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**REVIEW OF PROGRESS AND OBSTACLES IN THE PROMOTION,  
IMPLEMENTATION, OPERATIONALIZATION AND ENJOYMENT  
OF THE RIGHT TO DEVELOPMENT**

**Country studies on the right to development - Argentina, Chile and Brazil**

### Summary

This report is based on country missions undertaken by the independent expert to Argentina, Chile and Brazil pursuant to Commission on Human Rights resolutions 1998/72 and 2002/69 and the agreed conclusions of the Working Group on the Right to Development at its third session. The objective of the mission was to assess the current state of progress in the implementation of the right to development. More specifically, the report focuses on identifying and evaluating constraints, as well as elements that were seen as being conducive to implementation of the right to development.

The three countries represent contrasting experiences of implementing a similar liberal model of economic reforms in the late 1980s and 1990s, yet with different outcomes. The independent expert examines the underlying policies of this framework and how the process of economic reforms was implemented in each country and outlines the resulting outcomes in terms of their larger social impact on the well-being of the people. He focuses on the impact of these policies in sustaining economic growth with macroeconomic stability, removing poverty as well as social exclusion, and addressing inequalities in income and wealth. While economic growth has a critical role in facilitating the realization of the interdependent and indivisible human rights that could define the composite right to development in any context, the latter two concerns are at the core of a rights-based approach to the realization of human rights. In drawing lessons from the experience of these countries, he identifies elements of a development framework that, in his view, can further the implementation of the notion of the right to development as outlined in his reports to the Working Group.

The independent expert concludes that from the perspective of the right to development, the liberal economic model is limited not only in terms of the development goals that it directly addresses, but also in terms of the instruments whose use it seeks to encourage to meet these goals. A rights-based approach to development has to be more broad-based in terms of the goals that it addresses and the instruments that it deploys to meet these goals. It has to be accountable, participatory and equitable in its reach and scope at the national and the international levels. While the experience highlights the importance of adequate and sustained growth in attaining outcomes that are consistent with the realization of human rights, it also reveals the limitation of a too narrow focus, particularly at the expense of an adequate approach to social security and a social safety net, which is a central element of the right to development approach. Such an approach has to be capable of providing an adequate mechanism of redress for unanticipated and unaddressed effects of national policies and the international environment, when required, at the same time building individual capabilities in a manner that helps people to integrate better with the production process and gain equally from the process of economic expansion and global integration. The experience underlines the importance of international cooperation in implementing a rights-based development process and that it can take different forms, extending over varying periods depending on the national context. The independent expert argues that in each of the three cases studied in this report, both in the course of implementing the economic reforms and of managing the crisis, the support of the international community would have helped in the promotion as well as protection of human rights.

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## **Introduction**

1. The independent expert, pursuant to his mandate, as contained in Commission on Human Rights resolutions 1998/72 and 2002/69, and the agreed conclusions of the Working Group on the Right to Development at its third session (E/CN.4/2002/28/Rev.1, chap. VIII), undertook country missions to Argentina, Chile and Brazil.<sup>1</sup>

### **Purpose of the missions**

2. In assessing the current state of progress in the implementation of the right to development, the focus of the missions was on identifying and evaluating constraints on and elements conducive to the realization of the right to development. The interplay of the national and international economic and financial developments that affect the process of development, the institutional framework for planning and policy formulation, and mechanisms for implementation and monitoring development outcomes consistent with the realization of various human rights were studied. The missions also focused on assessing the role of development cooperation in complementing the national development initiatives for the realization of human rights, and the composite right to development.

3. The approach to the study involved using a set of structured questions that sought information on various aspects relevant to implementing and realizing the right to development. Information collected during the mission and in response to a questionnaire, where available, was supplemented by extensive research on the recent development experience of the countries visited. The analysis was carried out against the background of the right to development framework and the operational model of the “development compact” that the independent expert has elaborated in his earlier reports.<sup>2</sup> Various social and economic indicators were assessed, in terms of changes in their levels and distribution across regions and population groups, and an attempt was made to study how the development process conformed to the norms, standards and principles of a rights-based approach to development. However, in the absence of detailed project-based studies, it was not always feasible to identify the relationship between different indicators and how interventions adhere to human rights norms and principles; the emphasis was more on identifying policies that directly influenced the realization of the rights.

4. The three South American economies considered here represent contrasting experiences of the liberal model of economic reform. They reflect the development concerns of sustaining economic growth with macroeconomic stability, removing poverty as well as social exclusion, and dealing with a high level of inequality in income and wealth. Economic growth has a critical role in facilitating the realization of the interdependent and indivisible human rights<sup>3</sup> that define the composite right to development, in any context. The latter two concerns are at the core of a rights-based approach to the realization of human rights.<sup>4</sup> That the three countries have common developmental concerns and a similar policy approach, and yet achieve different outcomes, makes the experience of these economies interesting from the point of drawing lessons for implementation of the right to development.

5. The policy package comprising liberal reforms (later associated with the so-called Washington Consensus) was catalysed largely by the experience of the Latin American economies in the early 1980s, when this region experienced a cumulative build-up of inflationary pressures that eroded the financial sector, eventually bringing productive economic activity and

gross domestic product (GDP) growth to a near standstill, with an increase in unemployment and poverty. Many of these developments could be traced to dysfunctional public policies and unanticipated shocks from the external environment for which the economies were not always prepared with mechanisms of redress or adequate social protection and safety nets. The essence of the reforms was to emphasize stabilization of prices and structural adjustment measures<sup>5</sup> to make economies more efficient and competitive in the world market. Broader social development that could be related to a human rights approach to development was never an explicit objective of these reforms; it was expected that with a stable macroeconomic and an open trade environment, sustained growth would percolate down to generate the desired social outcomes. In what follows, the independent expert has made an attempt to examine these policies and their outcomes and the larger social impact on the well-being of the people. In drawing lessons from the experience of these countries, he identifies elements of a development framework that, in his view, can further the implementation of the notion of the right to development as outlined in his reports to the Working Group.

## **I. ARGENTINA**

6. In the 1980s, particularly in the second half of the decade, the Argentine economy was in the middle of a serious debt crisis. The decline in real output and fiscal spending financed by large and persistent fiscal deficits led to a ballooning of debt and interest payments and eventually to the monetization of debt. That resulted in an inflationary spiral with depreciation of the currency and capital flight. Inflation climbed to an annual average rate of over 3,000 per cent in 1989 and nearly 2,400 per cent in 1990. The period witnessed a sharp increase in the incidence of poverty (from 8 per cent in 1980 to 41 per cent in 1989 in the Buenos Aires area), a rise in unemployment (from about 2 per cent of the labour force in 1980 to nearly 8 per cent in 1989) and a complete erosion of the financial markets.

### **The reforms**

7. By the early 1990s, the situation started to change. A stabilization programme that focused on financial sector reforms, trade and capital account liberalization and wide-reaching public sector reforms were launched. The Convertibility Law of 1991 and the Central Bank Charter of 1992 converted the Central Bank into a currency board under which domestic currency could be issued only in exchange for a specified foreign currency, such as the dollar, at fixed rates. This limited the discretion of the Central Bank to create money by extending credit to the Government or the banking system, thereby restricting the possibility of inflationary financing of government debt. The exchange rate of the Argentine peso was fixed at 1:1 to the United States dollar and the Central Bank focused on maintaining the value of the domestic currency. These measures, coupled with a degree of fiscal restraint, brought inflation under control. Financial sector reforms improved the regulatory framework and increased the market discipline of the banks, enhancing depositors' confidence. Opening up the external sector by removing most restrictions on trade and capital flows, and public sector reforms entailing wide-ranging privatization, improved efficiency of public enterprises, and tax and expenditure reforms, including of the social security system, were the other elements of the economic programme.

8. These reforms were successful in stabilizing the economy and putting it back on the path to growth. The rapid control of inflation once reforms began to be implemented (coming down from over 170 per cent per annum in 1991 to around 10 per cent in 1993) improved the viability of structural reforms that the instability of the 1980s had rendered untenable. In spite of the adverse effects of the Mexican crisis of 1995 and the Russian/Brazilian crisis of 1998, growth in GDP averaged nearly 6.5 per cent per annum from 1991 to 1998 and inflation fell to less than 1 per cent per annum by the middle of the decade. During the period 1992-1999 exports registered an average growth of 8.2 per cent per year in value terms and 9.4 per cent in volume terms. In fact, in the period 1991-1994 the average GDP growth of 8 per cent per annum was accompanied by a reduction in the incidence of urban poverty of nearly 50 per cent (from 41.4 per cent in 1990 to 21.6 in 1994) and in extreme poverty of nearly two thirds (from 11.3 per cent in 1990 to 3.7 in 1994), and some expansion in employment. However, in the period 1995-1998 growth slowed under the impact of the two crises, the incidence of poverty rose to nearly 30 per cent and the unemployment rate remained high at around 13-15 per cent. There were wide variations in the spatial incidence of poverty and unemployment, which were substantially higher in certain regions in the north of the country.

9. During this period, there was a significant deterioration in income distribution. Despite overall growth being positive and average per capita income rising, the gains from expansion in economic activity were confined to the more skilled and educated in the labour force and did not filter down to the poor. The gap in the wage rates for the skilled and the unskilled had increased and there was a decline in employment opportunities for the latter. The higher level of unemployment, even with some expansion in the first half of the 1990s, is explained by a number of factors, including increased entry of women in the labour force as a strategy to maintain household income, inability of employers to use inflation as a means of lowering real wages and expanding employment, and, following the opening up of the economy and the privatization of public sector enterprises, a dramatic increase in capital imports and new capital-intensive technologies that made parts of the labour force redundant and even obsolete. However, the rigidities of the labour markets - the presence of centralized bargaining, high severance costs and high taxes on wages - all impeded the necessary adjustments in labour demand. Thus, although the Argentine economy expanded in the period up to 1998, almost doubling in size, and although there was a decline in poverty from the pre-reform peak, both poverty and unemployment levels were higher at the end of the decade than during the early 1980s.

### **Economic decline and the crisis**

10. From 1998 Argentina started slipping into a situation of economic recession and rising unemployment, triggered in part by external shocks. The capital inflows that had started declining after the East Asian crisis came to a near standstill in the wake of the Brazilian devaluation in 1999. This, together with persisting fiscal imbalances, raised serious doubts about the sustainability of debt servicing, the currency peg and the future prospects of the economy. GDP shrank by nearly 4 per cent in 1999 and unemployment rose from under 13 per cent in 1998 to over 15 per cent. The Argentine economy was caught in what has been described as a Currency-Growth-Debt (CGD) trap.<sup>6</sup> The currency was overvalued, growth was faltering and debt was becoming difficult to service. The appreciation of the Argentine peso in tandem with the United States dollar vis-à-vis its major trading partners (particularly after the Brazilian devaluation) made its exports uncompetitive and debt servicing unsustainable.

11. The Government responded by undertaking fiscal adjustment measures. It introduced the Law of Fiscal Responsibility, which mandated a reduction in the federal deficit over a period of three years until a balanced budget was reached in 2003. It increased tax rates on incomes, personal net worth and a number of consumer products. It made an attempt to address the perverse incentives implicit in the arrangements involving the sharing of tax revenues by the federal Government with the provinces and the revenues of the provincial governments with the municipalities. The political costs of raising revenues were intended to be balanced with the political benefits of increased spending on public services, by putting a ceiling on future transfers of federal revenues to the provinces. The problem of currency overvaluation was addressed by pegging the peso, in mid-2001, to a basket consisting of the dollar and the euro with equal weight, with a view to a better alignment of the peso with the currencies of Argentina's trading partners.

12. These measures were expected to improve market confidence and increase capital inflows, GDP growth and the sustainability of debt. However, none of this happened. On top of the significant contraction in 1998/99, the economy contracted further in 2000/01. In an effort to temporarily avert debt service arrears, the Government pre-empted the liquidity of banks and pension funds. With no recourse to further borrowing to finance its deficits, the charter of the Central Bank was revised to remove limits on its ability to inject liquidity into the economy. But the uncertainty about the sustainability of public debt and the Currency Board led to a massive run on bank deposits, undermining the financial system and eventually bringing about an economic collapse by the end of the year. The Government responded by setting limits on cash withdrawals from bank accounts; defaulting on its debt, including on social security payments; and replacing the Currency Board by a floating exchange rate regime, which brought about a depreciation in the peso of nearly one third of its previous exchange rate with the United States dollar and a forced conversion of dollar-denominated financial contracts into peso-denominated ones, applying differentiated conversion rates to bank loans and deposits and extending their maturity. The net impact of all this was a sudden loss of purchasing power, savings and social security and the widespread destruction of property rights in the face of rising inflation. There was a surge in the incidence of poverty, deprivation and unemployment and erosion of the social capital. Only towards the middle of 2002 did a definite approach to tackling the human dimension of the crisis emerge when the interim Government initiated targeted programmes to address the sudden loss of livelihood and purchasing power among a large segment of the population, which had become impoverished.

13. The fundamental problem of inequality and exclusion has remained unaddressed in Argentina, even after more than a decade of reforms. In the 1990s, the gap in per capita income of the richest 10 per cent of households vis-à-vis the poorest 10 per cent widened by almost 70 per cent. This gap increased further by another 37 per cent in the post-crisis phase 2002/03. In 2001, the bottom 50 per cent of households received 22 per cent of total income, whereas the top 10 per cent received 32 per cent. The corresponding figures for 1993 were 26 per cent and 27 per cent, respectively. Data for the first half of 2003 indicate that the proportion of people below the poverty line in the urban areas had shot up to 57.5 per cent of the population (i.e. 20 million persons, or 45.7 per cent of households), whereas 27.5 per cent of the population was below the extreme poverty line.<sup>7</sup> These figures are much above the levels of 1990 when the poverty per capita ratio was 41.4 per cent and the proportion of people in extreme poverty was just 11.3 per cent. Inequalities in human development worsened at the regional level and between the rural and urban areas during this period.

14. The unemployment rate in early 2003 was 17.8 per cent after it had been steadily increasing during the previous decade. Among those who are employed, nearly one fifth are likely to be below the poverty line. In the period 1990-2003, 400,000 jobs have been lost in the formal sector alone. The situation in the post-crisis period would have been much worse in the absence of the targeted unemployment programme for heads of household started in the middle of 2002. It is estimated that without new jobs generated by the programme, the unemployment rate would have been over 32 per cent - the level in the immediate aftermath of the crisis in May 2002.

### **Lessons from the Argentine development experience**

15. Notwithstanding the initial success of the economic policies at the beginning of the 1990s in stabilizing the economy and stimulating economic growth, the model followed in Argentina failed to address the implications of the changing global context for the country's ability to sustain growth and meet some of the structural concerns of the economy, namely the issues of labour productivity, competitiveness of its production processes and the persistent fiscal imbalance. It eventually led to an unprecedented increase in the incidence of poverty, inequality and unemployment. All these outcomes are inconsistent with implementation of the right to development. Several lessons for a rights-based approach to development could, however, be drawn, particularly from the experiences of the steps taken by the Government to address the post-crisis problems.

### **Economic growth and poverty reduction**

16. The Argentine experience underscores the critical importance of economic growth to poverty reduction, but that growth has to be sustained over a sufficient length of time with complementary policies in order for it to have a lasting impact on the incidence of poverty. The Argentine economy was not able to sustain its growth of the early 1990s owing to the inherent problems of the Washington Consensus model of liberalization in addressing issues of medium- to long-term growth. The Government failed to identify the optimal policy mix needed to address some of the structural issues of the economy. Economic growth was not accompanied by growth in employment and the gap in real wages between the skilled and highly educated workers, on the one hand, and the unskilled workers, on the other, increased. (The real wages of the latter have in fact declined since 1990.) The policies failed to make any dent in persisting income inequalities, which worsened almost continuously during this period. It underemphasized, or even overlooked, the need to integrate the substantial and growing informal segment of the economy (through adequate credit flows in the short run and upgrading the human capital of the population dependent on this sector in the medium to long term) with the sectors directly benefiting from growth impulses emanating from the global economy. It did little to address the rigidities of the labour market which, in tandem with its exchange rate and trade policies, allowed the economy to lose its competitiveness with its trade partners. Moreover, the inability of the Government to check its fiscal profligacy in a deregulated financial sector within the currency-peg regime, where the economy was far from meeting the conditions of an optimal currency (dollar) area, increased its vulnerability to unsustainable levels. The exit from the Currency Board, when it eventually happened, owing to a mix of the external shocks and domestic policy failure, was catastrophic in its consequences for all the people, in particular for those who had no access to social security of any kind.



### **Need for social security and safety net**

17. The Argentine experience shows that in the current context of globalization, every country, no matter where it stands in terms of per capita income level, needs insurance, in the form of an adequate and appropriate social safety net, against exogenous economic shocks. At the same time, countries need requisite provisioning for social protection against the unanticipated and undesirable consequences of their own actions to prevent an increase in poverty, inequality and social exclusion of people.

18. In Argentina, the Government's social spending has risen from about 15 per cent in the early 1980s to an average of about 18 per cent of GDP at present, but most of it goes towards funding social insurance (accounting for about 57 per cent of the total), followed by social sector programmes universally available to the public (37 per cent) and programmes specifically targeted to the poor (7 per cent). Clearly, not all of this expenditure is designed to reduce poverty and very little is targeted at the people below the poverty line. Evidence suggests<sup>8</sup> that while social sector spending, both universal and targeted, definitely benefits the poor, social insurance (comprising the majority of social spending) benefits more the population of upper quintiles.

19. Social insurance is available only to about 55 per cent of the labour force working in the formal sector. The large informal labour market, outside the coverage of social insurance, necessitates compensatory public spending in social sector programmes, particularly so in the immediate aftermath of a crisis. Some of these concerns need to be addressed not just as emergency measures after a crisis, but as elements of a long-term perspective on social security.

20. The Government of Argentina declared a food, health-care, jobs and education emergency, and took a series of measures resulting in a direct transfer of resources to the most vulnerable sectors affected by the crisis; these were the food emergency programme, the programme for unemployed heads of household (*Plan Jefes y Jefas de Hogar Desocupados/as*, PJHD), and the programme on extending a universal access to basic drugs (REMEDIAR). These programmes were accompanied by a reformulation of already existing social sector initiatives, thereby launching a new social security and safety policy that now covers more than 2 million families, or 10 million persons. An innovative social management methodology has been established with the creation of national, provincial and municipal consultative councils, involving civil society organizations, for implementation and oversight of these programmes. In operational terms, the 2,300 consultative councils function on a decentralized basis, offering participatory management and social auditing mechanisms.

21. An important element of the food emergency programme was to run community canteens and to provide nutritional support to children at schools. Besides enhanced allocations to fund the initiative, additional assistance was provided for school canteens in the provinces with the worst shortages. To meet the employment emergency, in its PJHD programme, the Government provided a salary, for participation by heads of household in productive community work for up to six hours a day; completion of formal education; undertaking professional training; or working under a formal work contract. By January 2003 more than 1.9 million beneficiaries throughout the country had been assisted under the programme. The unique features of this programme

have been the speed at which it has been expanded to cover the targeted population and the relative efficiency and transparency in targeting the needy. In the health sector, REMEDIAR is the biggest programme for the free provision of primary health-care medication in the world. It provides for free medication, supplied by the State, for the prevention and cure of major diseases at 6,200 primary health-care centres throughout the country, meeting the needs of the poorest. In the field of education 350,000 grants have been awarded to teenagers and young people from low-income families who are attending secondary school to encourage school retention; in addition, textbooks and school supplies have been distributed at all levels of the education system. There are other programmes that seek to include the poor and vulnerable groups in the social mainstream by providing subsidies to offset the costs of education, health care and training of children under 19 and women.

22. A principal achievement of these initiatives has been to arrest the spread of social unrest and deprivation that followed the crisis. While the benefits of economic expansion did not adequately filter down to the vulnerable section or effectively integrate them into the growth process, particularly during the second half of the 1990s, the Government was able to deliver a reasonably efficient and well-targeted social safety net at the peak of the crisis.

23. Often, when there is a need to extend targeted and other social security programmes such as unemployment and poverty increase during economic crises, declines in government revenues and macroeconomic imperatives of stabilizing the economy get in the way of expanding public expenditure. The experience of Argentina in this regard was no different. At the outbreak of the crisis, public expenditure in real terms fell by 28 per cent in 2002 as compared with 2001. This was against a backdrop of increased buoyancy in tax revenues as a result of inflation which, in fact, was instrumental in generating a primary surplus of 2.2 billion pesos. That there was a case to not just protect the level of social sector spending but to substantially increase it with additional allocations was apparent in the prevailing circumstances. The Government did indeed make an effort. In the aftermath of the currency devaluation, it instituted an export tax on the ground of mobilizing additional resources to fund the social safety net. These efforts were constrained by the obligation to service external debt. In fiscal year 2002, the country had to pay US\$ 4.5 billion to service its external debt, whereas it spent only US\$ 1.2 billion on implementing social sector interventions. There are clearly some lessons to be learnt from this experience about the potential role for international cooperation in such situations from the right to development perspective.

### **Convergence and coordination of policies for social development**

24. Argentina has had a plethora of universal and targeted social assistance programmes. The sheer number of such programmes not only adds to duplication of administrative effort and overhead costs, but as these programmes are managed by a large number of agencies, it also leads to different approaches to selecting the intended beneficiaries and mechanisms of transfer, adding to inefficiencies in the use of resources. It leads to some people receiving multiple benefits from several programmes. There is evidence to suggest that while the flow of benefits may have a low level of leakage overall, the coverage of the targeting population was not adequate. A World Bank study points out that only about 25 per cent of poor families receive any form of direct public assistance in cash or food. The coverage is better in the more recently

launched targeted programmes, and the situation can improve by converging similar programmes, improving coordination of sectoral policies and reinforcing the impact of public interventions on the targeted group. In the post-crisis period the Government has responded to this need by creating the National Council for the Coordination of Social Policy (Consejo Nacional de Coordinación de Políticas Sociales, CNCPS), with the aim of providing a forum for the formulation and coordination of the country's social policy. A broad-based consultative council involving the Government and non-governmental representatives, along with Internet-based updated information on programme implementation and the database of a unified national register of beneficiaries of social programmes and services, should allow for better transparency in activities and improved monitoring of the resource flows.

### **The approach to the right to development**

25. The discussions with the government representatives, members of the academic community and civil society organizations revealed general support for the notion of the right to development as outlined by the independent expert. It was suggested that the importance of human rights had been accepted in Argentine society for a considerable period of time, and it was hence easy for the country to relate to and adopt the notion of a process of development that ensures the realization of human rights. It was pointed out that the 1994 Constitution made multiple references to human development and that it described in detail the role that the State was expected to play in meeting the corresponding objectives. It was pointed out that promoting the right to development had to be seen in terms of the need to create an enabling environment for development with justice and equity, both at the international and the national level. The fact that the issues of inequality of wealth and income have not been adequately addressed in Argentine economic management was regarded by all as a basic shortcoming of domestic policy. If inequality could not be reduced by transforming the structures of production in the system, attempts should have been made to redistribute assets and income through appropriate policies. In addition, a sustainable mechanism of social protection, through social security and insurance and long-term social development programmes, should have been pursued together with policies to stimulate growth and macroeconomic balance. In the international context, the importance of international cooperation to enable the domestic policy makers to pursue appropriate policies of growth respecting, protecting and fulfilling the basic human rights was repeatedly highlighted. Reference was made to the importance of the ongoing trade negotiations under the Doha round and the interest of the country in moving towards a more equitable and fair regime on trade in agriculture. There was a general view that in the current situation there was a case for the international financial institutions (IFIs) and other multilateral donors to facilitate the emergency measures with respect to the social safety net by giving temporary concessions on debt servicing and by providing some direct support for implementing these measures. It was pointed out that there was a need to sensitize IFIs to the relevance of the right to development as a framework for the process of development. Attention was drawn to the apparent conflict between a human rights approach to development, which implied a reorientation of a country's development policy towards sustainable arrangements of social protection and the reduction of inequalities as the primary concerns, and the liberal model of development, even when it is complemented by targeted public interventions and programmes adopted on the grounds of efficiency of resource use. The latter approach had been generally favoured by IFIs in times of economic crisis and

social dislocation. Human rights are both substantive and instrumental. A policy that aims at realizing human rights protects people from vulnerabilities due to social dislocation and could also promote economic growth. Irrespective of a country's overall development, human rights had to be substantially satisfied invariably requiring appropriate public and social interventions.

## II. CHILE

26. Chile's recent development experience is in many ways a reflection of the success of the liberal model, though not all its achievements can be credited to that. During the period 1985-2002, notwithstanding the recession in 1998/99 in the aftermath of the Asian crisis and unfavourable international conditions for Chilean exports, the GDP of the economy grew at an average of over 6.5 per cent per annum. A combination of sustained growth and well-directed social programmes in the 1990s that addressed issues of equity as well as opportunity for the population as a whole resulted in reducing poverty by over half. In just 11 years, between 1987 and 1998, poverty rates declined from about 45 per cent to 22 per cent and extreme poverty from about 17 per cent to about 6 per cent. At present, extreme poverty is about 4 per cent and overall poverty is 17-21 per cent, depending on the poverty line used. In spite of this solid performance in maintaining growth and a continuous decline in poverty, even during the recessionary phase towards the end of the decade, the economy has not been able to make a dent in income inequality. It is true that unlike other Latin American economies where the income inequalities increased during the same period, in Chile inequality parameters have not worsened, but they have not improved either. This is an issue that needs to be analysed, given its relevance to a right to development framework.

27. During the crisis of 1982-1984, the economy contracted significantly with a decline of 15 per cent in GDP in 1982. The economy experienced a steep drop of 50 per cent in investments, a rise in the unemployment rate to over 25 per cent, double-digit current account deficits and unsustainable debt service ratios (71 per cent of exports of goods and services in 1982). The crisis had been precipitated by a combination of external shocks and some policy weaknesses, such as indexation of nominal wages to past inflation, fixed nominal exchange rates and inadequate supervision of financial institutions, in an otherwise sound policy regime. The economy experienced a rise in the external rates of interest and a fall in the price of its main export commodity, copper. These developments and the regional debt crisis in the wake of Mexico's debt problems, severely curtailed foreign lending to Chile and together with the devaluation of currency that was effected in mid-1982, there was a general collapse of the financial and production sectors. Efforts to rescue the financial and production sectors through enhanced credit availability proved fiscally unsustainable. Servicing of public debt and meeting the current account deficit without capital inflows became difficult. Against this background the Government launched a structural adjustment programme leading to wide ranging reforms of the domestic and the external sectors.

### **The economic reforms and the outcomes**

28. In the initial phase, the reforms focused on the macroeconomic stabilization of the economy: attaining a fiscal balance and a sustainable current account and rehabilitating the financial sector. To increase public savings, tax revenues were increased by about 3 per cent and government expenditure reduced by about 2.5 per cent of GDP. Stimulus was given to increasing exports. Import tariffs were reduced from 25 to 20 per cent on average. In addition,

the Government maintained a tight monetary policy and allowed real wages and the currency to depreciate. The stabilization measures were followed by structural reforms, spread over the period 1985-1988, aimed at deregulating and deepening the product and capital markets. The Government undertook privatization of State-owned enterprises; promoted debt-for-equity swaps; reprioritized and rescheduled its public investment programmes, shifting from large capital-intensive projects to higher-priority projects on maintenance of existing infrastructure; strengthened the financial sector regulations; encouraged the deepening of the capital market by lifting restrictions on investments by pension and insurance funds and by providing incentives to workers to purchase equity in the newly privatized enterprises; and initiated steps to diversify the country's export basket. A major step was to set up a fund to stabilize the returns from the export of copper, which accounted for most of the export revenue of the country.

29. The impact on the economy was almost immediate, with GDP growth jumping from around 2 per cent to nearly 7, expansion in employment bringing down the unemployment rate from 12 to 8 per cent, the current account deficit falling from over 8 per cent to 1.3 per cent of GDP, a fiscal deficit of 2.6 per cent turned into a surplus of 2.9 per cent, and the external debt service falling from 50 per cent to around 25 per cent. The foundation was laid for a period of sustained and high growth and provided the first Government democratically elected since 1973 with the necessary platform for launching its programme of social development, poverty reduction and equity.

30. In the 1990s, economic policy was focused on growth and social equity. The strategy to sustain growth was based on a commitment to maintain macroeconomic stability and increase domestic-factor productivity and efficiency by opening the economy up to external competition. The strategy for improving equity involved increasing public spending on health, housing, education and social security.

31. The sustained growth that followed has been explained by increased physical capital accumulation (the average investment rate in the 1990s was 23 per cent as against 20 per cent in the 1980s), an expansion in the labour force and an improvement in human capital, and an increase in total factor productivity.<sup>9</sup> Trade liberalization helped improve the allocation of resources and competitiveness, with the result that sectors of comparative advantage, namely mining and natural resources, sustained an export-led growth. The export basket saw a rapid diversification: while the share of copper declined from 46 per cent to 37 per cent, the share of forestry, fishing, wines, fruits and other agro-based products rose to more than one third during the same period. The average tariffs fell to about 8 per cent by the end of the decade, well on their way to meeting the mandated target of 6 per cent of January 2003. In addition, a strong financial sector backed by improved regulations and supervision under an autonomous central bank created the necessary climate for both investors and savers.

32. A prudent fiscal management with stability in fiscal and tax policies created the climate for increased investments - domestic as well as foreign - increased growth rate and provided the resources for the Government to pursue its commitment on increased social spending. The fiscal surplus was maintained at an average of 1.4 per cent of GDP up to 1999, and the Copper Stabilization Fund was used for a counter-cyclic public expenditure policy. With stable tax rates

and public revenues in the range of 20-24 per cent of GDP, the Government could afford to raise public expenditure on health and education by 2 percentage points of GDP. Sustained income growth, declining inflation (from 26 per cent in 1990 to 4 per cent in 2000) and enhanced spending on the social sector brought about a significant reduction in poverty.

33. Chile's consistent decline in income-poverty has been mainly the result of rapid growth in per capita income. From 1987 to 1998, real per capita income increased at an annual rate of 5.7 per cent. According to the World Bank, growth alone contributed to about three fourths of the reduction observed in poverty incidence, the rest being accounted for by enhanced government spending on social services. There was a large improvement in a range of social indicators, such as education (coverage of primary and secondary education), housing (dwellings meeting local standards), health (life expectancy and infant mortality) and labour market (unemployment rate, work participation rates for women, average years of schooling for workers and mean labour income). Public expenditure on education, health, housing, social security and other social services increased from 67 per cent of total government spending to 71 per cent over the decade; most of this increase came from the reallocation of public spending from defence and public debt servicing to these sectors. While the public pension system accounts for 44 per cent of this public spending, expenditure on education has increased considerably to support the reforms undertaken by the Government. The education improvement programmes have undertaken systematic qualitative improvement in conditions, processes and outcomes of municipal and privately subsidized schools, with a flexible but more demanding curriculum for primary education and innovations adapted to specific requirements of schools. The total spending on education, public and private together, accounts for 7.6 per cent of GDP at present. In the health sector, the Government has decentralized public health services to municipalities. A combination of private sector participation (pre-paid private health insurers) and targeted public spending on low-income households improved the delivery and financing of health services. Spending has also increased on new-targeted social programmes, some of which is in the form of subsidies for water and sewerage services initiated in 1991.

34. On the whole, the World Bank assessment of poverty, when broadly defined in terms of income poverty and deficits in access to basic social services (education, health and housing), indicates that only 1.5 per cent of the households have a deficit in all four dimensions; about 51 per cent of households have neither a social service deficit nor an income deficit. Poverty reduction has, however, not been uniform across regions and population groups. There is a greater concentration of poor in rural areas and among the vulnerable segments of the population, namely the indigenous groups. All regions except one have a poverty incidence at least 50 per cent higher than in the Santiago area, which accounts for half of the total population of the country. The share of rural population, which is only 15 per cent of the total population of the country as a whole, is much higher in these regions. Similarly, as per 1996 data, the incidence of poverty 36 per cent for the indigenous population (who account for up to 10 per cent of the total population) as against 23 per cent for the non-indigenous. Moreover, 65 per cent of indigenous families were in the lowest two quintiles of income distribution. Education seemed to be the single largest factor in explaining the difference between the poor and the non-poor.

35. In spite of all this success, Chile continues to record persisting high inequality in income distribution. In 1998, the Gini coefficient (a parameter of income inequality) at 0.547 was nearly the same as in 1988. This stability in income inequality for the period as a whole does not reveal

the deterioration experienced during 1994-1998 when income distribution between the top decile and the bottom decile increased. The real income of the bottom decile increased by about 15 per cent whereas that of the top decile increased by 31 per cent. The data used for these inequality estimates include only the income and cash transfers that are available to a household, and does not include the imputed monetary value of the social services delivered free of charge. If the latter were also included, the observed Gini coefficient would fall to 0.50. The subsidies for education, followed by health and housing, were seen to influence the inequality coefficient. It is estimated that the subsidy component of the social programmes increased in real terms (1998 pesos) from 4,486 per capita in 1990 to 10,225 per capita in 1998.

36. The issue of unemployment is another challenge, though perhaps not as serious as that of persisting income inequalities. On the whole, the unemployment rate has declined from the late 1980s and has averaged around 6 to 8 per cent per annum for most of the 1990s, increasing somewhat in the wake of the recession of 1998/99 when it reached double digits. However, at a disaggregated level the unemployment rate was 24 per cent for the men in the lowest quintile and 28 per cent for those in the age group 18-24 years. There is also a seasonality in such unemployment: it goes up in winter. The high unemployment rates for the young have been explained by rigidities in the labour market such as the high cost of mandated severance payments and relatively high minimum wages which in more recent years have grown at a faster rate than average wages. Rigid nominal wages combined with declining inflation rates have ensured that labour market adjustments operate through employment rather than wages. In the post-crisis period the Government had introduced a direct employment programme for about 100,000 persons. A subsidy of 70 per cent of the minimum wage for three months was provided to the private sector if it hired new workers without removing the existing ones.

### **Lessons from the Chilean development experience**

#### **Fiscal prudence, growth and social development**

37. The Chilean experience shows that high (per capita income) growth sustained over a considerable period of time can be a potent force in the rapid reduction of poverty and in bringing about all-round improvement in major social sector development indicators. If economic growth is anchored in a sound macroeconomic balance, fiscal prudence and stable policy, it can be sustained over longer periods and create the capacity to effectively address external shocks and unanticipated consequences of global developments. At the same time, it helps sustain public initiatives in bridging the gaps in availability and access of the people to the social services that are necessary to improve the realization of human rights. Consistent fiscal surpluses of the central Government combined with a determined reallocation of public expenditure in priority social sectors not only facilitated the increase in social spending, but it also permitted the implementation of counter-cyclical policies that enabled the economy to emerge quickly from its recessionary phase and overcome the dislocative effects on the poor and the vulnerable. This anchoring of the social policy in a medium- to long-term development perspective is a characteristic of the Chilean model of liberal economies.

**Addressing reduction in income inequalities**

38. The Chilean experience also shows the need to make a distinction between policies for poverty reduction and those for addressing income inequalities. These policies could differ both in content and with respect to the time frame for outcomes to materialize. While well-directed income transfers may be sufficient to overcome poverty, it may not affect the income inequalities. In the case of Chile one finds that inequalities in income declined, albeit to a limited extent, because of well-directed public expenditure on education and health. But the process is slow and requires much longer time than would a more direct strategy, such as increasing the availability of credit at reasonable terms to the unorganized sector and to microenterprises (which constitute nearly 83 per cent of formal enterprises and employ 43 per cent of the labour), combining it with extensive job training programmes to enhance labour productivity, and hence wage levels, at the lower end of the labour market. There is also scope for using an explicit (asset) redistributive policy for addressing income inequalities, particularly in rural areas and among the vulnerable population groups.

**Response to global developments: approach and instruments**

39. Chile has tried consistently to improve its response to global developments and benefit from the process of globalization. It created the Copper Stabilization Fund in 1986 not only to stabilize fiscal revenues from the exports of copper, insulating the country from the impact of fluctuations in the terms of trade, but also to implement social protection and development programmes as built-in counter-cyclic policy in times of need. It has strived to bring about greater transparency in its trade policy, unilaterally opened up the economy by bringing its average tariff levels to 6 per cent, and pursued within the multilateral trade framework the gradual reduction of tariff and non-tariff barriers. At the same time, it reached out to its potential trading partners with reciprocal trade arrangements, signing free trade agreements with the European Union and the United States and pursuing such agreements with other potential trade partners.

**Approach to the right to development**

40. The civil society organizations were particularly sensitive to the human rights issue, perhaps because of the country's recent history of human rights violations and subsequent claims for restitution. To some extent, this facilitated a favourable understanding of the right to development in the discussions held by the independent expert. The government representatives viewed the international human rights instruments as the basis for an ethical value system for any comprehensive approach to development. In an operational context, they saw the necessity of having a broader coalition between the public and the private sectors in realizing human rights. There was a need to have a long-term policy perspective on economic growth as well as for social development anchored in a fiscally sustainable process, with a high degree of integrity, transparency and predictability in the functioning of the public institutions. Programmes like the "Chilean solidarity system" - a rights-based social safety net for the poorest - and the "Chile Barrio" (Chilean neighbourhood) initiatives were seen as steps towards implementing principles promoted by the right to development. In the international context, the country favoured free, fair and transparent trade as conducive to the overall development of the country.



The Government saw in international cooperation between countries and multilateral institutions the means to supplement the national efforts to promote greater equity and opportunities and supported the various international agreements. The fiscal constraints often got in the way of universal coverage of adequate and qualitatively appropriate social services. The Government was of the view that it was also politically and technically difficult to translate the minimum requirements on the realization of rights into development goals. Although the Government's social policy emphasized protection for the most vulnerable segments of the population and the principles of social equity, inclusion and opportunity, there was hardly any institutional mechanism for the cross-sectoral coordination that is necessary for implementing a rights-based approach. The reduction of the discretion of the authorities; encouraging the participation of people in development, public scrutiny and social auditing; and creating an environment of dialogue between the various development stakeholders was seen by the representative of the Government as critical in development planning consistent with the realization of human rights.

### **III. BRAZIL**

41. Brazil has a long history of high economic growth. However, this growth was not uniform; growth spurts were interspersed with periods of stagnation and even recession. Nor was it able to eradicate poverty or, more importantly, make a significant dent in income inequality. After a period of relatively high growth in the 1960s and 1970s, GDP growth in the 1980s was less than the growth of population, making the 1980s a lost decade for the country. Unlike other economies of the region, including the two studied in this report which made important strides in the last decade, growth in Brazil during the 1990s remained erratic. Average GDP growth in Brazil from 1990 to 2000 was just 2.7 per cent per annum. The period from 1985, when the democratic government was restored in the country, to 1994 saw the process of political-democratic consolidation, when attempts at economic stabilization were mostly ad hoc. They consisted mainly of price freezes that were not anchored in fiscal and monetary policy fundamentals, nor did they address problems of the indexation of wages and other prices to inflation. This resulted in a misalignment of various prices and allowed inflationary pressures to build up, eventually surfacing in a spiral of near hyperinflation in the early years of the 1990s. From 1991 to 1993 growth in GDP in real terms was under 2 per cent per annum and the average inflation rate (measured on the general price index) was over 1,400 per cent per annum, with a peak of 2,708 per cent per annum in 1993. The incidence of poverty, measured according to the national poverty line, was 43 per cent in the same year.<sup>10</sup>

#### **The economic reforms and outcomes**

42. The period 1994-1998 marked a phase of macroeconomic stabilization that put the economy on a sustainable growth path. The highlight of the strategy was the introduction of the "Real Plan" which successfully introduced a new currency and brought about a dramatic end to the inflationary phase. The inflation rate fell to low double digits in 1995 and eventually to under 2 per cent in 1998. A quasi-fixed exchange rate band served as a nominal anchor for prices. The regime for price controls was dismantled, privatization and financial sector reforms were undertaken and trade reforms brought down tariff levels and some non-tariff restrictions. All these stimulated productivity growth, improved the investment climate and encouraged inflows of foreign direct investment. There was a significant step-up in the growth rate along

with a reduction in inflation. There was also a dramatic reduction in the incidence of poverty by over 9 percentage points between 1993 and 1995. However, neither growth nor poverty reduction could be sustained over the remaining period. The average growth in GDP for this period as a whole was about 3 per cent and poverty in 1999 was at the same level as in 1995.

43. The initial gains from the stabilization measures could not be consolidated for lack of adequate structural reforms. Continued fiscal deficits and a tight monetary policy in the face of increased capital inflows led to higher interest rates and interest burden. Public debt increased from about 30 per cent of GDP to nearly 42 per cent by 1998. A nominally fixed exchange rate, increased capital inflows and declining domestic inflation allowed the exchange rate to appreciate in real terms. There was a decline in the domestic savings rate and external indebtedness rose steeply: within a period of five years it rose from under US\$ 150 billion to nearly US\$ 225 billion in 1998. Though the total external debt - of which more than half was private debt - constituted just about 40 per cent of GDP, the external debt service ratio, i.e. external debt servicing as a proportion of the country's export revenues, was quite high because of Brazil's low level of external trade (exports accounting for only 10 per cent of GDP). Export growth, at 5.8 per cent from 1990 to 2000 as against 4.5 per cent in the 1980s, may have been held back because of an overvalued currency and bottlenecks in export finance and infrastructure. These developments - fiscal profligacy and rising domestic debt, as well as external indebtedness and servicing of debt - accentuated the traditional vulnerabilities of the economy, which combined with the international crisis of 1997/98 resulting in a sharp decline in GDP growth in these years.

44. In the second phase of macroeconomic stabilization, since 1999, the country has been able to emerge from the crisis in 1999 and 2001 and establish a creditable policy framework. Among several changes in policies, there was a switch to a floating exchange rate regime, devaluation of the currency (by about 35 per cent in January 1999), a monetary policy that targeted inflation and a fiscal policy that sought to generate consistent and significant primary surpluses. The management of the size and composition of the public debt was seen as a critical element in stabilizing the macroeconomic environment and in sustaining growth. By targeting an increase in primary surplus, the Government hoped to bring down long-term interest rates to stimulate investment and, hence, growth. At the same time, an activist monetary policy sought to respond appropriately to inflationary expectations and exchange rate changes, affecting short-run interest rates that support sustainability of external debts. By raising primary balance targets, the Government could also find additional resources needed for its social development policies.

45. The success of these measures can be assessed by the performance of some indicators. The trade balance has consistently improved since 1999 and it has started showing a significant surplus since 2001. While initial improvements in trade balance have been on account of a slowdown in imports following the exchange rate adjustments and to less-than-anticipated growth, but more recently exports have picked up. In 2002 the trade surplus was about US\$ 13 billion and in the first eight months of 2003 it had already exceeded this level. Exports were growing at nearly 20 per cent in the current year and average tariffs were down to about 14 per cent, with peak tariffs at 35 per cent. The effective rates after drawbacks and deductions were even lower. The Government has also consistently met ambitious primary surplus targets, which has helped stabilize the public debt ratio and improved the primary balance to just over 4 per cent of GDP in 2002. The external debt has also declined. However,

although growth improved markedly in 2000 when the economy registered a 4.5 per cent increase in GDP, it faltered again in 2001 and 2002 in the wake of domestic and external shocks, including the domestic energy crisis, the slowing down of the world economy and the uncertainties of international capital flows due to crisis in other economies of the region. The lower growth has been accompanied by reduced access to foreign capital, depreciation of the currency, higher inflation, and a halting of the declining trend in interest rates. More importantly, the shocks have raised public debt in 2001 and 2002, highlighting the inadequacies of the fiscal reforms undertaken so far.

46. In terms of social sector development, over the 1990s the country has achieved dramatic results in improving the living conditions of the people, brought about a near 10 percentage point reduction in the incidence of poverty by the middle of the decade and, more recently, taken steps towards sustaining its rich environmental heritage. The poverty incidence has remained the same even in the face of adverse shocks and stagnation in per capita income growth, unlike other countries in the region. The net enrolment in basic education has risen from 84 per cent at the beginning of the decade to 95 per cent at the end; in particular, school enrolments for 7-11 years have increased from 80.5 per cent to 96.5 per cent in 2000 and illiteracy rates have dropped from 18.3 per cent to 10.2 per cent in the same period; infant mortality has declined from 47.8 per 1,000 persons in 1990 to 29.6 in 2000; access to drinking water has improved from 73 per cent in 1986 to 87 per cent in 2000. However, about one third of the population is still below the poverty line, an incidence which is quite high for a country of Brazil's per capita income. It reflects the serious problem that exists in respect of income inequality in the country. The poorest one fifth of the population account for only a 2.2 per cent share of national income or, from the other end, before transfers the richest 1 per cent of the population receives the same 10 per cent share of national income as the poorest 50 per cent. Income inequalities exist between rural and urban populations and between different racial groups and regions of the country.<sup>11</sup> The income and social indicators are particularly lagging in the north-eastern region of the country. Similarly, on the issue of environmental management, though steps are being taken to address issues, there are many gaps. With 82 per cent of the population residing in urban areas, only 56 per cent of urban dwellings are connected to the sewerage system. In rural areas less than 20 per cent of the population has piped water and only 13 per cent has sanitation services. Overall, less than 10 per cent of waste water is treated and up to 40 per cent of solid waste is not collected in the country.

47. Some of these trends are corroborated by the human development indices developed at the municipal level for all the regions of the country.<sup>12</sup> The data show that Brazil has indeed improved its position in terms of its national Human Development Index (HDI) over the last decade which increased from 0.709 in 1991 to 0.764 in 2000, reflecting improvements in all three dimensions of the Index, namely, income, life expectancy and education. More importantly, the Index has improved in all the states of the country and in 99.87 per cent of its municipalities. Although overall, the country continues in the category of a "medium" human development country, the number of high human development municipalities has increased from just 19 in 1991 to 574 in 2000, i.e. more than 10 per cent of all the municipalities in the country. Much of this improvement in the index (at the national level) has come from improvement in education indicators (61 per cent), followed by income (26 per cent) and life expectancy (13 per cent). The Index also reveals regional disparities in social attainments. Thus, for instance, it shows that only 4 of the top 100 municipalities on the HDI are outside the more

developed south and south-eastern regions (and one of these happens to be the national capital and the other a resort island-town in the north-eastern region). While the HDI for the Black population in the country (0.70 in 2000) progressed slightly more than that for the Whites (0.811 in 2000), the income gaps between the two segments of the population remained the same, the average Black earnings only 41 per cent of the take-home income of Whites.

48. Despite the country's indifferent growth performance and fiscal constraints, Brazil has shown a remarkable commitment to building and sustaining a reasonably comprehensive framework for social security with a focus, in more recent times, on poverty eradication through income transfer programmes. In the few months of the current presidency, while continuing the approach inherited from the earlier regime, important steps have been taken to address some of the weaknesses and build on the strengths of the country's approach to social development.

49. Overall public social spending in Brazil, including expenditure by all levels of Government, amounts to about 20 per cent of GDP and is distributed over an array of social protection programmes. Nearly 60 per cent of this spending goes to fund the social security expenditure on pensions to augment the contributions by the beneficiaries, who are mostly from the formal sector and account for just 40 per cent of the labour force at present (the share of the informal market in Brazil was over 60 per cent in late 1990). However, this segment of social spending in Brazil is distinctly regressive as it exacerbates the country's already high-income inequality. With the exception of the old-age social security programmes, this expenditure does not, by and large, benefit the poor. In fact, a World Bank study has estimated that just 1 per cent of the social security spending reaches the poorest 10 per cent of Brazilians, while 50 per cent goes to the richest 1 per cent.

50. The social protection strategy directed at the poor and excluded includes mainly conditional cash transfer programmes such as the *Bolsa-Escola*, the programme to eradicate child labour (PETI), the rural pensions programme (for the old or disabled) and, more recently, the Zero Hunger initiative.<sup>13</sup> *Bolsa-Escola* was started in 1995 and now covers more than one third of all school-age children in the age group 6-15 years, with the objective of promoting school enrolment and attendance. It provides for a standard transfer for up to three children per family to families with per capita incomes of less than half the minimum wage. Evaluations have revealed that the programme may have brought down the number of poor children not in school by half. It has been indicated that improved coverage, larger transfers and administrative convergence with similar initiatives (PETI) would help improve the effectiveness of the programme. Moreover, under the present cost-sharing arrangement with the federal Government, many of the poorest municipalities, where the need for this programme is the greatest, are not able to benefit from this initiative. PETI was initiated in order to address the problem of child labour in urban and rural areas. It also involved cash grants to families with working children of school age (7-14 years) whose per capita income was less than half the minimum wage, in return for the children attending school for at least 80 per cent of the required attendance as well as programmes of after-school activities. As a result of this programme, participation in which is limited to four years, the proportion of working children fell from 20 per cent in 1992 to 15 per cent in 1999. The programme is seen as a well-designed initiative that has continued relevance, given the magnitude of the problem. The disability and old-age

pension programme introduced after a law was passed in 1993 makes available a pension of one minimum wage to a household with a disabled and elderly person and with a per capita family income of less than one fourth of the minimum wage. This initiative accounted for nearly 45 per cent of the social assistance spending in 2002.

51. The Zero Hunger programme launched by the Government at the beginning of this year places primary importance on eradicating hunger, malnutrition and extreme poverty within four years. It is aimed at 9.3 million households, or 44 million people, in Brazil. The initiative, as proposed and being implemented on a pilot basis, is seen to be consistent with the realization of the right to adequate food and in keeping with a rights-based approach to development. The programme recognizes that eradicating hunger is not simply a moral imperative, but also generates important social and economic benefits. It is inclusive and nationwide in its approach, though to begin with it is being piloted in the north-eastern region characterized by the concentration of extremely poor. The programme combines measures to broaden the access to food and improved nutrition through transfers along with improvements in the production and livelihood of the family farming subsector, which is most vulnerable to food insecurity, through better availability of technical services and financial support. The transfers, in turn, are directed at the creation of food entitlements, using food coupons or debit cards restricted to selected food items, along with a conditionality requirement to participate in adult literacy or vocational training programmes. The initiative embodies a multisectoral approach designed to improve the cross-sectoral synergies and efficiency with which the public sector programmes are implemented. It is based on full engagement of the civil society and aims at the large-scale mobilization and participation of the intended beneficiaries.

### **Lessons from the Brazilian development experience**

#### **Approach to social security**

52. The outstanding aspect of the social security strategy in Brazil has been the development of excellent models of conditional and well-directed income transfers. These interventions, while raising the disposable income of targeted households, have successfully engineered behavioural changes among children and their parents, such as improving enrolment and retention in primary school, and raising the level of adult literacy and of training in the workforce, in the process improving their future productivity and the prospects for better earnings. In more recent times, the approach has been to identify and analyse the gaps in the social protection strategy and put together interventions that address these gaps. In part, this has been necessitated by the consideration that for a considerable period of time, economic growth has neither been sustained at an adequate pace nor has it generated sufficient employment opportunities. For instance, recognizing that the existing social protection measures are biased in favour of the aged and the children of school age and do not offer adequate coverage to the younger working-age population, particularly in the rural areas, initiatives like the Zero Hunger programme and agricultural reforms have been introduced. More importantly, in designing and implementing these measures it has been demonstrated that it is possible to ground these measures in the human rights framework which seeks participatory, equitable, inclusionary and empowering development for the people. While it is too soon to assess the impact of some of the recently introduced measures, the fact that, in general, the approach to social protection has

worked is reflected in the improvement of social indicators, as well as in the stability of indices on poverty and inequality, even during the period of economic volatility and stress. It is, however, important to sustain these measures over the medium term and to find resources for and build an environment conducive to, investment and economic growth.

### **Sustaining the development process**

53. Ultimately, the sustainability of all these initiatives rests, critically, on the economy's ability to sustain a reasonable rate of economic growth with macroeconomic stability. The experience of the Brazilian economy in this respect for the last two decades has not been encouraging. While the country has taken important strides, in the last few years, in creating a stable macroeconomic environment and institutional mechanisms that would encourage investments, productivity and, hence, growth, it has yet to fully resolve the critical elements that perhaps explain its experience of stop-and-go stagnation during this period. It could be argued that the country's ability to sustain growth is closely tied to its level of public debt, which not only limits the flow of resources to the domestic private sector and raises the cost of borrowing, but exposes the economy to uncertainty about the Government's ability to meet its financing needs and, through its spillover, negatively effects the current account. The difficulty that the Government faces in managing its public debt, which is mostly domestic, relates to the inflexibility of government spending: up to 4 per cent of GDP is tied to the funding of generous retirement benefits linked to the salaries of active personnel in the civil service and constitutionally provided transfers to states and municipalities that make it impossible to cut public spending without curtailing basic social services.

### **Institutional framework for development**

54. Brazil has adopted a multi-year planning framework, with a 20-year perspective, for implementing a strategy directed at addressing the challenges of improving equity, sustainability and productivity in its development process. Each of these objectives plays a critical role in defining a development framework that could provide the foundations for implementing a rights-based development process for the realization of the right to development. The planning process is oriented to a long-term development strategy, is participative, and links regional and local development to national and territorial planning. It focuses on a household-based approach to developing social protection as against a segmented sectoral approach. The development strategy is elaborated in terms of five dimensions that outline an integrated approach to development, in conformity with the notion of the right to development and the interdependence and indivisibilities of human rights. The social dimension of the strategy seeks a universal and unqualified access to public services, cultural reinforcement, and transfer of the benefits of productivity increases to the workers in the form of better incomes. The economic dimension focuses on macroeconomic stability, creation of jobs, and increase in investments and productivity in order to become internationally competitive and reduce external vulnerability. The regional dimension of the strategy seeks equity between regions, the environmental dimension harmony between development and environmental sustainability. The democratic dimension seeks to strengthen citizenship, respect for human rights and participatory management of public policies. The focus on improving the monitoring and accountability of the development process, along with the use of social auditing techniques by mobilizing the civil society and the beneficiaries, is reflected in the implementation of new initiatives. More specifically in terms of human rights monitoring, the introduction of a special national human

rights reporting mechanism in the form of National Rapporteurs covering the rights to education, health, work, the environment, housing, and adequate food, water and rural land, along the lines of the special procedures of the Commission on Human Rights, is a case to highlight.

### **Approach to the right to development**

55. The Government, as well as the civil society, is unequivocally committed to the realization of human rights, including the right to development. This is clearly reflected in the present political and social discourse in the country and in the initiatives of the Government, particularly in its approach to social protection. The discussions during the mission also revealed the important role that was foreseen for the international community in the eradication of poverty and hunger and in meeting the other internationally agreed development goals by supporting the national action. It was pointed out that in an era of globalization and interdependence, policies pursued by one country or a set of countries have an impact in other countries and the impact is all the greater if the concerned countries happen to be major economies. The international community had fallen short of creating an enabling environment for the developing countries to combat their problems, and there was a lack of coherence in the policies of various international organizations that the international community had failed to address, to the detriment of the developing world. An issue indicated in this context was the almost insignificant level of development assistance flowing to the developing countries, in comparison to the benefits from trade in agriculture that were being deliberately denied to them by maintaining agricultural subsidies in the developed countries that were many times greater than the level of development assistance. There was reference to the lack of progress in the development round of the World Trade Organization. It was also pointed out that there was a strong case for sensitizing the Bretton Woods institutions on the merits of the approach to development implicit in the notion of the right to development.

## **IV. CONCLUSIONS**

56. **In light of the foregoing, the independent expert draws the following conclusions:**

(a) **From the point of view of the right to development, the liberal model associated with the Washington Consensus as a development framework was found to be limited not only in terms of the development goals that it directly addresses, but also in terms of the instruments whose use it seeks to encourage to meet these goals. A rights-based approach to development has to be more broadly based in terms of the multiple goals that it has to address and the instruments that it needs to deploy to realize these goals. More importantly, such an approach promotes accountability, participation and equity in the reach and scope of its policies at the national and the international levels, with provision for appropriate mechanisms of redress against unanticipated and unaddressed effects of national policies and of the international environment;**

(b) **While the experience highlights the critical importance of adequate and sustained growth in attaining outcomes consistent with the realization of human rights, it also reveals the limitation of focusing on it too narrowly, particularly at the expense of an adequate approach to social security and a social safety net. Experience has shown that in**

the current context of globalization, no country can remain isolated from the dislocating impact of shocks from the global economy. Moreover, the dislocating impact of the instruments advocated by the Consensus, concerning primarily the labour but also the domestic capital, has to be addressed if the development process is to be sustained and equitable in its impact. This in turn calls for synergizing those instruments for their impact and deploying others - that were strictly outside the advocacy of the Consensus - to attain multiple development goals, such as, for instance, is apparent from Chile's development experience;

(c) A central element of implementing the right to development approach has to be the capacity to have an adequate and appropriate approach to social security and a social safety net. The need for an adequate social safety net arises because of the uncertainties associated with the nature and spread of the present process of globalization across countries. In many instances, benefiting from global developments while minimizing their dislocating consequences requires an almost real-time response and adjustment of domestic policies and programmes. This response, and the resulting adjustment process, are often constrained by limitations of the institutional capacities in developing countries in keeping pace with global developments and by the loss of policy autonomy that these countries face on account of the current international economic and trade regime, unlike the presently industrialized countries in their developing phase. The rationale for social security provisioning is based, on the one hand, on the need to provide support to individuals when they are not actively engaged in the production process of the economy and, on the other hand, on the need to build the capabilities of individuals in a manner that helps them integrate better with the production process and hence gain equally from economic expansion;

(d) Each of the three countries had something to offer in terms of a human rights perspective on development: the success of the social safety net in Argentina, the long-term perspective on the social development strategy and its anchoring in a sound macroeconomic balance and fiscal prudence in the case of Chile, and the rights-based approach to social protection in Brazil. None of them, however, offers complete working models for implementing the right to development;

(e) The experience underlines the importance of international cooperation in implementing a rights-based development process and that it could take different forms, extending over varying periods, depending on the country context. For instance, in the case of Argentina it could have been in the form of provision for running a more broad-based counter-cyclic policy involving an adequate programme for a social safety net, especially during the crisis period, rather than forcing the country to generate a larger primary surplus; in the case of Chile, it took the form of facilitating market access to the country's exports through trade agreements; and in the case of Brazil, it could relate to maintaining resource flows to social-sector development while finding resources to fuel growth. In each of these cases, in the course of implementing the reforms and in times of managing the crisis, the support of the international community would have helped in the promotion, as well as the protection of human rights. In this context, perhaps there is a case for treating parts of social-sector expenditure as investment expenditure, instead of



consumption, as it would have a bearing on the policy imperatives of countries undertaking an adjustment programme to meet the targets of some of the macro-parameters agreed with the multilateral institutions and donors. Such an arrangement could potentially help in formulating and implementing medium- to long-term social development policies as well as social safety net programmes in times of exigency. The independent expert discusses some of these issues in his analysis of the development compact contained in his sixth report, as well as the earlier reports;

(f) In each country there has to be a global vision and a strategy for social protection and social safety net programmes so that initiatives may be taken to address the excluded segments of the population in a comprehensive manner. The benefits of such an approach were apparent in the case of Brazil.

### Notes

<sup>1</sup> This is a report of the mission conducted by the independent expert, Dr. Arjun Sengupta, assisted by a staff member of the Office of the High Commissioner for Human Rights, to Argentina (10-12 March 2003), Chile (13-15 March 2003) and Brazil (11-16 August 2003) and is based on the materials submitted by and the extensive discussions held with government officials, academics and professionals and representatives of non-governmental organizations.

<sup>2</sup> E/CN.4/1999/WG.18/2, A/55/306, E/CN.4/2001/WG.18/2, E/CN.4/2002/WG.18/2 and E/CN.4/2002/WG.18/6. These reports are available at <http://www.unhchr.ch/html/menu2/7/b/mdev/htm>.

<sup>3</sup> See independent expert's fifth report for further discussion on this issue.

<sup>4</sup> A particular kind of economic growth may also have a constitutive role in the notion of the right to development when seen in terms of the opportunities that it generates for people to be productively employed and have a life of dignity and self-esteem.

<sup>5</sup> The 10 items identified in the original Washington Consensus were: emphasis on fiscal discipline; prioritizing public expenditure in activities "with high economic returns and potential to improve income distribution"; tax reforms; deregulation of interest rates and an end to directed credit; exchange rate regimes to encourage competitiveness and stability; liberalization of trade policy; encouraging foreign direct investment; privatization; deregulation of domestic production; and securing property rights. See, for instance, Williamson (1990, 1997) and Birdsall et al. (2001).

<sup>6</sup> See, for instance, A. de la Torre, E. Yeyati and S. Schmukler, Living and Dying with Hard Pegs: The Rise and Fall of Argentina's Currency Board, World Bank Policy Research Working Paper 2980, February 2003.

<sup>7</sup> The poverty estimates are based on the Government's official poverty line of 160 pesos per male adult per month in 1998 and an extreme poverty line (based on the food consumption portion of the poverty-line figure) of 69 pesos per month at 1998 prices, calculated on the basis

of the 1986/1987 Income and Expenditure Survey. These poverty lines are adjusted for prices over successive years, using price indices data for the Greater Buenos Aires region for the food and non-food components of the consumption basket. The poverty estimates are based on incomes, not expenditure. Further, though capturing the trend, the poverty estimates exclude the rural population and to that extent understate overall poverty.

<sup>8</sup> See, for instance, “Poor People in a Rich Country: A Poverty Report for Argentina”, World Bank Report No. 19992 AR, March 2000.

<sup>9</sup> Gallego and Loayza, “The Golden Period of Growth for Chile”, November 2001.

<sup>10</sup> The poverty estimate is based on the poverty line defined by the Institute for Applied Economic Research (IPEA). The comparative figure for 1999 is 33.9 per cent. The World Bank poverty estimates are lower due to a lower poverty line.

<sup>11</sup> Though income distribution has marginally improved over the 1990s, it continues to be among the least equal in Latin America. Between 1990 and 1999, while the overall Gini coefficient was nearly stable at 0.60, the Gini coefficient by household source of income declined from 0.57 to 0.53 for wage earners, 0.59 to 0.57 for self-employed or own-account workers, 0.76 to 0.55 for households dependent on transfers and from 0.91 to 0.81 for households with income from property ownership.

<sup>12</sup> See for details *Human Development Atlas of Brazil*, UNDP Brazil.

<sup>13</sup> More recently, in November 2003, the Government created a programme called *Bolsa-Familia* which unifies all procedures for the management and execution of actions by the federal Government related to income transfers under its various initiatives.

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