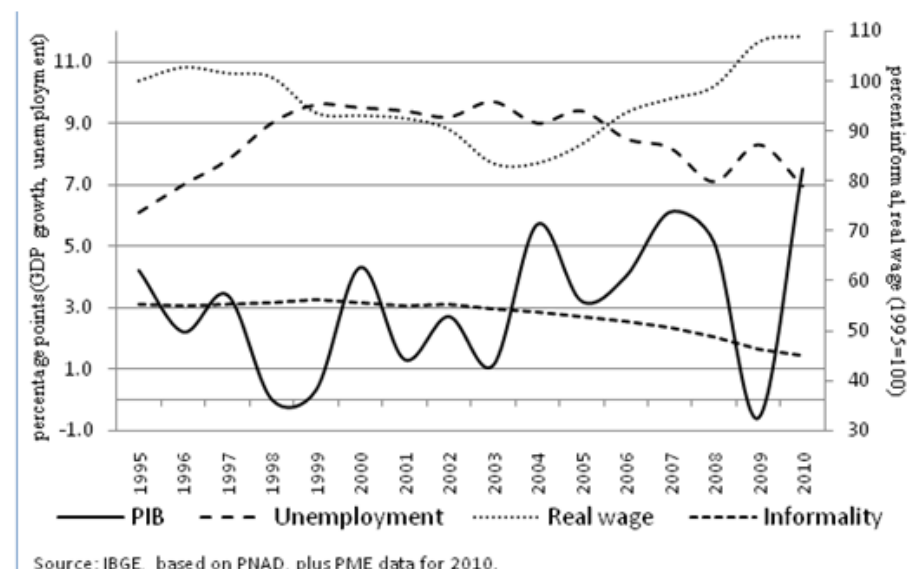
- Increased trade openness subjected Brazilian firms to greater competition in the 1990s, and was followed by real exchange rate depreciation in the late nineties; and then by appreciation in the 2000s;
- In an effort to promote formality, intermediate forms of the labor contract were legalized in the 1990s, sparking concerns about increased precariousness (the dilution of JQ);
- Policies implemented in the 2000s to simplify the requirements of formality for small firms (the SIMPLES reforms) and to facilitate access to credit (an incentive to formality) might have reduced informality and improved work conditions for those affected.

In this framework, the report presents evidence on: the impact of changes in labor regulations and trade openness on formality and informality; on how the enforcement of labor regulations alters the components of JQ for formal sector workers; on what can we learn from labor market outcomes about what value workers place on the non monetary elements of remuneration; on how in-firm training in Brazil enhances competitiveness; and on how competitive leadership can benefit a firm's workers.

**The impact of changes in labor regulations and trade openness**

In the early 1990s Brazil experienced two important policy shocks: (a) Changes in labor market and social protection rules increased the costs of formal employment (firing costs, maternity benefits and minimum wages). (b) Increased trade openness, introduced in the early 1990s, reduced effective protection to the manufacturing sector. There was a sluggish adjustment of the real exchange rate following trade liberalization, creating a "squeeze" on formal sector firms in the tradable goods sector, which faced falling prices and rising labor costs. During the weak recovery of the early 1990s productivity

Figure 2: Growth and Labor Market Indicators 1995-2009



growth was sufficient to meet demand, so firms avoided hiring more formal workers and much of the inflow into the labor market had to accommodate itself in the informal sector.

As a result, the share of the labor force in informal work rose by a huge 10 percentage points (Figure 2). Thus, in the short term, the effort to legislate an improvement in JQ led to a polarizing outcome: better conditions for those in the formal sector, but an increasingly large proportion of workers excluded from formality with greater precariousness. This might also have contributed to the widening wage premia for better-educated workers, observed in this period, as the bulge in supply of workers who were forced into informality (mainly low skilled) is likely to have dragged down relative wages in that section of the labor market.

However, over time, offsetting factors mitigated these policy shifts :

- By the early 2000s, reductions in real wages had offset increased non wage benefits and strengthened competitiveness.
- Improved educational attainment of the emerging cohorts raised skill levels and productivity, helping to offset the costs of additional social benefits (Figure 3).
- New reforms diluted the conditions

associated with formality for some firms and workers. These included: sub contracting options, intermediate options for social insurance, a simplified tax regime for small firms (SIMPLES) and increased credit availability. All these changes helped to increase firms' "demand" for formality.

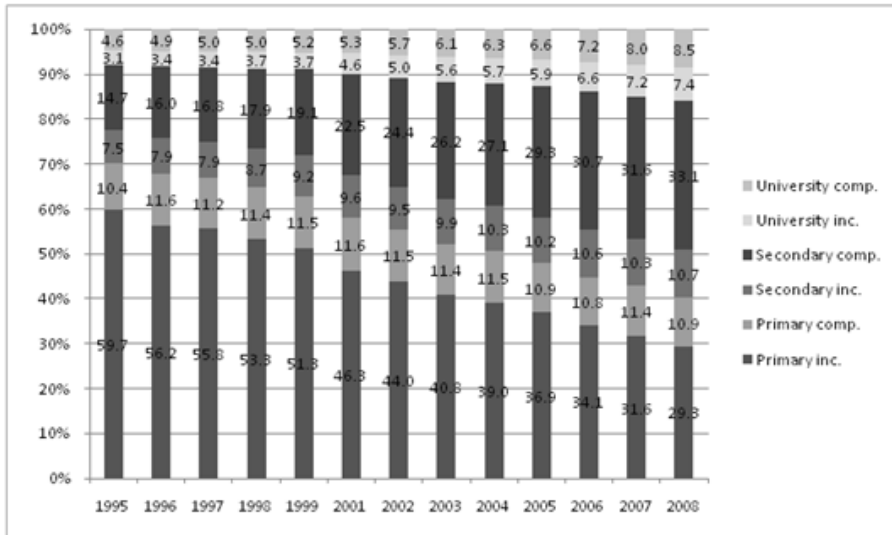
- Rapid economic growth in the 2000s eventually pushed demand growth ahead of productivity growth, leading to expanded demand for labor in the formal sector.

Together, these factors permitted the emergence of a virtuous circle in the 2000s, in which formal employment grew quickly, the share of formal employment in the labor force rose back to 65 percent, and the average quality of formal sector jobs (the combination of wages and non wage benefits) has improved markedly.

**The impact of labor code enforcement**

This report presents new evidence on the impact of labor market regulation on JQ outcomes in Brazil. It finds that the enforcement of the benefits defined in the labor code has a clear, positive impact on the overall quality of employment in Brazil, measured by the compliance with the mandated benefits. However, it also shows that, when enforcement increases, employers will try to offset the cost of

Figure 3: Brazil: Labor Force aged 15-35 by Education Level 1995-2008



increased provision of mandated benefits by adjusting nominal wages or reducing some voluntary benefits, to contain total labor costs. So, for some better-paid workers, the imposition of state-mandated packages of benefits comes at the cost of wages or other benefits (such as private health insurance) that they might value more. This offsetting effect is less apparent for lower paid workers. This happens for two reasons. First, they are less likely to get voluntary benefits in the first place; and second, their wages cannot be easily lowered, due to the binding constraint of the minimum wage.

#### The role of on the job training

The report shows that some Brazilian employers use on-the-job training for their workers as part of their competitive strategy. Such investments can foster productivity and promote innovation (technology adoption and adaptation). This provides also results in big benefits for the workers, in terms of earnings, skill acquisition and future JQ prospects, especially in industries where product differentiation and quality guarantees are important to market outcomes. However small and microenterprises (SMEs) face barriers to enhancing JQ through on the job training. These arise from low expected returns from investing and from market failures linked to high job turnover, credit con-

straints, lack of information and an inability to exploit scale economies.

#### Policy options

What should policy makers make of these findings? The central message of the report is that best way to improve JQ, in the medium to long term, is to improve the competitiveness and growth prospects of firms, together with the skill levels of individuals. These are the underlying determinants of firms' revenue productivity and thus, of their incentives and ability to hire more workers and improve the wage and non-wage elements of the JQ bundle. This involves getting the "fundamentals" right by promoting competitiveness, a strong investment climate, measures to reduce the bureaucratic costs of formality and improved access to credit. It also involves the development of skills that promote flexible workers equipped to be effective in changing labor market conditions. This means continuing to improve the scope and quality of formal schooling. Brazil also needs to develop more effective systems to support life-long learning, after formal schooling ends.

In Brazil, some firms are already using investment in on the job training successfully as a competitive weapon – but others, especially SMEs, may lack an incentive to invest in job training. When this

arises from market failures, it opens the way for policy interventions such as promoting formalization, access to credit, and dissemination of information about potential benefits (to the firm and worker) from in-firm training. Creating contractual commitments between firms and workers, that include training as part of the JQ bundle would help to institutionalize this effort.

Labor market regulation will also continue to play an important role, which can be negative or positive. The evidence of this study shows that sharp changes in the regulatory requirements for minimum wages and severance pay (such as those implemented after 1988) have the potential to severely dampen the demand for formal labor, at least in the short run. It is recommendable to adopt a more gradualist approach to the reform of regulatory frameworks that avoids such shock effects and calibrates them to productivity growth. Policy makers should aim to balance the potentially conflicting goals of increasing minimum wages and continuing to expand formal employment. If minimum wages continue to be adjusted based on nominal GDP growth, they will rise relative to average labor productivity (because part of nominal GDP growth is due to employment growth, not productivity growth). This policy can work in the short term to correct for historic reductions in the minimum wage – but at some point it will inevitably begin to create a disincentive to formality for low-skilled workers.

The evidence is also clear that enforcement of labor regulations can benefit lower-paid workers by leading to overall improvements in the package of wage and non wage benefits. However for better-paid, higher skilled workers, there is a risk that state-mandated social protection benefits might crowd out other benefits they would prefer to have. Arguably, the best policy is to define a relatively modest set of statutory benefits and enforce it rigorously, while encouraging workers and employers to specify other elements of the JQ package in labor contracts. There may be an emerging role for labor market institutions in facilitating and documenting such agreements [BET](#)

# LOW PRODUCTIVITY OR COMPOSITION? AN ANALYSIS OF SERVICES' HOURLY-WAGE IN BRAZIL

By **Guilherme Lichand**<sup>1</sup>

This piece compares productivity in services among Brazilian States from 1996 to 2009, decomposing it into three channels: hourly-wage of low-skilled occupations, proportion of workers in high-skilled activities, and the wage differential between low- and high-skilled occupations. Results are that most of productivity differences in services, measured by differences in average hourly-wages, accrue to compositional factors, rather than to true differences in value-added. As such, average hourly-wages are a poor measure of productivity in services, and the most significant part of the 'services productivity gap' between LAC and the US measured through average hourly-wages might be actually due to differences in educational attainment between them that are not, however, linked to productivity itself.

Brazil's 2010 Census depicts a definitive picture of country's new economic profile: with more than 80% of its population living in urban areas, more than 70% of employment concentrated in services and with a rapidly aging population (in 2030, for the first time the retiree population will be higher than the active one; see the World Bank study "The Impact of Rapid Aging in Brazil") the major challenge Brazilians face ahead of them is how to keep boosting economic growth, poverty and inequality reduction.

If the country has achieved great successes in reducing extreme poverty by 50% from 2004 to 2010 and taking inequality to its lowest level in 30 years, conventionally measured productivity remains very low and stagnant, particularly in services. No longer being able to rely on an expanding active population, Brazil will have to pave the road towards productivity growth if it is to sustain steaming growth over a longer horizon. IADB 2010's study on productivity documents the country is no exception in Latin America in what comes to low and slow-growing productivity, particularly in services, which now respond for the

bulk of economic activity. Notwithstanding the challenge of productivity in services is a major one, there is very limited understanding about what its determinants are and how could they be overcome.

In this piece we take a step back at this debate. Because services are basically composed of labor-intensive activities, and also because it is seldom the case that any account of capital input is available, productivity in services is measured by the average hourly-wage of workers in these occupations; however, there are several reasons why the average hourly-wage in developing countries might stand in sharp contrast to that of developed economies that might be fundamentally different from what we usually take productivity to be.

To see that, let

$$w/h$$

be the average hourly-wage in services' activities, and consider only two types of services, low-skilled (L) and high-skilled

(H), so that a proportion  $\alpha$  of workers is allocated to high-skilled activities. By definition:

$$(1) \quad w/h = \alpha(w/h)_H + (1 - \alpha)(w/h)_L$$

Rearranging terms, it follows that:

$$(2) \quad w/h = (w/h)_L + \alpha[(w/h)_H - (w/h)_L]$$

Equation (2) very simply lays out the determinants of the average hourly-wage in services: the hourly-wage of low-skilled activities, the proportion of workers in high-skilled activities and the hourly-wage differential between high- and low-skilled activities.

What is important is that not all of them can be directly associated to productivity.

The wage of low-skilled activities basically reflect their scarcity and institutional factors – in high-income countries, the hourly-pay for such occupations is much higher than that in developing economies because there are few individuals willing to supply this type of labor, because unions are stronger and/or reservation wages

higher due to stronger social protection networks, but not because they are particularly more productive at it. Along these lines, if the wage differential does convey information about how well high-skilled activities are performed, it also contains information about the relative scarcity of

skills (in Brazil, the education premium has substantially declined over the last 15 years, as the composition of skilled workers changed dramatically with average schooling increasing from just over 4 to about 6 years).

### Empirical strategy

Differences in services' average hourly-wages between economies  $A$  and  $B$  can be written as:

$$(3) \quad \begin{aligned} & (w/h)_A - (w/h)_B = \\ & [(w/h)_{L,A} - (w/h)_{L,B}] + \\ & (\alpha_A - \alpha_B) \cdot \Delta(w/h)_B + \\ & \alpha_A [\Delta(w/h)_A - \Delta(w/h)_B] \end{aligned}$$

where  $\Delta(w/h)_i$  stands for the high-low skill differential in economy  $i \in \{A, B\}$ .

Equation (3) makes it clear that differences in average hourly-wages in services must be due either to differences in low-skilled activities pay (the first term in brackets), in the proportion of individuals

***"If the country has achieved great successes in reducing extreme poverty and inequality, productivity remains very low and stagnant."***

<sup>1</sup> I acknowledge helpful comments from Tito Cordella, Luis-Felipe Lopez-Calva and Pablo Fajnzylber. All remaining mistakes are my responsibility.

in high-skilled activities (the second term, in parenthesis) and in high-low skilled hourly-wage differentials (the last term in brackets). Last two terms are weighted respectively by economy *B*'s wage differential and economy *A* share of high-skilled services, as in the Oaxaca-Blinder decomposition.

One could expect that if differences in average hourly-wages between developed and developing countries reflect mainly differences in the second or even the third components, then one could more safely attribute those to low productivity of services, and then deeper understanding of what determines higher value-added in services among the former would be mostly required to advance catching-up. If, conversely, the lion's share of these differences accrues to the first channel, then they would be merely a matter of labor force composition.

In this piece, since we lack detailed data on hourly-wage differentials between low- and high-skilled services for a variety of countries, we look at Brazilian States in trying to map average hourly-wage differences to each of those three components drawing upon IBGE's National Household Surveys (PNADs). We start by comparing different regions in 2009 to assess to which channels their differences can be mostly at-

**2.** Monthly income from the main activity divided by average weekly hours worked, divided by 4.5 (the typical number of weeks in a month).

**3.** We include commerce, lodging and transportation as part of services (in opposition to agricultural and industrial activities), but exclude public administration.

**4.** High-skilled activities within services are defined as those for which the individual is either an employer, part of high-management or a supervisor, or involved in liberal activities such as dentistry, consulting or film-making.

**Table 1: Decomposition of the differences in services' average hourly-wage between Center-West and Northeast in 2009**

Channel	Share
Low-skilled hourly-wage	70.3%
High-skilled share	0.1%
High-low skilled differential	28.1%

tributed to, and then move on to decompose the sources of variation of services' hourly wage over time within regions.

#### Sources of differences in hourly-wage levels

We can use data from the 2009 PNAD to build the average hourly-wage for services<sup>2,3</sup>, and separately for high- and low-skilled activities within services<sup>4</sup>, using

that same definition to calculate the share of employment in services that is allocated to high-skilled activities.

Table 1 presents the decomposition of the differential between the Center-West and the Northeast, based upon this constructs.

It follows that 70.3% of the average hourly-wage differential can be attributed to the difference in their low-skilled activities' hourly-wages, another 0.1% to differences in their proportion of workers in services allocated to high-skilled activities, and only the 28.1% remaining to their difference in high-low skilled activities' differentials.

Looking at individual States does not substantially change the conclusions. Comparing Distrito Federal and Ceará, the top and bottom States of the average services' hourly-wage distribution, 60.3% of the difference in averages can be traced down to differences in the low-skilled average hourly wage, 5.2% to differences in the high-skilled occupa-

tions' share, and 34.5% to differences in the wage differential. Choosing São Paulo instead of Distrito Federal or Piauí instead of Ceará if anything increases the relevance of the first channel, with the role of the high-skilled share and the high-to-low-skilled activities' differential never surpassing 40%.

This is compatible with our interpretation that it is mainly differences in labor force composition that drive differences in services' hourly wages between these regions. In fact, Table 2 shows that in 2009 the Northeast had the lowest average schooling in Brazil, whereas the Center-West was part of the higher-end of the distribution, along with Southern and Southeastern States.

#### Sources of hourly-wages variation

Next, we analyze variations of the average hourly-wage in services between 1996 and 2009 to assess whether low growth can indeed be traced to low productivity growth or, instead, to compositional changes. It is interesting to highlight that the average hourly-wage increased 2.4% in real terms for Brazil as whole between those years, but variation patterns are very heterogeneous across regions: while Center-West (7.9% increase) and the Northeast (6.6%) experienced sharp increases in services' average hourly wages, both the North (-2.8%) and the

**Table 2: Average Education attainment by region in 1996 and 2009**

	Average education attainment		
	1996	2009	Δ
North	4.25	5.60	1.35
Northeast	3.29	5.17	1.88
Southeast	4.90	6.64	1.73
South	4.94	6.81	1.87
Center-West	4.49	6.44	1.85
Brazil	4.15	5.88	1.73

**Table 3: Decomposition of the differences in services' average hourly-wage between 2009 and 1996**

	Average hourly-wage	Channels		
		Low-skilled hourly-wage	High-skilled share	High-low skilled differential
Brazil	2.4%	5.0%	-3.7%	1.1%
North	-2.8%	0.1%	-3.5%	0.5%
Northeast	6.6%	6.8%	-3.1%	3.0%
Southeast	-2.6%	3.0%	-4.1%	-1.5%
South	1.2%	7.5%	-2.8%	-3.5%
Center-West	7.9%	9.6%	-5.7%	4.0%

Southeast (-2.6%) displayed a significant drop.

The relevant questions are whether those differences can be traced into differences in variation among the three channels introduced above, how they reflect actual productivity or composition, and whether we can tell different stories for different regions. The most outstanding feature of the data is that the share of high-skilled services declined for all but one Brazilian States between 1996 and 2009, up to 8 percentage points, a very significant drop from a baseline average of 32.5%. This movement basically reflects the transition from manufacturing to services, which is documented in IADB's account of variations in hourly-wage as a key driver of productivity fall, which is then attributed to services' low productivity. Our analysis conveys a different interpretation of the same fact: as part of the natural expansion of services towards a new equilibrium level given Brazil's higher level of development, high-skilled ser-

***“The share of high-skilled services declined for all but one Brazilian States between 1996 and 2009”***

cannot be ignored.

Second, consistently with the channel of labor-force composition, the wage of low-skilled individuals increased on average for Brazil as whole over the period. There is a much higher degree of heterogeneity across States in what comes to the high-to-low skilled activities' differential, which increased sharply for the Center-West and the Northeast but declined sharply for Southeastern and Southern States.

hourly-wage would have dropped by 3.7% (results are similar for the regions, ranging from -5.7% for the Center-West to -2.8% for the South). In contrast, the increase in average hourly-wage for low-skilled services is impressive for Brazil

services (particularly services to firms) developed first, with employment then transitioning towards lower-skilled services. It is a matter of composition of activities which, notwithstanding might reflect structural parameters related to the productivity of high-skilled activities, has behind it a story of sectorial expansion and consolidation that

***“It is difficult to attribute differences in services' average hourly-wage across regions or over time to differences in actual productivity.”***

as whole (5%) and for most regions (with the sole exception of Northern States). In fact, for Brazil as whole, the Northeast, South and Center-West, the low-skilled hourly-wage component is so important as to warrant a positive variation of hourly-wage even without considering the variation in wage differentials. The contribution of the wage differential is more heterogeneous, ranging from -3.5% for the South to 4% to the Center-West. Recognizing that this channel mixes composition and productivity effects, the fact that the differential has actually fallen in Southeastern and Southern States, the

two highest-educated regions in the country and with above-average increases in educational attainment over the period, makes it hard to claim that it is efficiency going down instead of a more balanced labor-force skill mix the main driver of those changes.

**Discussion**

The bottom-line is that it is hard to attribute differences in services' average hourly-wage across regions or over time to differences in actual productivity. The lion's share of such differences can be traced down to differences in low-skilled hourly-wages, which can be expected to directly reflect differences in the labor-force skills' composition. Due to the expansion and consolidation of the services sector over the 1990's, Brazil has experienced a change in the mix of services towards a higher share of low-skilled services in the period, which has limited the potential increase in average hourly-wage in the sector - because of the higher premium to low-skilled activities coming from the change in the relative supply of high- and low-skilled workers. In turn, very little can be said about actual productivity levels and differences by drawing upon this measure [BET](#)

## IPEA: TRIPOD OF TRANSFERS, PRODUCTIVE INCLUSION AND EDUCATION BEHIND SOCIAL GAINS

Interview with IPEA Director Jorge Abrahão de Castro.

By Mauro Azeredo

Jorge Abrahão de Castro, Director of Social Studies and Policy at Brazil's renowned Applied Economic Research Institute (IPEA) believes that Brazil is on the right track to eradicate extreme poverty by 2014. Besides continued growth, he lists three essential vectors for this: transfers, productive inclusion and human development. In this respect, he sees great opportunities for Brazil to break away from its long history of social inequality through better education and by boosting the effects of transfers over local economic chains, kindling economic activity from the bottom up.

Abrahão has a degree in Statistics from the University of Brasília and a doctorate in economics from the State University of Campinas (Unicamp). He has worked extensively on public social expenditures, with a special focus on education financing and social policies. Following are the main excerpts from his interview to BET's Mauro Azeredo:

**Brazil Economic Team** – Brazil has launched a program to eradicate extreme poverty in the country by 2014. How can it tell that it has accomplished this task? Is it possible to achieve zero poverty?

**Jorge Abrahão de Castro** – IPEA participated in the original discussions for the program, and Brazil has instituted an official national poverty line, defined politically, which has a strong historic background and is close to the international line adopted by the Millennium Development Goals. Brazil now defines extreme poverty as an income of R\$ 70 reais per capita per month, which enables us to monitor poverty. So, in 2014 we will check if the number of extremely poor people under this line is zero or close to zero. Using this line and the 2010 Census data, IBGE calculates that there are 16 million extreme poor in the country. IPEA believes that the goal of reaching

**“Brazil's first priority is attaining reasonable growth rates.”**

zero extreme poverty is feasible, as long as the *Brasil sem Miséria* (BSM) tripod of actions is implemented well. The program keeps the current emphasis on income transfers – even boosting *Bolsa Família*, as some states are already associating their own programs to BSM – and adopts in parallel inclusive production strategies to bring the poor population from the rural areas and cities into the mainstream economy through jobs, thus creating their own income. The third leg is the education and training dimension, with the expansion and/or creation of professional and education assets in the population. So, with transfers, productive integration and improved standards in professional and educational background, the expectation is that Brazil will be able to eradicate extreme poverty by 2014.

**BET** – You mentioned the tripod of actions needed to ensure eradication of extreme poverty. Is there a more important leg between transfers, labor market and education?

**Abrahão** – The first priority is that Brazil attains reasonable growth rates, and does not give up expansion of the whole economy. Based on this, the tripod criteria become very important. For example, you can maintain or even expand the *Bolsa Família* conditional cash transfer. An important part of the BSM is the “active search” for poor people who are not covered by governmental programs. We know that there is a large number of people who are practically unknown to the government – they are not in the Central Registry, sometimes they lack even ID documents. It is estimated that some 800 thousand people who could receive *Bolsa Família* benefit are not yet covered. These people need to be identified so that they can be included in the Central Registry



and income can be transferred to them. So the Active Search component of the BSM has a huge social importance for the country.

However, it is impossible to leave the other side of income guarantees – i.e. productive inclusion – out of the equation. We need to find mechanisms to facilitate credit, professional support, anticipated purchases, etc. A series of vectors that enable this segment of the Brazilian population to engage in production and have its goods sold and transformed into income.

In parallel, there must be professional training both for the population as a whole and especially for the poorest segments, to help break the intergenerational transmission of poverty. So this is a more structural action, not just thinking about the 2014 target, but to actually “break the spine” of poverty for future generations.

**BET** – *Brasil sem Miséria* seeks to eradicate extreme poverty, but Brazil has also made significant progress in reducing inequality. It was once the most unequal country in the world, it remains among the twenty worst but with a declining trend. Do the structural factors that led to this decrease remain active? How to accelerate the reduction in inequality?

**Abrahão** – BSM is a fundamental factor for

poverty and will help decrease inequality somewhat, but there are other major factors. The fall in inequality that we see in Brazil is due to a large degree to the structure of the labor market. The bottom deciles of income have had much larger growth in their income than the top ones. So the growth that the country experienced was shared among its population in a different way than in the past. The historic trend was that any economic growth was appropriated by the top deciles. What happened in the last few years was that the growth was divided in a different way, enabling the bottom deciles to have expressive gains. This made Brazilian inequality fall, but from a very high level, and so to achieve more gains this model of growth and better distribution must be maintained. This may eventually lead to a tax reform, enabling more just taxation, in which the poor pay less or no taxes and the rich pay more. Brazil's current tax structure is very unequal and actually promotes inequality. A poor person who receives *Bolsa Família* gives back to the treasury a significant portion of the benefits. The products he or she consumes, rice, beans or any other, are highly burdened by indirect taxes. While the rich pay indirect taxes but very little in direct levies. So one of the frontiers for the reduction of inequality in Brazil is a meaningful tax reform. This would boost all the results from the public transfers: if the poor do not return 30 percent of their income to the state, they will be able to make good use of it. However, it is difficult to see this in the short term. Assets and intergenerational transfers are taxed very little in Brazil, unlike other countries. So each generation can solidify its asset base and transfer it without much intervention to the future generations, without any type of inequality correction, crystallizing it. Public expenditures have improved, in terms of their targeting and social effectiveness, the minimum wage has served

***“The fall in inequality that we see in Brazil is due to a large degree to the structure of the labor market.”***

as a good anchor to cover the lowest income levels. All this has improved inequality. But since it was at such a high level, in the medium term we are likely to remain as one world's most unequal countries.

Another important action would be to continue to improve productivity, and ensure that this happens particularly in the labor part of the equation, so that labor gets a bigger part of the income. We also need to decrease the wrong incentives to capital – rent seeking behavior in Brazil is very high and little taxed, as is the land. Many of these are legacies that go very far back, to colonial times. The developed countries have solved these problems to a great extent, and this did not mean that profits went down. So to advance we will need to cut the chains to this past, which tie down both capital and labor in Brazil – these are structures that are not reasonable in a modern economy.

**BET** – Talking about the labor market, Brazil has made important recent gains in increasing the income of the lower deciles of the population, the reduction of inequality, and to some extent productivity. How can we conciliate these results with a context of no significant changes in the labor relations and the costs involved?

**Abrahão** – There are many hypotheses we are working on at IPEA, but nothing yet conclusive. One of them is that the kind of economic growth that was experienced, and some features such as the *Super Simples* and *Simples* [simplified tax regimes for small and medium enterprises], as well as the active effort to expand social protection, precipitating some changes in the labor market, may have facilitated the expansion of

formality. But Brazil still has a very high informality rate of some forty something percent. Although we can commemorate the decrease, we are far from an European standard. Brazil has a long history of informality, the 1990's were very bad in this respect.

The social policies are another possible factor, as they enabled the penetration and strengthening of the economy in the country's backwaters, creating business possibilities and incentives for the population to remain there and develop their own productive activities. These policies include the rural social security, *Bolsa Família*, and others. We calculate that Brazil issues over 40 million income transfer benefits every month, 30 million of which amount to a minimum wage. This includes unemployment benefits, social security, disability benefits, etc. All of this generates economic dynamism and heats up the small local economies. If we add the improvements in service provision in areas such as health, education and social services, for example, these generate a whole new set of indirect employment and income possibilities that, taken together

***“Social policies linked Brazil's backwaters to the mainstream economy and created business possibilities, dynamism and incentives for local and regional development.”***

make it easier to expand the formality of labor and services. Brazil's informality is still strongly linked to domestic employment. So a whole framework of factors led to the decrease in informality. Income went up, the minimum wage went up and even so informality did not explode as some theories expected. The opposite happened. Nevertheless, there is a clear lack of research to improve our understanding of what happened, especially looking at specific areas. The multiplying effect of some areas on economic dynamics is very big, and even bigger on job processes. Education, for example, has a huge effect through the investments needed in teachers. This has a beacon effect on the local economy **BET**



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## MAKING BRAZILIANS SAFER

(CONTINUED FROM PAGE 7)

search agenda on crime and violence. While there is a substantial empirical literature in the U.S. and Europe, causal evidence is generally limited for Brazil because of data access issues and lack of empirical identification. The report presents novel results from a background paper that studied the contemporaneous impacts of schooling on crime and violence, with particular focus on its causal impact on aggression, crime and violence among at-risk male youth (Chioda, De Mello and Soares 2010).

The paper investigates the impact of two education policies on crime and violence in São Paulo. The first, Brazil's conditional cash transfer (CCT) program, operates on adolescents along the extensive margin of education (whether or not to enroll in school) while the second, a lengthening of the school day among younger São Paulo students, operates on the intensive margins (the hours spent in school conditional on enrollment). After the CCT receipt is instrumented using *Bolsa Família's* 2008 expansion to adolescents aged 16 to 17, the paper finds that each additional student receiving a CCT at a given state school is causally related to a decline of 6.5, 0.9, 3.9 and 1.1 of all crimes, violent crimes, robberies, and thefts, respectively. The paper finds little relationship between school shift length and crime, which might suggest that extending the length of the school day does not capture those youth who are at higher risk of criminality.

### The future agenda

The future research agenda should focus on understanding the dynamics of violent crime in the states that have grown most dangerous in recent years, particularly in the Northeast and North regions, and to continue building evidence about what works in reducing crime and violence in Brazil.

The new administration in Brasília has launched a renovated National Public Security Program (*Programa Nacional de Segurança Pública com Cidadania*, PRONASCI) and the Federal Government is investing in information systems to better understand data on crime and public security and develop stronger impact evaluations of potentially transformative programs such as the UPP and UPP Social in Rio de Janeiro.

The World Bank is working in close collaboration with the Brazilian government to ensure that current and future citizen security initiatives prove effective, sustainable, and to the benefit of Brazilians from all regions, of all races, and all income levels **BET**

## IN THE LOOP

### Some of the quarter's noteworthy events

#### Events and Projects Approved

- **Federal Integrated Water Sector**—\$ 107 million, July 12—The project will help Brazil provide equitable, reliable and sustainable access to water supply and sanitation services, and ensure environmental and social sustainability
- **Fighting Gender-Based Violence Seminar** with Federal Deputy Elcione Barbalho—September 12, Washington
- **Quality of Labor Presentation** at IPEA—September 12, Brasília
- **CPS consultations**—August 15 to 26, Brazil
- **Senate Hearing on Bretton Woods and the Global Financial Crisis** with Makhtar Diop—August 8, Brasília
- **Conference on Public Investment Management**—June 16-17, Brasília
- **Global Conference on Impact Evaluation in Finance and Private Sector**—June 6-10, Rio de Janeiro
- **Visit by World Bank President Robert Zoellick**—May 31 to June 3, Brasília, Rio de Janeiro and São Paulo
- **Workshop on Metropolitan Governance**—May 16-18, Rio
- **Financial Literacy Conference**—May 9-10, Rio de Janeiro
- **Visit by Nine Executive Directors**—April 28 to May 5, Brasília, Rio de Janeiro, Rio Branco
- **First International Public Sector Results Management Meeting** with Cities Minister—April 11, Brasília

#### Team Change

After almost three years in Brasília as Lead Economist, heading the BET and the Bank's knowledge agenda, **Tito Cordella** returned to Washington to resume his duties as Deputy Chief Economist for Latin America and the Caribbean. The BET team welcomes **Pablo Fajnzylber**, Sector Leader for the Poverty Reduction and Economic Management Network, as its new coordinator.