

## Chapter IV

# Place does matter: territorial disparities and convergence

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## A. Introduction

The previous chapter showed the striking segmentation and lags in the productivity of Latin American economies, resulting from intersectoral or intrasectoral gaps, or gaps in terms of labour productivity. These gaps are a huge obstacle to development as it is understood herein, as they are the manifestation of the system's rigidity, weaknesses in the region's medium- and long-term positioning in the world economy and deep-seated inequalities that spread from the productive base to the rest of society.

Achieving productive convergence requires closing productivity gaps with more competitive countries, while also reducing internal structural heterogeneity. These social and productivity gaps can literally be "mapped out", as they are reflected in –and partially caused by– territorial segmentation. In other words, production gaps have a territorial correlation. Such segmentation means that, in each country and the region as a whole, place of residence largely determines socio-economic status. Of course, these maps can shift and in certain areas synergies are activated between productivity gains and social integration. But other areas still lag behind and remain unintegrated, and others still slip deeper into poverty and increasingly sluggish production growth (Ramírez, Silva and Cuervo, 2009).

Territorial and social inequalities are dialectically interwoven. In other words, differences among subnational territories in terms of income, poverty, productivity, access to well-being and natural-resources endowment contribute to the aggregate contrasts in these indicators at the national level. For this reason, narrowing the gaps among territories is vital if equality is to be improved. Hence the importance of policies that consider not only productive convergence but also spatial convergence. The importance of formulating macroeconomic policies that enable countries to bring their real GDP closer to their potential GDP was discussed in chapter II but, in

order to achieve this at the spatial level, productive synergies must be pursued in a manner that is consistent with the territorial reality. Just as productive development needs the social development required to build human capacity and provide an environment of increased well-being, so spatial development cannot occur unless the basic deficiencies in the most disadvantaged subnational territories are resolved, to provide them with the minimum conditions for increasing their low levels of productivity.

## **B. The territorial dimension of inequality**

In recent years, development thinking has come to encompass a host of new factors, including innovation, tacit knowledge, social capital and associativity, which have made it possible to explore and implement new approaches in public policy. Importantly, these new factors are all highly dependent on the intensity and form of relations among social agents.

This is the context in which territory —understood as a constantly evolving system of historically structured social interactions— becomes vital to understanding the real-life processes affected by the new development factors. Spatial proximity and face-to-face relations, which are essential for generating trust, largely explain many examples of successful territorial development worldwide. At the other extreme are many territories that have been unable to escape from the stagnation trap, which is typified by high levels of deeply entrenched poverty. Such places have historically structured systems of social relations that perpetuate and deepen the economic and social backwardness, and require new systemic relations if the situation is to be improved.

In recent decades, the theoretical analysis of territorial disparities has concentrated on two main problems: the level and evolution of overall disparities in income and living conditions between the inhabitants of different territories; and the spatial concentration of economic activity and population.

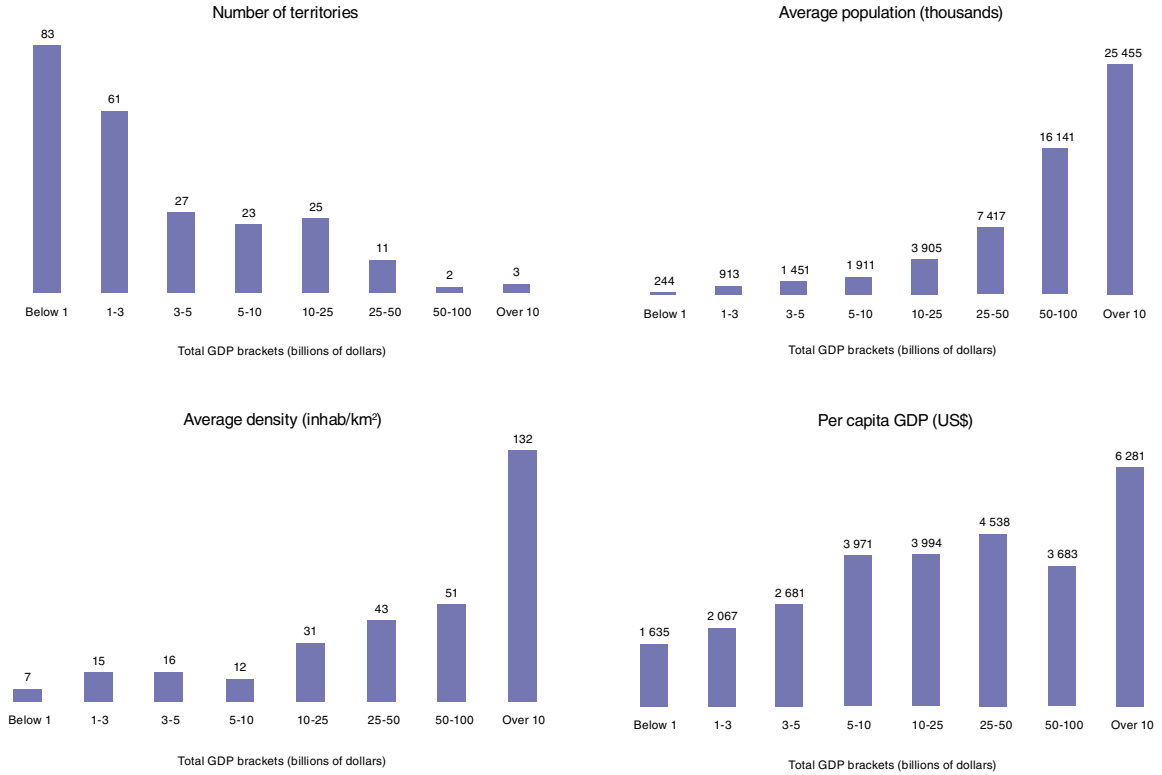
### **1. Territorial heterogeneity in Latin America**

The strong heterogeneity of subnational territorial entities in Latin America takes the form of high spatial concentration and persistent inequalities in the territorial distribution of wealth.<sup>1</sup> From the demographic and economic point of view, the region has a large number of small territories, and very few large territories. Counting only the smallest and largest territories in terms of share in GDP for 11 countries, the 83 smallest territories had an average population of 245,000, while the three largest territories had an average of 25.5 million inhabitants. The concentration and unevenness of settlement patterns are accompanied by a major imbalance in the distribution of opportunities for material well-being. As shown in figure IV.1, per capita GDP increases in direct proportion with the economic size of the territory, rising from between US\$ 1,635 to US\$ 3,971 for the four lowest brackets of GDP, to around US\$ 4,000 for the next four brackets, before surging to almost US\$ 6,300 in the top bracket.

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<sup>1</sup> For the purposes of this section, subnational territorial entity shall be taken to mean the first level of political-administrative divisions of each country.

Figure IV.1  
**LATIN AMERICA: DISTRIBUTION OF TERRITORIES ACCORDING TO  
 BRACKETS OF TOTAL GDP, AROUND 2003**



Source: Latin American and Caribbean Institute for Economic and Social Planning (ILPES), on the basis of official figures.

This analysis of territorial heterogeneity becomes more meaningful and significant in the context of an international comparison, by using two coefficients to draw contrasts with the situation in countries of the Organisation for Economic Co-operation and Development (OECD): the territorial concentration coefficient and the territorial Gini coefficient.<sup>2</sup> The first of these measures the territorial distribution of economic activity, while the second measures the

<sup>2</sup> Territorial concentration coefficient:

$$\left( \sum_{i=1}^N |y_i - a_i| / 2 \right) * 100$$

where:

$y_i$ : relative weight of territory  $i$  in total GDP;

$a_i$ : relative weight of territory  $i$  in total surface area, and

$N$ : number of territories.

Gini coefficient:

$$\frac{2}{N-1} * \sum_{i=1}^{N-1} (F_i - Q_i) \quad F_i = \frac{i}{N} \quad Q = \frac{\sum_{j=1}^i y_j}{\sum_{j=1}^N y_j}$$

where:

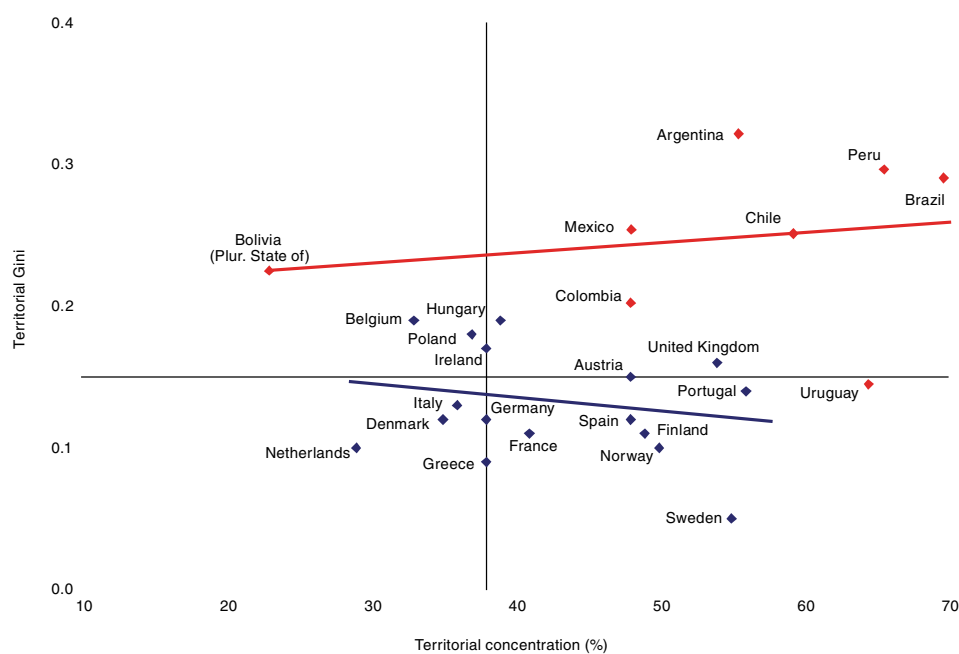
$y_i$ : per capita GDP of territory  $i$ , and

$N$ : number of territories.

distribution of wealth. The concentration coefficient compares each territory's share in total GDP with the share of its geographical area, and its values range from 0 (minimum spatial concentration) to 100 (maximum spatial concentration). The territorial Gini coefficient measures disparities in average per capita GDP for each territory, with values of between 0 (lowest disparity) and 1 (maximum disparity).

Figure IV.2 shows the overlap between these two indicators and clearly illustrates the peculiarity of Latin America where, unlike in European countries, territorial concentration of GDP goes hand in hand with inequity. In the group of OECD countries, an increase in concentration leads to a slight improvement in the territorial concentration coefficient. In the group of Latin American countries, concentration rises in tandem with the Gini coefficient (except in Uruguay).

Figure IV.2  
LATIN AMERICA AND OECD COUNTRIES: TERRITORIAL CONCENTRATION AND DISPARITIES, AROUND 2003<sup>a</sup>



**Source:** Latin American and Caribbean Institute for Economic and Social Planning (ILPES), on the basis of official figures and Organisation for Economic Co-operation and Development (OECD), *OECD Regions at a Glance*, 2007, Paris, 2007.

<sup>a</sup> Although the values of the territorial concentration coefficient go from 0 to 100 and the values of the Gini coefficient go from 0 to 1, the scales of the figure have been adjusted to provide a clearer representation.

Sweden and Uruguay are interesting cases, because despite being in the quadrant for high territorial concentration, they have significantly high levels of territorial equity (a low Gini coefficient). This suggests that there is no one-way relationship between the two dimensions, and that differences could be an expression of different institutional systems (at the national and subnational levels) that have considerable impact on disparities.

## 2. Economic territorial disparities in Latin America

Economic territorial disparities refer to inequalities in the distribution of opportunities for economic development, and in this case they are measured using per capita GDP as a proxy variable. One telling indicator is the gap between a country's richest and poorest regions in terms of per capita GDP. Table IV.1 compares certain Latin American and OECD countries: in OECD countries, per capita GDP in the richest region is no more than twice the figure in the poorest region (the average figure is a difference of just under 1.76 times), while in Latin American countries the difference can be over eight times (as in Argentina and Brazil).

Table IV.1  
LATIN AMERICA AND MEMBERS OF OECD (BOTH SELECTED COUNTRIES):  
VARIATION IN GAPS BETWEEN PER CAPITA GDP OF THE RICHEST  
AND POOREST REGIONS, BY COUNTRY

Country	Currency	Reference year	Wealthiest region	Poorest region	Wealthiest over poorest	Gap variation
Latin America						
Argentina	1993 \$	1993	Tierra del Fuego	Santiago del Estero	6.79	
		2005	City of Buenos Aires	Formosa	8.09	19%
Bolivia (Plurinational State of)	1990 B\$	1990	Santa Cruz	Potosí	2.29	
		2006	Tarija	Potosí	3.55	55%
Brazil	2002 R\$	1990	Federal District	Piauí	11.86	
		2006	Federal District	Piauí	9.22	-22%
Chile	2003 \$	1990	Magallanes	Araucanía	5.12	
		2007	Antofagasta	Araucanía	4.48	-13%
Colombia	1994 \$	1990	Bogota	Chocó	4.10	
		2007	Bogota	Chocó	4.87	19%
Mexico	1993 \$	1993	Federal District	Chiapas	5.46	
		2006	Federal District	Chiapas	6.07	11%
Peru	1994 NS\$	1994	Moquehua	Apurimac	8.11	
		2007	Moquehua	Apurimac	7.57	-7%
OECD countries						
France	US\$ PPP 2000	1995	Ile de France (Greater Paris)	Corse	2.08	
		2005	Ile de France (Greater Paris)	Languedoc-Roussillon	1.95	-6%
Italy	US\$ PPP 2000	1995	Bolanzo (autonomous province)	Calabria	2.36	
		2005	Bolanzo (autonomous province)	Campania	2.04	-13%
Japan	US\$ PPP 2000	1990	Kanto	Okinawa	1.80	
		2005	Toukai	Okinawa	1.57	-13%

Table IV.1 (concluded)

Country	Currency	Reference year	Wealthiest region	Poorest region	Wealthiest over poorest	Gap variation
Korea (Republic of)	US\$ PPP 2000	1990	Gyeongnam	Jeolla	1.86	
		2005	Gyeongnam	Jeju	1.88	1%
Netherlands	US\$ PPP 2000	1995	West	Oost	1.27	
		2005	West	Oost	1.31	3%
Spain	US\$ PPP 2000	1995	Madrid	Extremadura	2.04	
		2005	Madrid	Extremadura	1.92	-6%
Sweden	US\$ PPP 2000	1995	Stockholm	Ostra Mellansverige	1.44	
		2005	Stockholm	Ostra Mellansverige	1.63	13%

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

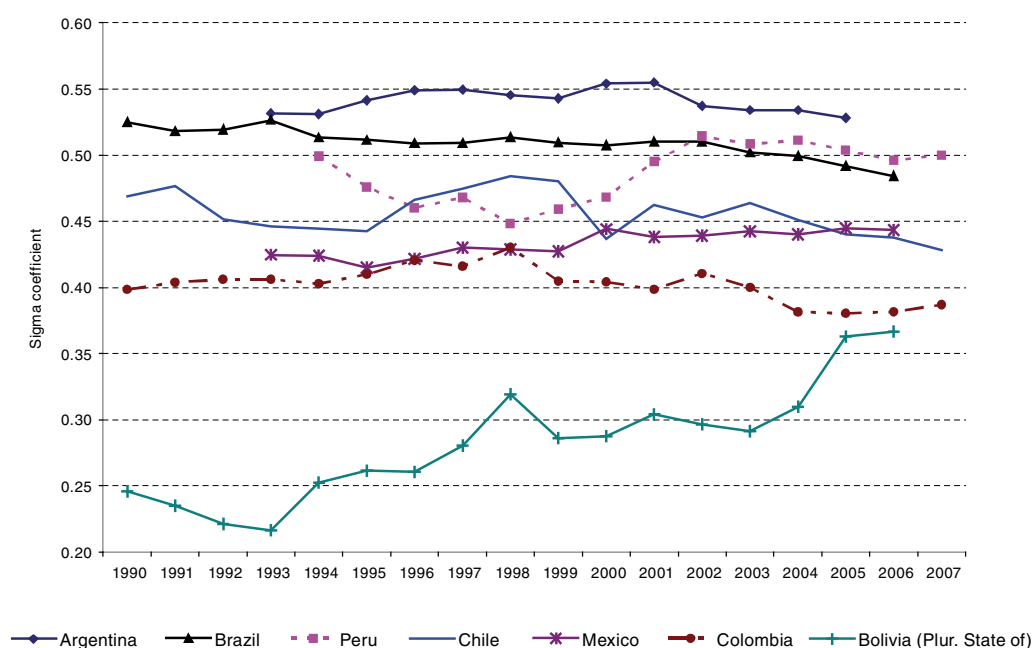
Furthermore, in several OECD countries the gap narrows in the period under consideration, which could be related to a reduction in disparities. A similar development is seen in Brazil (from 1990 to 2006), Chile (from 1990 to 2007) and in Peru (from 1994 to 2007), and this will subsequently be analysed using regression calculations.

Other indicators commonly used to measure territorial disparities are sigma convergence ( $\sigma$ ) and beta convergence ( $\beta$ ), which use territorial GDP per capita as the main variable. Sigma convergence measures disparities by focusing on the level of dispersion (standard deviation) of the logarithm of territorial GDP per capita, while beta convergence establishes a trend over time and identifies whether the poorest regions are catching up with the richest ones and how long it would take for the gap to be completely closed. Beta convergence between regions is considered to exist if there is an inverse ratio between growth rate and the initial level of per capita GDP, in other words if the relatively poorer regions tend to grow more quickly than the richest regions.

Figure IV.3 shows the sigma coefficient between 1990 and 2006 for the Latin American countries studied. Based on the value of this coefficient, two groups of countries may be identified in Latin America and the Caribbean: the first (Argentina, Brazil and Peru) has high values of between 0.50 and 0.55; and the second (Chile, Colombia, Mexico and the Plurinational State of Bolivia) has values that, though still high, are more moderate (between 0.35 and 0.45). Two groups may also be distinguished by trend: one in which the sigma coefficient is rising (including Peru (1998-2006), Mexico (1995-2006) and the Plurinational State of Bolivia (1993-2006)); and another in which it is falling (Argentina (2002-2005), Brazil (1993-2006), Chile (1999-2007) and Colombia (1998-2007)).

Table IV.2 shows the beta convergence coefficient for two subperiods: the 1990s and the most recent period. This indicator supplements the two previous ones because, independently from the level of existing disparities, it provides evidence of convergence over time. In other words, it indicates any trend towards a reduction in inequalities, and whether this may or may not be the result of public policy.

Figure IV.3  
LATIN AMERICA (SELECTED COUNTRIES): SIGMA COEFFICIENT, 1990-2006



Source: Latin American and Caribbean Institute for Economic and Social Planning (ILPES), on the basis of official figures.

Table IV.2  
LATIN AMERICA (SELECTED COUNTRIES): SUMMARY OF BETA  
CONVERGENCE OUTCOMES, BY PERIODS

Country	Period	$\beta$ coefficient	Standard error	R <sup>2</sup>	<i>p</i> value	Statistical significance (5%)
Argentina	1993-2002	0.000046	0.005166	0.000004	0.9930	No
	2002-2005	-0.006517	0.005612	0.056694	0.2580	No
Bolivia (Plurinational State of)	1990-1998	0.023938	0.031743	0.089821	0.4754	No
	1998-2006	-0.013601	0.031049	0.024018	0.6746	No
Brazil	1990-2002	-0.005787	0.004486	0.058503	0.2088	No
	2002-2006	-0.012417	0.002996	0.395382	0.0003	Yes
Chile	1990-1999	-0.002402	0.009961	0.005148	0.8139	No
	1999-2007	-0.014546	0.005388	0.371253	0.0207	Yes
Colombia	1990-2002	-0.005972	0.007319	0.026255	0.4228	No
	2002-2007	-0.014320	0.006881	0.149193	0.0488	Yes
Mexico	1993-2000	0.003450	0.005721	0.012268	0.5510	No
	2000-2006	-0.001464	0.003608	0.005412	0.6878	No
Peru	1994-2001	-0.006127	0.007022	0.032094	0.3923	No
	2001-2007	-0.000688	0.005850	0.000626	0.9074	No

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

In the 1990s, there is no evidence of convergence or divergence, whereas in the most recent period there is convergence in three of the countries studied (Brazil, Chile and Colombia), and the coefficient switched from a positive number (non-significant divergence) to a negative one (non-significant convergence) in three of the remaining countries (Argentina, Mexico and the Plurinational State of Bolivia). Peru is the only country where the coefficient remains negative, although without being statistically significant. Combining the results of the various indicators leads to the conclusion that, on the basis of international comparisons, disparities in Latin America and the Caribbean remain high and have not changed significantly in the last two decades. This is despite the fact that in recent years disparities have decreased slightly in Brazil, Colombia and Chile; risen in the Plurinational State of Bolivia and Peru; and remained relatively stable in Argentina and Mexico.

In sum, the high spatial concentration of population and economic activity in Latin America is accompanied by considerable territorial disparities (gaps in territorial per capita GDP), while in OECD countries, concentration indices are not as high and are not associated with disparities. The exercises for OECD countries show that spatial concentration of economic activity and population does not necessarily have to mean significant wealth gaps among territories. In Latin America, however, concentration and disparities have gone hand in hand, thus generating a situation of territorial inequality that calls for commensurate public policy responses.

## **C. Hardship and segregation: regional and urban maps**

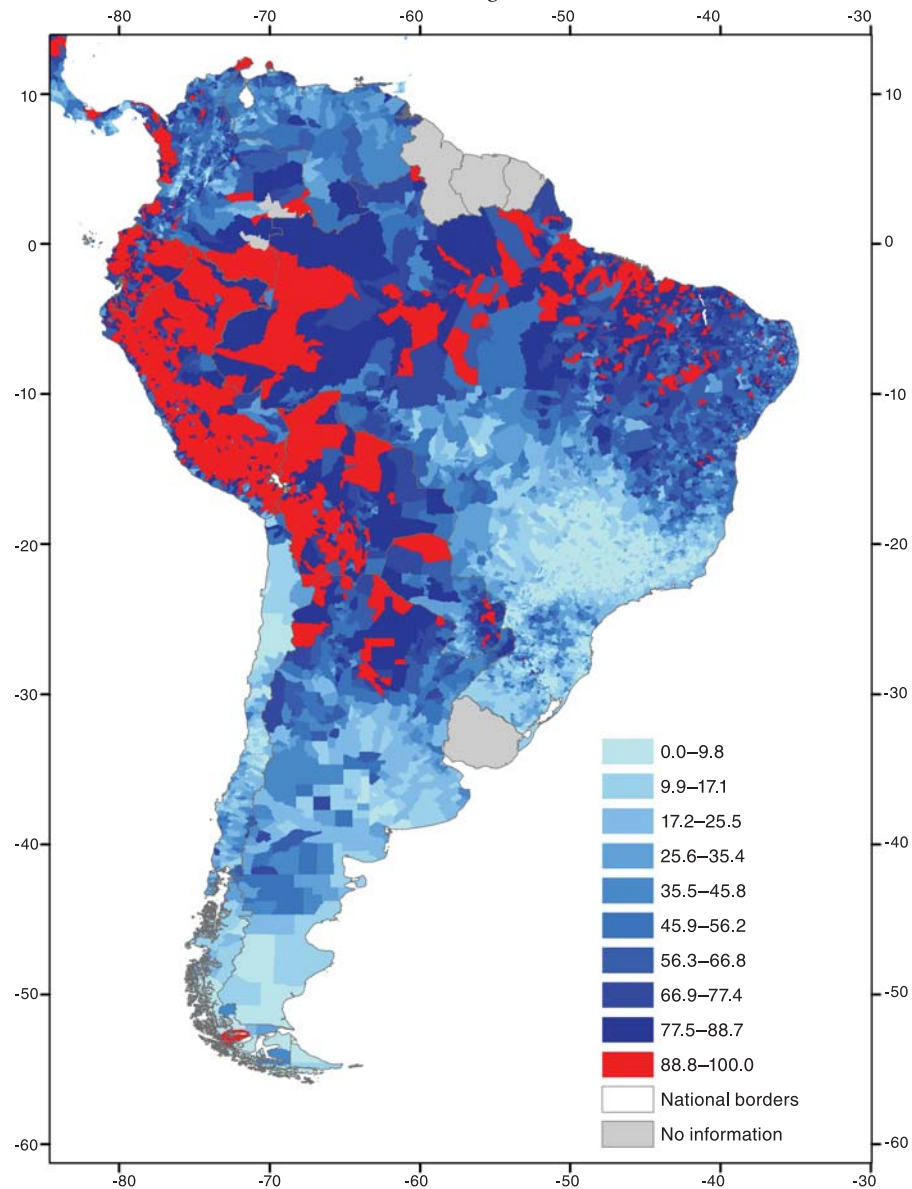
### **1. The map of hardship in Latin America**

The above typology shows economic territorial inequalities. To supplement this, it is useful to analyse how social hardship is distributed throughout the subregion. This may be illustrated in the maps below, which show the territorial distribution of hardship intensity (in other words basic unmet needs). The measure used was the percentage of the population aged under 18 years with one or more serious hardship. The following factors were used: dwelling construction materials, overcrowding, access to drinking water, sanitation, children's education and presence of information or communication media.

In South America, the map shows extremely high concentrations of inhabitants under the age of 18 with serious hardships, especially in the Andean and Amazon regions (which cover vast territories where between 88.8% and 100% of the population is in this situation). In Mexico and Central America, the territorial distribution of population with serious hardships shows the more disadvantaged territories more spread out. Yet, as in the case of the Andean and Amazon regions, the greatest hardship tends to occur in areas with a large indigenous population (for example, southern Mexico and Guatemala).

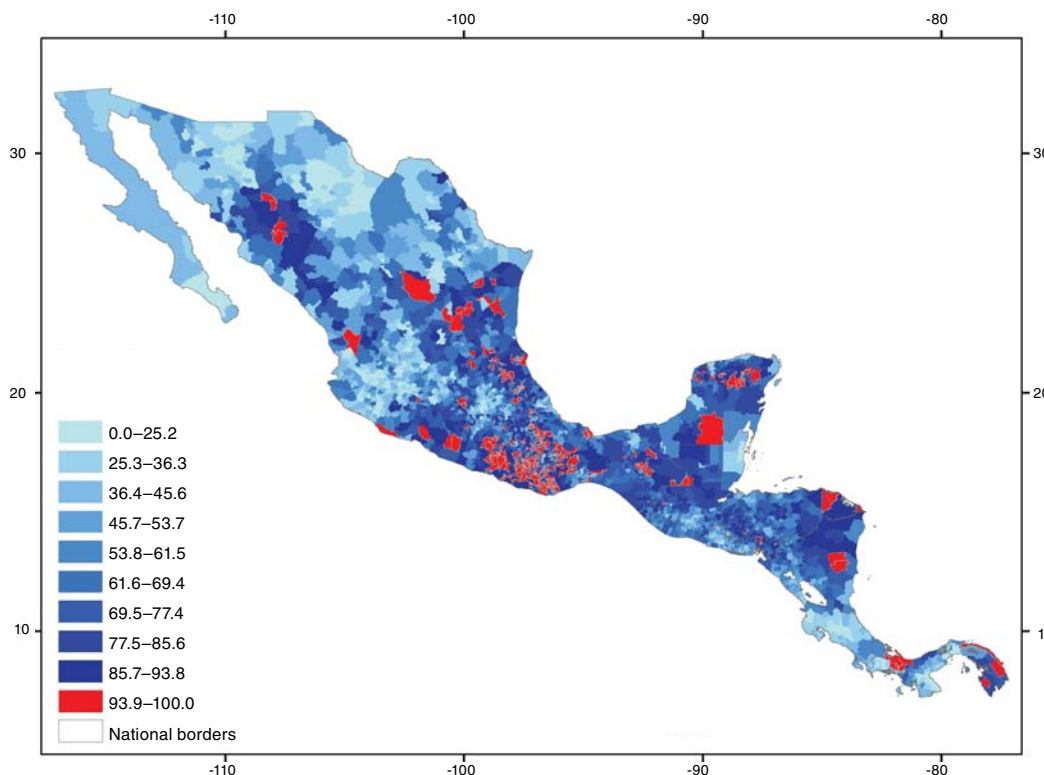


Map IV.1  
**SOUTH AMERICA: POPULATION AGED UNDER 18 YEARS WITH AT LEAST ONE SERIOUS  
 HARDSHIP IN SMALLER ADMINISTRATIVE REGIONS, AROUND 2000**  
*(Percentages)*



**Source:** Latin American and Caribbean Demographic Centre (CELADE) - Population Division of ECLAC, in the framework of the joint project with the United Nations Children's Fund (UNICEF) "Child Poverty, Inequality and Citizenship Study for Latin America and the Caribbean", on the basis of special processing of census microdatabases.

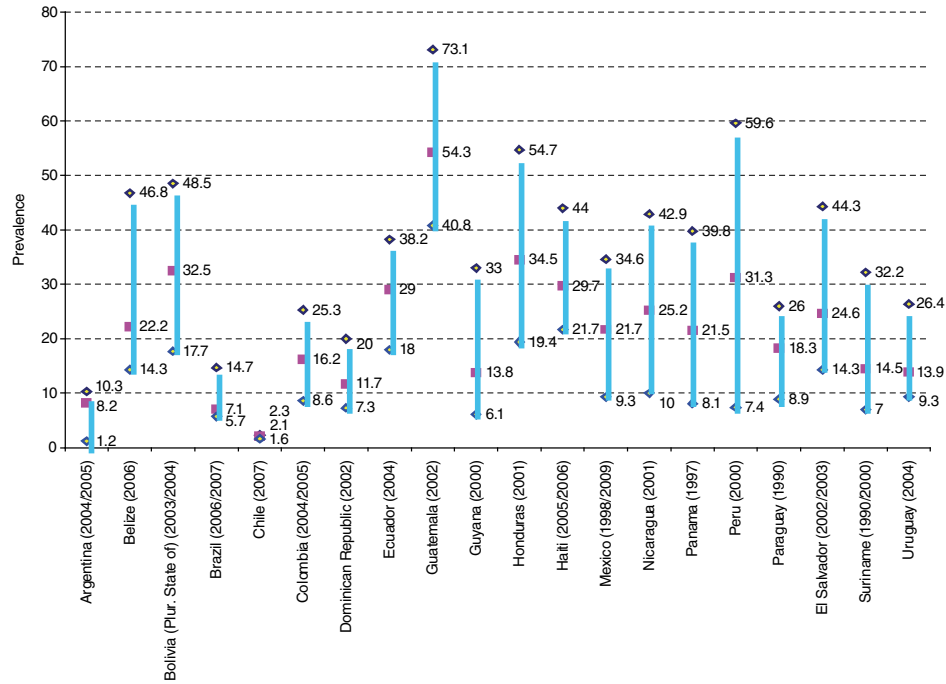
Map IV.2  
**CENTRAL AMERICA: POPULATION AGED UNDER 18 YEARS WITH AT LEAST ONE SERIOUS  
 HARDSHIP IN SMALLER ADMINISTRATIVE REGIONS, AROUND 2000**  
*(Percentages)*



**Source:** Latin American and Caribbean Demographic Centre (CELADE) - Population Division of ECLAC, in the framework of the joint project with the United Nations Children's Fund (UNICEF) "Child Poverty, Inequality and Citizenship Study for Latin America and the Caribbean", on the basis of special processing of census microdatabases.

Figure IV.4, which uses the prevalence of chronic undernutrition (stunting in children aged under five years) as an indicator, shows how deprivation is unevenly distributed within countries. Chronic child undernutrition (stunting) is a good indicator or proxy for basic deprivation, because territories with a high incidence of this problem tend to show a combination of other hardships which worsen this one: a low educational level in the family, limited income, lack of access to wide social networks and poor health care. The largest disparities occur in Guatemala, Honduras, Peru and the Plurinational State of Bolivia. In Peru, the overall rate of stunting is almost nine times higher among the children of Huancavelica than those of Tacna, while in Honduras there is a 35-percentage-point difference between the areas with the highest and lowest levels. In Guatemala, nearly 75% of children in the north of the country suffer from chronic undernutrition, while in the metropolitan region the figure is 41%. In the Plurinational State of Bolivia, Santa Cruz has a chronic child undernutrition rate of 17.7%, compared with Potosí, where half of children under age five chronically undernourished.

Figure IV.4  
**LATIN AMERICA AND THE CARIBBEAN (20 COUNTRIES): PREVALENCE OF CHRONIC UNDERNUTRITION (STUNTING), MAXIMUM AND MINIMUM VALUES BY COUNTRY, ACCORDING TO WORLD HEALTH ORGANIZATION (WHO) STANDARDS**  
*(Percentages)*



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and data from the World Health Organization (WHO) [online] [www.who.int](http://www.who.int).

In absolute terms, vulnerability varies less sharply in countries with lower undernutrition rates. However, the probability of suffering from chronic undernutrition in Argentina is eight times higher in Formosa than in Tierra del Fuego, and in Brazil the probability is three times higher in the north than in the south. The most nutritionally vulnerable child population generally tends to be concentrated in the high regions of Central America and the mountainous areas and high plains of the Andes, and the worst affected are usually indigenous children whose mothers are completely illiterate or did not complete primary education, live in extreme poverty and have limited access to drinking water and sanitation services. Nutritional vulnerability is also higher in rural areas than in urban areas.

## 2. Urban segregation as a replicator of inequalities

In Latin America and the Caribbean, around 434 million people (77.36% of the population) live in urban areas (Jordán and Martínez, 2009). This concentration of the population<sup>3</sup> is the reason why the region's public authorities have, in recent decades, devoted much of their management and planning efforts to implementing measures to satisfy the increasing demands for infrastructure and social services in cities.<sup>4</sup>

Although free-market dynamics create inequalities in cities around the world, in Latin America and the Caribbean the inequalities are more dramatic because of the striking asymmetry in infrastructure and social services. In urban areas, where demand from the fastest-growing economic activities and the highest-income families is concentrated, land acquires real estate value and this prevents access by or forces out less profitable activities and lower-income families (Smolka, 2001).

This urban layout intensifies segregation, as the concentration of informal or less profitable economic activities in areas inhabited by low-income families generally pushes land prices down. This reduces or limits municipal income from property taxes,<sup>5</sup> business licences and municipal permits, which in turn affects the funding capacity for investment projects and for building and maintaining infrastructure and public services. This deterioration of public spaces leads to problems of access to services, a lack of places for socialization and a decline in public safety, not to mention problems of institutional disaffiliation as young people drop out of the education system and the labour market. As their average income rises, families tend to leave these disadvantaged areas, and this deters more profitable economic activities from setting up there (Katzman, 2001).

Urban poverty and informal labour markets go hand in hand. As pointed out in chapter III, urban concentration in Latin America has been coupled with sluggish labour markets, especially since the start of the 1980s, which has left much of the working population concentrated in informal urban sectors with low productivity. This has combined with the phenomenon of urban marginalization observed in previous decades: the rapid expansion of precarious settlements on the outskirts of large cities (mainly as a result of intensive migration from rural to urban areas and the natural population growth in towns). The combined effect of urban marginalization and informal labour markets was the formation of a vicious cycle of spatial and productive exclusion.

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<sup>3</sup> During the period 1970-2000, the region's urban population grew by 240%, while the rural population grew by just 6.5% (United Nations, 2005b).

<sup>4</sup> In 2006, in Latin America and the Caribbean (46 economies) the percentage of households with access to sanitation services and drinking water was 86% and 97%, respectively, in urban areas, while in 1990 the figures had been 81% and 84% (ECLAC, 2009i).

<sup>5</sup> Property contributions (the main source of funding for many local governments) consist of an annual payment of the percentage of the financial value of the property. The tax is set by considering the type and quality of the property, its location, market value and the services and facilities to which it has access. Given that infrastructure is assessed according to the value of the land, the contributions payable for property are directly and indirectly dependent on the availability of infrastructure in that area.

This in turn strengthens the vicious cycles of urban segregation. As differences grow in the coverage and quality of infrastructure and social services, so inequalities deepen in terms of quality of life and access to opportunities (Rodríguez and Sugranyes, 2005). In particular, there are fewer possibilities for social mobility in a city where the daily reality of the least well-off is marked by poverty and precarious working conditions. The geographical location of a household affects opportunities, as a result of the impact that social interaction has upon the individual behaviours and outcomes (Saraví, 2004).

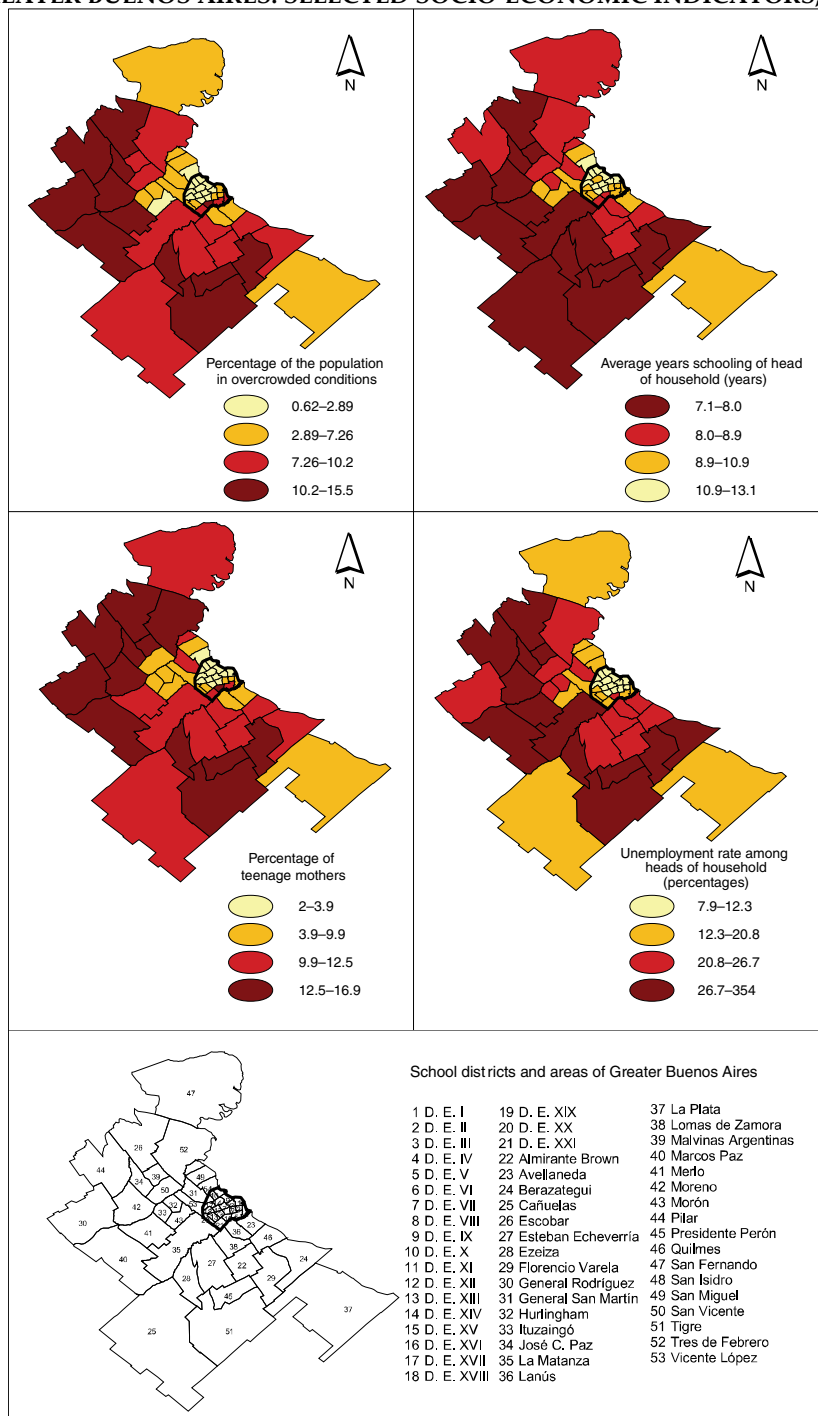
Residential segregation occurs when different socio-economic groups in a city or metropolis live separately, with little or no coexistence. At the extreme, each residential area<sup>6</sup> in a city is completely socio-economically homogenous, and is entirely distinct from the areas where other socio-economic groups live. It is worth mentioning that spatial segregation is often accompanied by administrative segregation and fragmentation, with an unequal distribution of public services and access to education and knowledge, especially in large urban centres that have no centralized administration but rather function as a set of local governments or municipalities that (with their limited resources) replicate and promote such differences. Related phenomena include the reduction in the use of public services by the middle classes, the growing segmentation of non-residential social meeting places, weak links of the lower classes with the labour market and the stigmatization of poor neighbourhoods (Kaztman, 2009). Several of these processes are due to State inaction or absence, which is why the strategic response would be to revive State intervention in urban areas.

Urban segregation in Latin America is distinguished by the precarious nature of areas on the outskirts, where most of the poor and most deprivation are concentrated. The following maps of four large urban centres in Latin America speak volumes: with different variations, hardship and poverty reproduction tend to be mutually reinforcing in the same territories, which are marked by persistently low levels of schooling, high levels of overcrowding, unemployment and teenage pregnancy. This is the territorial basis for the vicious circle that reproduces poverty and disadvantage in the cities that are home to over three quarters of the population in Latin America and the Caribbean.

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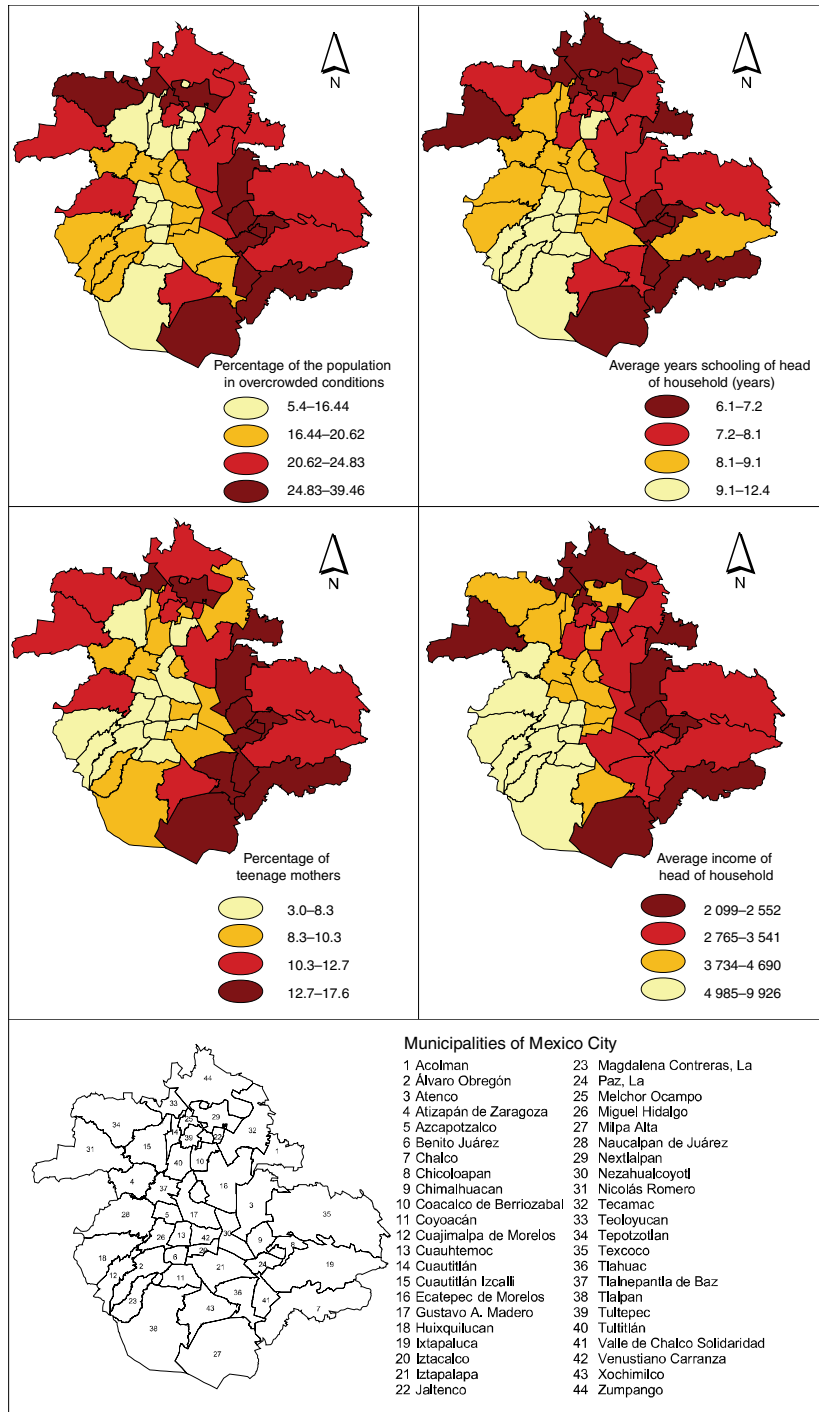
<sup>6</sup> Municipalities, communes, districts, neighbourhoods, settlements or blocks.

Map IV.3  
 GREATER BUENOS AIRES: SELECTED SOCIO-ECONOMIC INDICATORS, 2001



Source: Latin American and Caribbean Demographic Centre (CELADE) – Population Division of ECLAC, on the basis of special processing of census microdatabases.

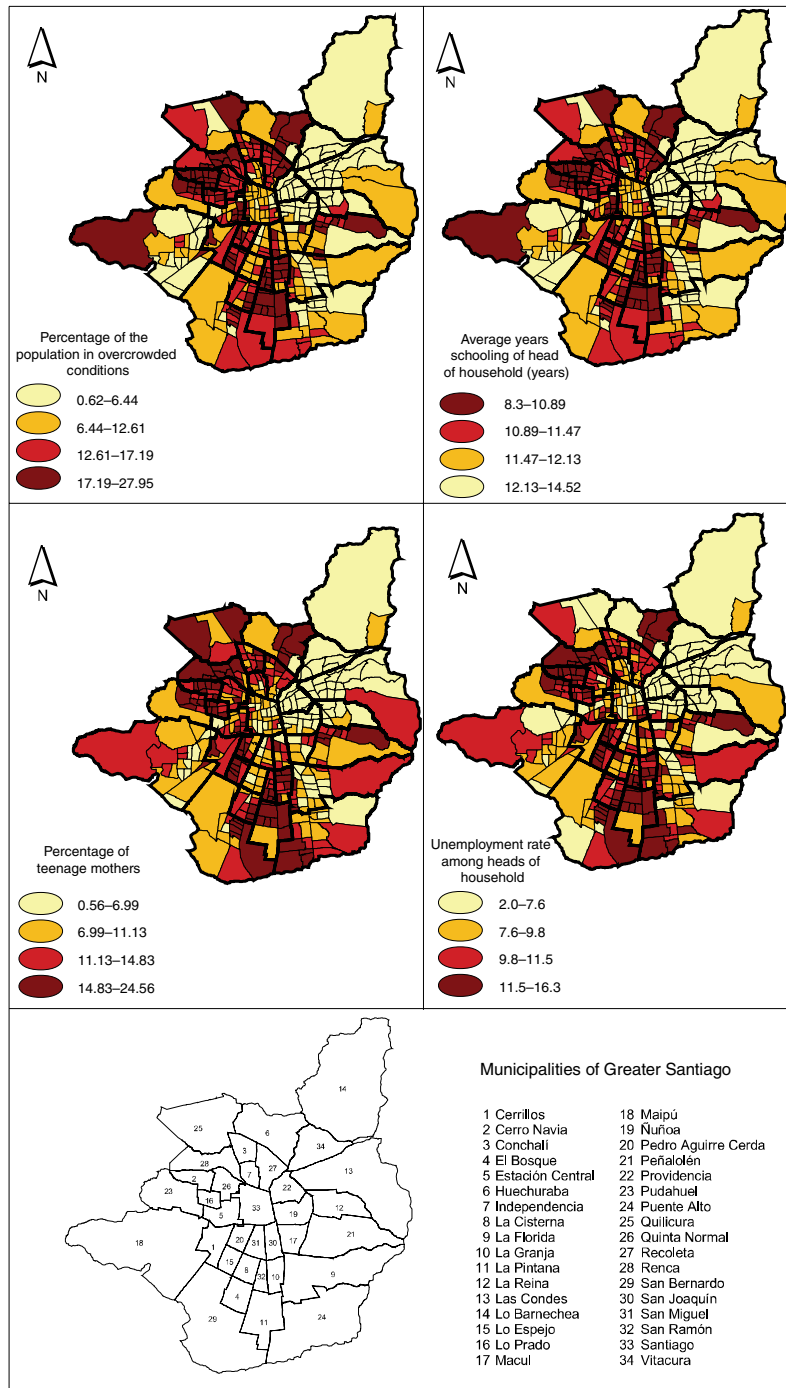
Map IV.4  
**MEXICO CITY: SELECTED SOCIO-ECONOMIC INDICATORS, 2000**



Source: Latin American and Caribbean Demographic Centre (CELADE) – Population Division of ECLAC, on the basis of special processing of census microdatabases.



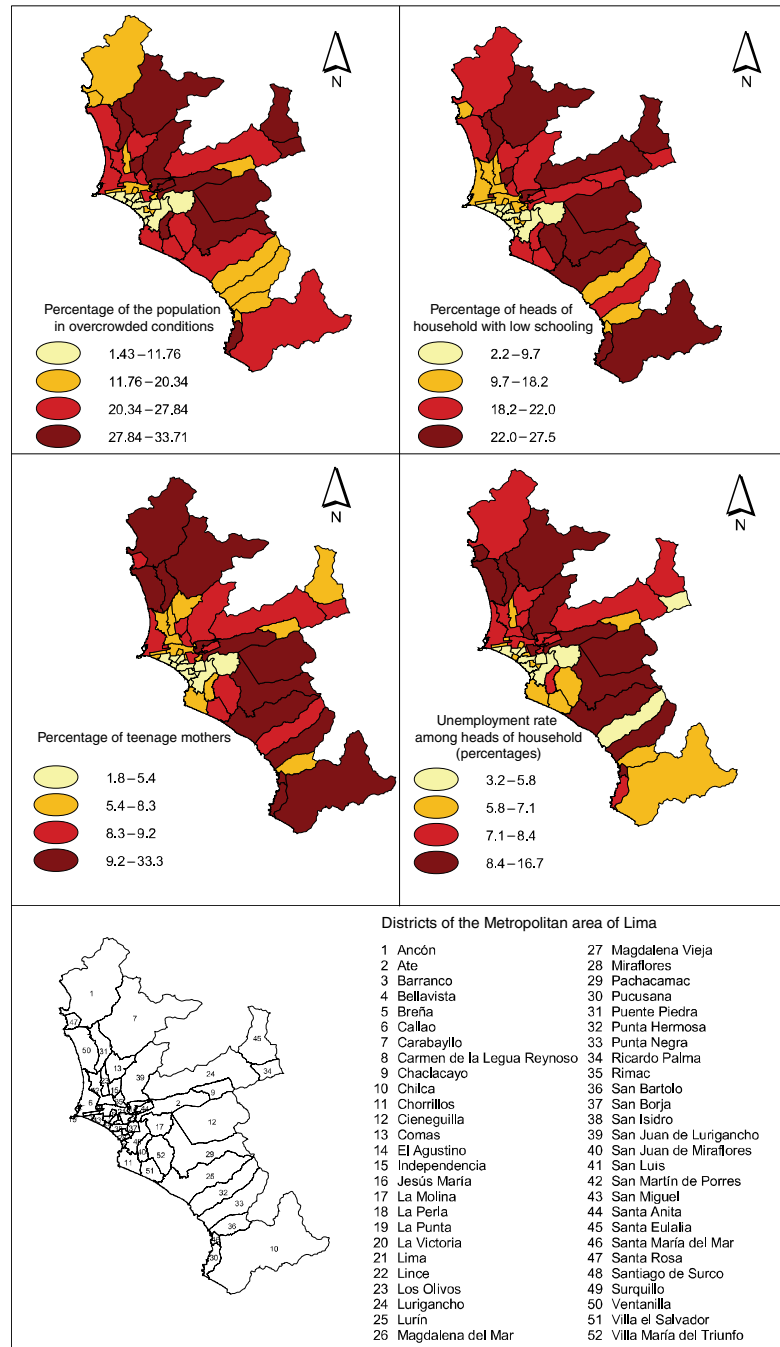
Map IV.5  
**GREATER SANTIAGO: SELECTED SOCIO-ECONOMIC INDICATORS, 2002**



Source: Latin American and Caribbean Demographic Centre (CELADE) – Population Division of ECLAC, on the basis of special processing of census microdatabases.



Map IV.6  
**METROPOLITAN AREA OF LIMA: SELECTED SOCIO-ECONOMIC INDICATORS, 2007**



Source: Latin American and Caribbean Demographic Centre (CELADE) – Population Division of ECLAC, on the basis of special processing of census microdatabases.

## D. Policies for greater territorial equality and cohesion

### 1. Local development: many strategies, one aim

Territorial heterogeneity in Latin America calls for selective and targeted strategies. Local development, understood as a bottom-up process, mobilizes endogenous potential to build territories that are better able to create and drive their own capacities. Synergies among public and private agents, the various levels of Government, and local production sectors and wider markets are essential in activating territorial development. These efforts must link in with national measures that, through decentralization policies and the territorial allocation of resources, seek to promote the development of the most disadvantaged regions and meet their most pressing needs. The interaction between mobilization from within the regions and the action of national territorial cohesion policies must therefore generate virtuous circles between social capital and public policy, so as to strengthen the specific development capacities needed by each region.

Progress towards the productive convergence described in chapter III requires linkages that connect less productive sectors with more productive ones, as this would increase the mainstreaming of technical progress, access to markets and credit and capacity-building. This is vital if countries are to boost local production systems, made up mainly of low-productivity micro- and small enterprises. In this, the formation of agglomerations and production clusters thus becomes a key part of the transformation. Here, territorial belonging is a symbolic asset that is vital if businesses are to interact in a shared local space with a twofold effect: productive growth and social integration.

Territory, then, does matter. Proximity has its specific advantages: it enables learning by means of interaction, which then crystallizes into innovation —hence the notion of regional innovation systems. Although growth macromodels have tended to disregard the territorial dimension, many of the factors that explain or might explain greater growth are location-specific. This limited mobility means that such factors cannot be transferred to another place (Cuadrado, 2001).

Given the variety of institutions and actors involved in territorial development (both bottom-up and top-down), it is essential to make progress towards agreements and consensus around the type of policies proposed. Territorial cohesion must be the point of convergence for the bottom-up and top-down promotion of local and regional development, and the focal point for coordinating and linking sectoral and cross-cutting policies, which have hitherto been treated separately. An interesting model that could usefully be replicated elsewhere is the Territories of Citizenship programme implemented by the Government of Brazil since 2008 (see box IV.1).

Furthermore, as noted earlier, basic unmet needs show a heavy territorial bias among and within countries. Tackling this requires an integrated approach to create synergies between productive systems, market access and policies of direct support to meet the most urgent needs (such as nutrition).<sup>7</sup>

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<sup>7</sup> These proposals are based on ECLAC (2008d) and Martínez (2005).

## Box IV.1

**TERRITORIES OF CITIZENSHIP: AN EQUALITY POLICY WITH A TERRITORIAL FOCUS**

In 2008, the Federal Government of Brazil created the Territories of Citizenship programme, which aims to reinforce policies to reduce poverty and social inequalities in the country's rural areas. The programme involves integrated actions at three levels (federal, state and municipal) and establishes and coordinates management committees at the national, state and territorial levels. The main objectives of the programme are to integrate public policies on the basis of territorial planning, expand mechanisms for social participation in the management of public policies and provide a broader range of more universal citizenship programmes.

The programme has two basic lines of action: one to support production activity, and another aimed at the exercise of rights and institution-building. The aim is to achieve social inclusion by stimulating income generation in the rural economy, as well as citizen participation in the planning of sustainable territorial development and access to essential public services such as civil documentation, food and nutritional security, health care, education, culture, social organization and infrastructure (housing, access roads, energy and sanitation).

The programme selects territories based on the following criteria: (i) territories with a lower human development index (HDI); (ii) territories with a high concentration of beneficiaries of the cash-transfer programme *Bolsa Família*; (iii) concentration of family-based subsistence farming and agrarian reform settlements; (iv) high concentration of *Quilombola* (descendants of runaway slaves) and indigenous populations; (v) territories with a high number of municipalities with slow economic growth; and (vi) territories with a high level of social organization (social capital).

According to the Ministry of Agricultural Development (MDA) of Brazil, which is the main federal manager for the programme, the current coverage is 164 territories, representing 58% of the country's surface area and 52 million inhabitants.

Table 1  
COVERAGE OF TERRITORIES OF CITIZENSHIP PROGRAMME

	Brazil	Territory	Percentage
Number of territories	164	-	-
Number of municipalities	5 564	2 500	44.93
Surface area	8 626 768.60	5 046 045.50	58.49
Population	183 197 044	52 238 323	28.51
Rural population	28 425 733	15 923 286	56.02
Fishermen	390 676	224 094	57.36
Subsistence farmers	4 139 357	2 414 240	58.32
Settled families	785 300	581 210	74.01
Social demand <sup>a</sup>	5 142 454	3 129 816	60.86
<i>Bolsa Família</i> programme	11 047 139	4 805 853	43.5
<i>Quilombola</i>	1 219	863	70.8
Indigenous lands	612	340	55.56
Number of high-income municipalities <sup>b</sup>	1 567	335	21.38
Number of low-income municipalities <sup>c</sup>	725	485	66.9
Number of buoyant municipalities <sup>d</sup>	1 002	731	72.95
Number of stagnant municipalities <sup>e</sup>	2 264	948	41.87

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Ministry of Agricultural Development (MDA), Territorial Information System (SIT) [online] [www.mda.gov.br](http://www.mda.gov.br) [date of reference: 2 February 2010] and from the Ministry of National Integration, 2005 for data on municipalities; and MDA, "Territórios da cidadania, proposta do Ministério do Desenvolvimento Agrário para redução da desigualdade social no meio rural brasileiro", Brasília, 2008, unpublished.

<sup>a</sup> Social demand is the sum of families occupying land, settled families and subsistence farmers.

<sup>b</sup> High-income municipalities are considered to be those that have a high household output per capita, irrespective of buoyancy.

<sup>c</sup> Low-income municipalities are considered to be those that have a low household output per capita and low economic growth.

<sup>d</sup> Buoyant municipalities are considered to be those that have low or average household output, but a fast-growing economy.

<sup>e</sup> Stagnant municipalities are considered to be those with average household output but limited economic growth.

In terms of food access and production, a number of objectives are to be pursued: (i) facilitate access by the most vulnerable families to productive assets in terms of land, equipment and financing; (ii) promote soil improvement, appropriate water management and storage, and outreach activities that increase associative capacity and process industrialization; and (iii) promote and improve food practices based on indigenous and traditional products.

In relation to social infrastructure, the map of hardship shows the need for investment in the following areas: (i) schools and health services in the most vulnerable areas; (ii) drinking water and sanitation in disadvantaged areas and the identification of cheaper alternatives with acceptable standards of hygiene in isolated areas; and (iii) irrigation infrastructure, especially in areas aiming for self-sufficient production but with a shortage of water for irrigation.

As for production infrastructure, progress must be made towards achieving the following objectives: (i) setting up access routes to facilitate the commercialization of local products and food distribution in emergencies; (ii) making progress in trade agreements that affect food products; and (iii) devising ways of ensuring that small-scale producers are not excluded from modern food production and marketing processes.

As far as food assistance is concerned, it is vital to: (i) provide food supplements to pregnant and breastfeeding women, infants and pre-school children and encourage breastfeeding; (ii) provide school meals in the most disadvantaged areas; and (iii) create or improve emergency food protection systems.

In health care, the use of information and communications technologies (ICT) is a key to reducing territorial gaps in access to care and timely treatment. The various specializations of telemedicine, such as teleradiology, teledermatology or telecardiology, not only provide services in areas with insufficient coverage but also narrow gaps in quality by means of remote referrals to specialists or distance consultations of second opinions by conventional practices. According to estimates for the telehealth experience in the Bolivarian Republic of Venezuela, for instance, almost 80% of cases that rural health professionals were unable to solve directly can be resolved through teleconsultation. In other words, only 2 in every 10 patients need to be transferred to more specialized hospitals.

However, for this type of experience to be implemented across the board and fulfil their promise at the national level, progress must be made towards developing a solid network infrastructure and creating suitable legal frameworks for the practice of telemedicine.

## **2. Institutional complexity and fiscal instruments**

The past two decades have seen the emergence and consolidation of a wide range of public policies with an awareness of territorial development at various levels. Public policies and institutions must at least make reference to and consider the following coexisting and juxtaposed aspects:

- Local economic development policies and initiatives that have promoted the territorial domain and brought new development visions, strategies and instruments to the fore;
- Land-use planning has been consolidated as a concept and a body of policies and has taken on institutional forms that have served as vehicles for concerns about the appropriate use of natural resources and the achievement of sustainable development;

- Policies for productive development, training, research and technology have gradually incorporated the notion of territory as an instrument for managing their development; and
- Some countries have reinstated regional policies, designed by national governments, with the aim of tackling the particular issues of specific territories.

To make progress in territorial cohesion policies, it is therefore essential to recognize the coexistence of institutions and policies that until now have not been integrated. This has often resulted in a lack of coordination and a waste of national government resources and local and territorial assets (which are usually in short supply in the first place). Here each country must craft its own architecture to rise more effectively to the challenges of coordinating various sectors and territorial levels of government.

Leaving aside the specific features of countries and the differences between them (be they unitary or federal States), there are common factors in the genesis of fiscal imbalances that must be considered in this architecture. These imbalances may be vertical or horizontal, and they affect the possibilities for development of subnational territories.

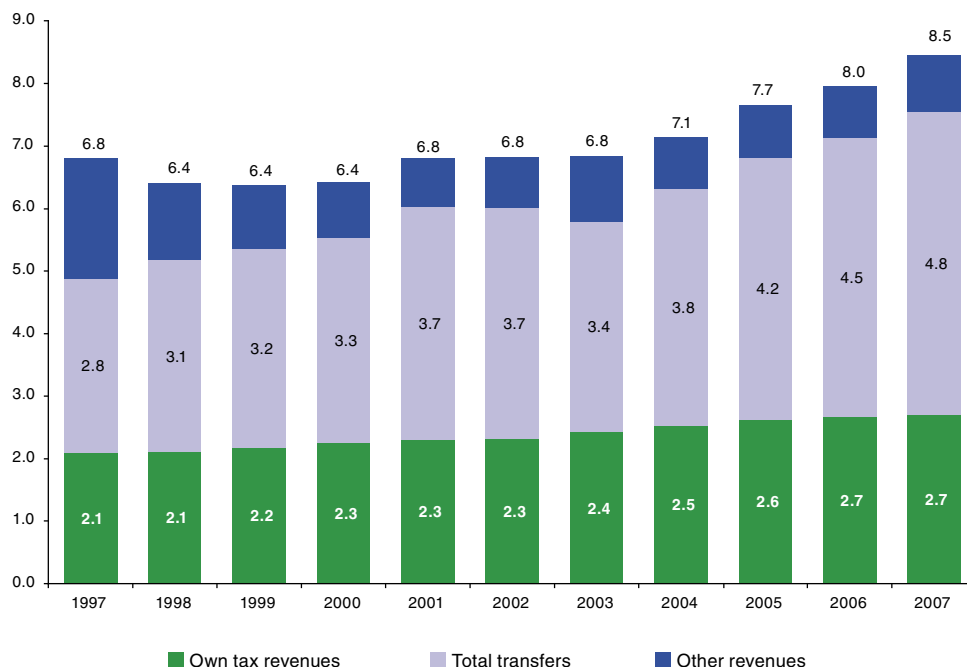
Vertical imbalance relates to the formation of a structural imbalance between subnational revenues and expenditure, because local tax bases are relatively limited and therefore tend to yield much less than the total cost of goods and services that should ideally be provided at the subnational level. The resulting vertical imbalance leads to and forms the rationale for the development of a system of intergovernmental transfers from the upper to the lower levels.

In addition, the considerably uneven territorial distribution of wealth and economic activity gives rise to significant differences in tax receipts from various jurisdictions. Potential tax bases vary considerably from territory to territory, and this generates a horizontal imbalance. Generally speaking, the highest receipts are concentrated in those jurisdictions with the most buoyant economic activities and the residents with the highest incomes.

For the same reason, intergovernmental transfers can play a strategic role in correcting disparities, especially through regional development policies administered at the national level that, properly attuned to the specificities of each territory, can use national resources to boost endogenous development in subnational territories. In this framework, like central governments, subnational authorities have improved their public accounts in recent years. After running deficits in the 1990s, in the current decade they have posted primary surpluses that are unprecedented in both level and stability, even though the average surplus shrank slightly (by around 0.1% of GDP) in 2008-2009, compared with the peak reached in 2007. Subnational public sectors have also become less vulnerable, as their level of borrowing (expressed as a debt-to-GDP ratio) dropped considerably between 2002 and 2008.

This improvement in subnational finances is also strongly associated with positive growth in intergovernmental transfers, on the back of rising economic activity levels and higher prices for natural resources. On average, total transfers expanded by two GDP points between 1997 and 2007, while tax revenues rose more modestly from 2.1% of GDP to 2.7% in the same period (see figure IV.5). This limited increase in subnational tax receipts in Latin America is related to the low level and weak structure of subnational taxation, which in turn is linked to the tax bases available to these levels of government.

Figure IV.5  
**LATIN AMERICA: AVERAGE STRUCTURE OF SUBNATIONAL REVENUES, 1997-2007**  
*(Percentages of GDP)*



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

The difficulties that subnational governments have in collecting their own taxes are exemplified by the property tax, which is usually the main tax for local governments. In Latin America, receipts from this tax account for an average of approximately 0.4% of GDP, or one fifth of the receipts collected by developed countries. However, the situation varies among countries: in some this indicator is less than 0.2% of GDP (as in Ecuador, Mexico and Peru), while in others it is between 0.5% and 0.7% of GDP (Argentina, Chile, Colombia, Plurinational State of Bolivia and Uruguay).

These outcomes highlight the need to strengthen the property tax at the subnational level in the region, by reducing exemptions, eliminating tax amnesties and pardons and improving tax administration, including property records, the updating of property values and tax billing. Ultimately, territorial development must be funded and the disparities overcome on the basis of territories' own fiscal efforts and on transfer systems that, in addition to their usual destinations, also target broadly consulted development programmes. In this sense, decentralization programmes should pay special attention to inequalities among subnational territories (see box IV.2) and, accordingly, introduce suitable mechanisms for relevant transfers from central government.

## Box IV.2

## DECENTRALIZATION AND EQUALITY IN LATIN AMERICA

In Latin America, decentralization is extremely difficult, given the high level of regional productive disparity that seriously limits the functioning and financing of decentralized services (especially where their provision affects equity). In the light of large territorial disparities such as those that exist between the region's various subnational territories, attempts to decentralize resources to support greater fiscal equivalence have been hampered by an unequal distribution of tax bases, which has increased fiscal tension whenever there is a need to compensate for differences in capacity.

This is why the result of reforms will depend on the accompanying system of financial transfers and the compensatory role played by central governments. However, even when the required financial resources are to hand, disparities will also affect the availability of human resources and, in general, the capacities for interjurisdictional management. This implies that the transfer of monetary resources must be combined with training and capacity transfer.

Progress with decentralization has been distinctly uneven in the region. Taking the percentage of a country's total public expenditure dispensed by subnational governments as an indicator, two of the region's federal and also largest countries (Argentina and Brazil) emerge as the most decentralized, with figures in excess of 40%. Countries that have implemented major decentralization reforms in recent decades (Colombia, Mexico, Peru and the Plurinational State of Bolivia) have slightly lower percentages of between 25% and 30%, while the Bolivarian Republic of Venezuela, Chile, Guatemala and Uruguay post relatively low levels of decentralization (between 10% and 20%). Lastly, the other countries of Central America, as well as Ecuador and Paraguay, display the lowest percentages (Cetrángolo, 2007).

Although central governments having the main responsibility for distribution is a well accepted notion, there is still considerable debate around the decentralization of functions that have a strong impact on equity (such as health care, education, housing, water and sanitation). Unconditional advocacy of decentralized social services assumes a guaranteed minimum level of provision nationwide and adjustments to achieve marginal improvements at the local level. In Latin America, though, the shortcomings in this regard make it essential to establish which level of government should ensure equal rights in such differentiated territories. Furthermore, decentralization involves many challenges, depending on the sector being reformed. For instance, the establishment of public health-care networks involves very different challenges in terms of territorial structure than do the construction of a basic school system or road network.

In some cases, a sectoral approach has been introduced into the design of cash transfer schemes. For instance, Brazil applied such an approach to the Fund for Primary Education Development and for Enhancing the Value of the Teaching Profession (FUNDEF), with a constitutional amendment in 1996 to stipulate that every federal unit must allocate to FUNDEF 60% of a quarter of the state and municipal tax revenues allocated to education under the Constitution. Colombia adopted a general system of participation under Law No. 715 of 2001, which incorporates specific allocations for education and regulates their distribution on the basis of cost-of-service indicators. Argentina approved an education financing law that includes specific transfers to ensure fulfilment of a certain target for increased sectoral spending.

The debate on decentralization has highlighted the role of subnational governments. Nevertheless, refocusing on the need to ensure a basic level of rights in relation to decentralized sectoral policies leads to the conclusion that much needs to be done to redefine the role of central governments in decentralized countries, while also consolidating fiscal sustainability. This also emphasizes the need to avoid the overlap of functions and allocations among the various levels. This appears to be the ideal opportunity to analyse the combined impact on social cohesion and fiscal sustainability, taking account of the tensions between the above-mentioned policy objectives.

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC).



### 3. Territorial cohesion funds

In Latin America and the Caribbean, there are alarming territorial gaps in terms of productive capacity, income levels and the incidence of basic lacks. Moreover, the gaps are a cause (as well as an unfortunate consequence) of the profound inequality that runs through the region in many ways. Alleviating territorial inequality therefore implies tackling general inequality as well. Therein lies the importance of State-led public policies, supported by covenants among stakeholders at the various levels of territorial disaggregation, and policies that are aimed at promoting greater territorial equality.<sup>8</sup>

A territorial cohesion fund has at least three objectives. The first is to transfer funds from the central level to subnational levels, and commit them to be used in generating synergies among production, capacity-building and efforts to resolve basic lacks. This is not merely a territorial reallocation of resources to respond to urgent needs (although these are of course included): there must also be a certain level of conditionality, with a commitment at the subnational level to mobilize local energies to break the vicious circles of poor capacities, deficient productivity and economic stagnation. For the same reason, there must be support from the centre, not only in terms of monetary transfers but also for the development of management capacities, the mobilization of local actors and guidelines to promote those synergies.<sup>9</sup> There is thus a contract between the State and the subnational body (departmental, provincial or municipal), which must be monitored and audited, to drive territorial revitalization through the cohesion fund.

The second objective is redistribution: social cohesion funds level the playing field for the different territorial units. They take the form of cross transfers or subsidies, and are similar to income tax in that the aim is to transfer resources or provide services to those who cannot afford them. Redistribution for the benefit of more equal opportunities and rights is part of the role of the State that is being advocated in this document. A territorial cohesion fund fulfils this function, but at the spatial level. However, this clearly should not function as a disincentive, or discourage investment from local actors in the most productive regions or cease promoting growth in the most disadvantaged areas. In the same way that a welfare State formulates fiscal covenants where the various actors contribute to a national project to achieve greater growth, cohesion and opportunity for all, social cohesion funds must be explicit in terms of the effects that these cross subsidies for the most disadvantaged territories will have on the rest of the country: activating domestic markets in which traders come from all over the national territory and creating more profitable investment opportunities in a larger range of areas within the country.

The third objective of a territorial cohesion fund is to act as a means of coordinating sectoral policies with spatial policies, so as to avoid the duplication of efforts and promote more integrated forms of intervention. The fund is an intersectoral planning tool that focuses on places that are overlooked by sectoral decentralization (see box IV.2). Although transfers do not have a sectoral origin, in the subnational area targeted they should be used to promote greater intersectoral and intrasectoral coordination between the national and subnational levels.

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<sup>8</sup> The concept of structural funds and cohesion funds originated in the European Union, where it was a policy to increase territorial cohesion among original members, by achieving equality based on the European social model.

<sup>9</sup> The previous sections offered examples of these synergies in the context of food policies: in addition to tackling undernutrition directly, it is also vital to promote local food production, food markets and school assistance through the provision of school meals in the most disadvantaged areas.



## 4. Intervention criteria for urban segregation

Urban residential segregation is the combined effect of economic and cultural forces that States should make greater efforts to tackle using improved spatial planning instruments. Economic forces influence the functioning of land and housing markets, where profit-seeking on the part of the wealthiest actors tends to encourage segregation, either because exclusivity pushes up prices in affluent areas or because low prices on the outskirts stimulate the construction of social housing or informal settlements. Cultural forces are related to the barriers to different socio-economic groups living side by side in the same areas. In both cases, there is resistance to the action of public policies, and this combines with the historical limitations of States that have failed to promote more integrated and less segregated cities.

Although States intervene decisively to encourage different socio-economic groups to live in proximity in other parts of the world, this does not tend to happen in Latin America and the Caribbean.<sup>10</sup> In this sense, sustainable urban management must tackle urban problems from within, by establishing strategies related to densification,<sup>11</sup> recovery and rejuvenation of historical centres, enhanced surroundings, focal points, public spaces, facilities, accessibility, roads and improvements to the urban environment.<sup>12</sup> In order to realize this systemic vision of urban management, it should be borne in mind that all decisions and interventions regarding public spaces have an impact on the allocation and effectiveness of resources: all economic activity has an effect on third parties and the environment, which in turn generates social benefits and costs for various sectors.

Sustainable urban management therefore implies the active participation of all involved (public and private actors, including civil society organizations). This requires a comprehensive vision of the urban unit, and a form of planning that incorporates new methods of government, including: (i) intersectoral integration of planning instruments; (ii) vertical integration of levels of government; (iii) public-private partnerships; and (iv) citizen participation.

The basic services provided by municipalities in segregated cities with municipal financing systems based on territorial taxes are highly unequal and represent an additional factor of adversity for the poor (Kaztman, 2009; Rojas, Cuadrado-Roura and Fernández, 2005; Marpsat, 1999). This is a crucial point, because the State has the scope to intervene and prevent residential segregation from having a multiplying effect on inequality. Indeed, inequality in basic municipal services can be reduced by means of direct policies, such as funds to redistribute territorial taxes, compensatory resources, area-specific allocations and special programmes in disadvantaged areas. In some cases, these measures will require considerable political determination, as the redistribution of resources is likely to cause certain reactions.

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<sup>10</sup> For instance, no States or municipalities in this region implement social rented housing programmes. In many European countries, these programmes are one of the main policy tools used to promote social heterogeneity among municipalities.

<sup>11</sup> According to the European Union, an effective supply of public services can only be guaranteed if there are minimum levels of concentration of economic agents in the territory (European Union, 1999).

<sup>12</sup> The OECD promotes joint initiatives (such as the polycentric reorganization of cities and urban areas, the rejuvenation of urban centres, integrated planning of transport and the promotion of infrastructure for new communications technologies), so as to make cities more attractive and competitive within a framework of sustainability (OECD, 1994).

In the Latin American and Caribbean region, urban and housing policies must aim at more than the coverage and provision of basic services. It must enhance the purchasing power of lower-income sectors so that they can access better locations without this resulting in a disproportionate rise in land prices on the back of speculative or monopolistic practices. In this domain, subsidizing demand and calling upon the State capacity to buy and distribute land for the construction of good-quality housing, neighbourhoods and services to lower income groups represent a possible course of action. A second and related challenge is to encourage the application of subsidies for solutions that do not involve land use, such as residential densification and the purchase of existing housing units. These options are necessary to tackle the process of urban segregation and the rising prices of land in prime locations. A third option would be to require construction companies bidding for social housing contracts to present projects in different areas and to give the institution responsible for selecting projects the prerogative to choose schemes that carry the lowest social cost, rather than the lowest financial cost.