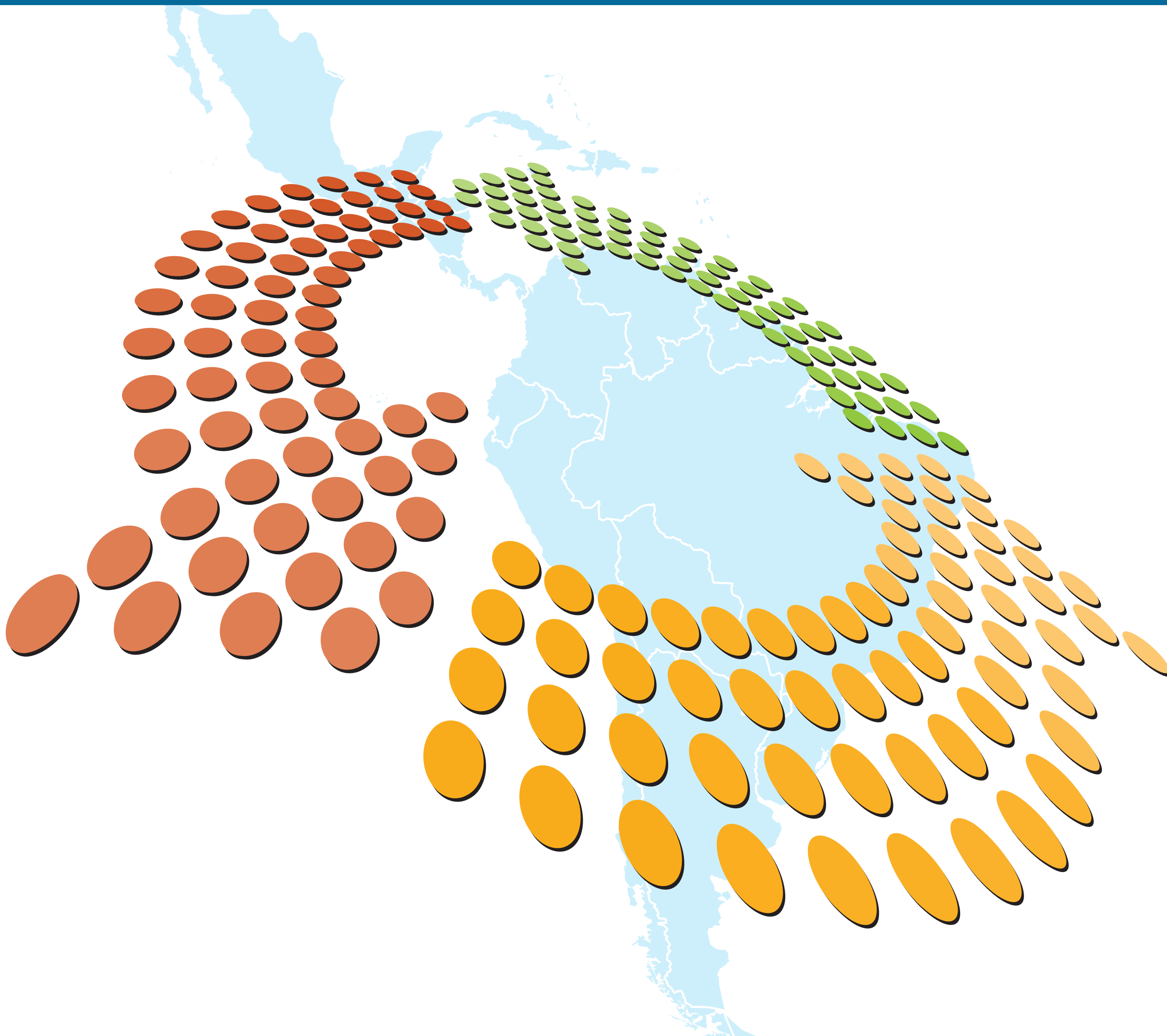
A Review of the Research

THE LATIN AMERICAN AND CARIBBEAN RESEARCH NETWORK 2014

Research Department



IDB
Inter-American Development Bank

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Development Bank

Table of Contents

Introduction: The Latin American and Caribbean Research Network

Inter-American Development Bank

The Inter-American Development Bank (IDB) created the Latin American and Caribbean Research Network in 1991 to strengthen the research capacity of the region and contribute to the development policy agenda in Latin America and the Caribbean. In the last decade, the Network has grown to encompass some 373 research institutions and coordinated 368 country studies in 57 projects on topics as diverse as poverty, unemployment, social service delivery, fiscal policy, and financial turmoil. Over the years, the Network has proven to be an effective vehicle for financing quality research to enrich the public policy debate in Latin America and the Caribbean.

Through a competitive bidding process, the IDB Research Network provides grant funding to leading Latin American and Caribbean research centers to conduct studies on the economic and social issues of greatest concern to the region today. The IDB bases its selection of research topics on consultations with both internal and external development professionals. Most of the studies are comparative, which allows the Bank to build and share its knowledge base with researchers, policymakers, and development practitioners throughout Latin America.

The research process followed by the Network is strongly collaborative. Researchers attend an initial meeting in which they comment on one another's research proposals, a process that encourages intra-regional learning to begin immediately. Under the terms of reference set out by the IDB, the researchers usually adopt a common methodology and then use it to carry out empirical research on their own countries. At a subsequent meeting, researchers present and comment on working drafts of the papers. Once the papers are completed, results of the research are issued as working papers and are disseminated widely among Latin American and Caribbean researchers and policymakers. They are also available in PDF format on the Internet at http://www.iadb.org/res/REDdeCENTROS. In some cases, the completed studies are collected and published in book form.

This document presents summaries of the studies undertaken since 1995. Each summary includes information on the objective of the study, the methodology followed, and the principal conclusions derived from the research. Also included are lists of the project's coordinators, the participating institutions, the countries studied, and the working papers or other publications produced thus far as a result of the study. It is hoped that this document will allow for a greater appreciation of the breadth of research coordinated by the Network and encourage more readers to turn to the Network for their informational needs. Additional information on the institutes participating in the Network, the bidding and selection process, and the terms of reference of each study can be found on our Web site at http://www.iadb.org/res/REDdeCENTROS. Comments and suggestions on the Network are welcome and may be forwarded to red@iadb.org.

José Juan Ruiz Gómez
Chief Economist
Research Department

Macroeconomics and Finance

- Determinants of Interest Rate Spreads in Latin America
- Sustainability of Fiscal Policy in Latin America
- Determinants of Savings in Latin America
- The Structure of Public Debt in Latin America
- The Political Economy of Exchange Rate Policies in Latin America and the Caribbean
- Institutional Arrangements to Ensure Willingness to Pay in Financial Markets: A Comparative Analysis of Latin America and Europe
- Geography and Development in Latin America
- Debt Composition and Balance Sheet Effects of Exchange and Interest Rate Volatility: A Firm-Level Analysis
- Determinants and Consequences of Financial Constraints Facing Firms in Latin America and the Caribbean
- The Elasticity of Substitution in Demand for Non-Tradable Goods in Latin America
- Corporate Governance in Latin America and the Caribbean
- Preparation of Basic Textbooks on the Economies of Latin America and the Caribbean
- The Emergence of New, Successful Export Activities in Latin America and the Caribbean
- The Development of Latin American Bond Markets

- Land Markets in Latin American and Caribbean Cities
- Subnational Revenue Mobilization in Latin American and Caribbean Countries
- The Future of Taxation in Latin America and the Caribbean
- Toward a “New” Inflation-Targeting Framework in Latin America and the Caribbean
- Macroeconomic and Financial Challenges Facing Latin America and the Caribbean after the Crisis
- Understanding Domestic Savings in Latin America and the Caribbean
- Non-Contributory Pensions, Social Assistance Programs and Household Savings in Latin America and the Caribbean

Determinants of Interest Rate Spreads in Latin America

Over the last decade, many countries in Latin America and the Caribbean have reformed their financial sectors. The liberalization of financial markets has implied, among other things, eliminating interest rate controls, reducing reserve requirements, and lifting direct credit controls. By relying on market mechanisms, these reforms have encouraged financial deepening, thereby producing considerable economic benefits to the countries. Nevertheless, the persistence of high interest rate spreads—the difference between the interest rate charged to borrowers and the rate paid to depositors—has been a disquieting outcome of the reforms.

START DATE: July 1996

OBJECTIVE

The objective of this project was to determine why bank spreads remained relatively high in Latin America during the first half of the 1990s. In particular, the project undertook econometric analyses of interest rate spreads to examine factors that play a role in determining these spreads. Argentina, Bolivia, Colombia, Chile, Mexico, Peru, and Uruguay were chosen for the study.

METHODOLOGY

The following set of questions guided the research:

1. Can the persistence of high spreads in Latin America during the 1990s be explained principally by structural factors (such as market power in the banking system) or by other macroeconomic factors (such as inflation or interest rate volatility)?
2. What are the costs and benefits of high spreads? Does there exist a conflict between lower-cost financial services (implying lower spreads) and banking-sector stability (possibly implying higher spreads), or is it possible to attain both objectives simultaneously?
3. How do high spreads limit monetary policy? Have high spreads limited the development of financial markets in Latin America?
4. What conditions must be met in order to achieve lower interest rate spreads? What can the evolution of spreads teach us about the process of financial liberalization?

The researchers gathered panel data on banks' balance sheets and income statements as a basis for empirical work. The results of this work were embedded in a broader description of the structure of financial markets and the recent history of economic policymaking in each country.

CONCLUSIONS

The following conclusions emerged from the analysis:

1. The proper measurement of interest rate spreads is important for meaningful economic analysis

of the data. The most satisfactory measures of spreads turned out to be the net interest margin (interest received minus interest paid, divided by total assets) and a broad measure (including commissions) of the implicit loan rate minus the implicit deposit rate.

2. Common microeconomic factors help to explain individual bank spreads in all the countries in the study. These factors are the nonperforming loan ratio (the ratio of nonperforming loans to total loans), the capital ratio (the ratio of equity to total assets), the cost ratio (the ratio of administrative and other operating costs to total loans), and the liquidity ratio (the ratio of short-term assets to total deposits).

3. Interest rate spreads in industrial countries are positively correlated with nonperforming loans, but in Latin America the nonperforming loan ratio tends to be correlated with higher spreads. This result suggests either that banks do not provide adequate provisions for bad loans or that banks with a high proportion of bad loans may lower spreads (raise deposit rates and lower loan rates) to try to grow out of their problems.

4. Although bank spreads in industrial countries are positively correlated with bank capital, in a number of Latin American countries there is no correlation of bank capital with spreads. This result suggests that bank capital may be mismeasured in some countries, perhaps overstating the amount of true capital.

5. Macroeconomic factors, such as the inflation rate, interest rate volatility, and GDP growth rate also affect bank spreads.

6. Individual studies highlighted additional factors that influence spreads. The Argentine study singled out the importance of consumer credit and authorized overdrafts by businesses as an important source of high bank spreads. The Colombian study noted differences in spreads between state banks and private banks. The Bolivian study finds a decline in spreads following the introduction of a new bank law. The Chilean study finds that competition in the nonbank financial sector lowers spreads.

7. The high interest spread must be seen in the context of a transition from repressed financial systems to liberalized financial environments. A successful transition to liberalized finance will see a progressive reduction in interest rate spreads.

8. High operating costs raise spreads, as do high levels of nonperforming loans. Bank capital, especially when much of it is fictitious, may not be doing enough to encourage prudent lending behavior. Finally, reserve requirements in a number of countries still act as a tax on banks, which translates into a higher spread. Beyond bank-specific variables, uncertainty in the macroeconomic environment facing banks appears to be an important cause of high interest spreads.

9. It is the combination of these factors that is cause for concern in Latin America. As spreads widen, the cost of using the financial system becomes prohibitive to more and more potential borrowers. In addition, moral hazard and excessive risk-taking by banks may become a more serious problem when bank spreads are high.

10. Since governments almost always come to the aid of depositors when banks become insolvent, a high interest rate spread should be viewed as a warning signal by bank regulators. Interpretation of high spreads can be enhanced by the use of panel regressions such as those used in this study.

COORDINATORS

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PARTICIPATING INSTITUTIONS

- UTDT – Universidad Torcuato di Tella, Argentina
- UDESA – Universidad de San Andrés, Argentina UDAPE – Unidad de Análisis de Políticas Económicas, Bolivia
- Universidad de Chile, Departamento de Economía, Chile
- FEDESARROLLO – Fundación para la Educación Superior y el Desarrollo, Colombia
- PUC-PERU – Pontificia Universidad Católica del Perú, Departamento de Economía, Peru
- CERES – Centro de Estudios de la Realidad Económica y Social, Uruguay

COUNTRIES STUDIED

Argentina, Bolivia, Colombia, Chile, Mexico, Peru, Uruguay

STUDIES PUBLISHED

- "El margen de intermediación bancaria en Colombia." By Roberto Steiner, Adolfo Barajas, and Natalia Salazar. Working Paper R-325.
- "Determinantes de los spreads bancarios: el caso de Chile." By Rodrigo Fuentes and Miguel Basch. Working Paper R-329.
- "Determinantes del spread en las tasas de interés bancarias en el Perú: 1991–1996." By Jorge Rojas. Working Paper R-330.
- "The Determinants of Bank Interest Rate Margins in Mexico's Post-Privatization Period (1992–1995)." By Anthony Saunders and Liliana Schumacher. Working Paper R-333.
- "Determinantes del spread en las tasas de interés bancarias en Bolivia." By Bernardo Requena, Eduardo Antelo, Carmen Crespo, Ernesto Cupe, and Juan Ramón Ramírez. Working Paper R-336.
- "Los spreads de tasas de interés del sistema financiero argentino." By Universidad Torcuato Di Tella y Banco Central de la República Argentina. Working Paper R-343.
- "Determinantes del spread en las tasas de interés bancarias en el Uruguay." By Adolfo Díaz Solsona and Carlo Graziani. Working Paper R-369.

BOOK PUBLISHED

Why So High? Understanding Interest Rate Spreads in Latin America. Liliana Rojas-Suárez and Philip Brock, editors. Washington, DC: Inter-American Development Bank. 2000.

Sustainability of Fiscal Policy in Latin America

Latin America suffers from a high degree of macroeconomic volatility. In this context, traditional indicators of fiscal balance lose their usefulness for forecasting and give an erroneous picture of fiscal sustainability over the medium and long term. For example, in an economy with a large foreign debt, an appreciation of the currency improves fiscal accounts by reducing debt service in terms of non-tradable goods (e.g., public sector wages). On the other hand, in an economy whose main source of fiscal revenue is an internationally tradable good, such as petroleum, the appreciation worsens fiscal accounts by lowering income in terms of non-tradable goods. Traditional fiscal indicators do not capture the medium-term effects of large fluctuations in the exchange rate.

START DATE: July 1996

OBJECTIVE

The objective of this study was to design an alternative set of fiscal indicators for diverse countries in Latin America. The goal was to find indicators capable of more accurately capturing the effects of changes in macroeconomic variables and public finance policies.

METHODOLOGY

The country case studies seek to adapt different indicators to their particular context. Particularly noteworthy are the adjusted macroeconomic deficit and the "true" deficit, based on traditional fiscal accounting. The first measures the balance under "normal" or stable macroeconomic conditions. The second, departing from the intertemporal restriction of the requirements for deficit financing, requires that the net present value of the public debt be zero. In other words, this indicator factors in the restriction that the public debt may not exceed real interest rates.

CONCLUSIONS

The most important conclusions derived from the case studies include:

1. Using alternative indicators, Uruguay has an adjusted macroeconomic deficit that varies significantly from the traditional one.
2. In the accounting for social security, intertemporal models allow the implicit debt of these systems to be calculated and compared to that of the nonfinancial public sector.
3. For Peru, the indicators provide a new interpretation of the fiscal deficits of the 1970s and 1980s. The traditional explanation was based on an endogenous response to the economic cycle while the new indicators show how the disequilibria were really a consequence of unsustainable policies.
4. In Venezuela, the shocks to tax income are largely exogenous, unpredictable, and very volatile due to the country's high dependence on petroleum. The variability of public spending with the move-

ments of oil prices can be viewed ex ante as an optimal policy. However, ex post the dramatic adjustments—especially through large devaluations—are traumatic and inefficient.

5. For Argentina, rapid growth following stabilization programs generated fiscal balance, as did tax reforms enacted by the economic authorities during the convertibility plan.
6. The study on Brazil looks at the case of an unsustainable fiscal policy following a strict inflation stabilization program. Budgetary rigidities did not allow for an adjustment in the public debt, and fiscal policies generated huge costs when the adjustment was delayed.
7. The study on Colombia demonstrates how an increase in discretionary spending generates an unsustainable fiscal policy.

COORDINATORS

- Carlos Végh, University of California
- Ernesto Talvi, IDB

PARTICIPATING INSTITUTIONS

- CEDES – Centro de Estudios de Estado y Sociedad, Argentina
- PUC-RIO – Pontifícia Universidade Católica do Rio de Janeiro, Brazil
- FEDESARROLLO – Fundación para la Educación Superior y el Desarrollo, Colombia
- MACROCONSULT – Peru
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- IESA – Instituto de Estudios Superiores de Administración, Venezuela

COUNTRIES STUDIED

Argentina, Brazil, Colombia, Peru, Uruguay, Venezuela

STUDIES PUBLISHED

- "La sostenibilidad de la política fiscal en América Latina: el caso argentino." By Oscar Cetrángolo, Mario Damill, Roberto Frenkel, and Juan Jiménez. Working Paper R-315.
- "La sostenibilidad de la política fiscal en el Peru: 1970–2005." By Luis A. Arias, Elmer Cuba, and Raúl Salazar. Working Paper R-316.
- "La sostenibilidad de la política fiscal Venezuela." By Gustavo García Osío, Rafael Rodríguez Balza, Luis Marcano, Ricardo Penfold, and Gustavo Sánchez. Working Paper R-317.
- "La sostenibilidad de la política fiscal en América Latina: el caso de Colombia." By Julio César Alonso, Mauricio Olivera, and Israel Fainboim. Working Paper R-319.
- "La sostenibilidad de la política fiscal en América Latina: el caso de Uruguay." By Michael Borchardt, Isabel Rial, and Adolfo Sarmiento. Working Paper R-320.
- "Delaying Public Sector Reforms: Post-Stabilization Fiscal Strains in Brazil." By Afonso Bevilaqua and Rogério Werneck. Working Paper R-321.
- "Fiscal Policy Sustainability: A Basic Framework." By Ernesto Talvi and Carlos Végh. Working Paper R-372.

BOOK PUBLISHED

¿Cómo armar el rompecabezas fiscal? Nuevos indicadores de sostenibilidad. Ernesto Talvi and Carlos Végh, editors. Washington, DC: Inter-American Development Bank, 2000.

Determinants of Savings in Latin America

Latin America's lackluster growth rates have often been blamed on similarly uninspiring rates of saving. With the constant possibility of abrupt declines in foreign capital flows, however, it is all the more important that domestic saving increase rather than cutting investment and further constraining growth. In general, the volatility of international capital flows makes them an unreliable source of financing for development. Understanding the determinants of domestic saving in Latin America can contribute to the design of public policies to stimulate local capital accumulation.

START DATE: 1997

OBJECTIVE

The objective of this study was to understand the determinants of fluctuations in domestic saving rates in Latin America, particularly those that occurred in the first half of the 1990s, and to apply lessons learned in the design of development policies. The study aimed to identify the causes of changes in saving levels and to differentiate permanent adjustments from temporary measures that reflect a reaction to external shocks or policy reforms.

METHODOLOGY

The project studied the determinants of saving in seven Latin American countries and in three European countries. Each of the following issues was analyzed in relation to its effect on the behavior of saving:

1. Identification of the magnitude of the problem: issues of measurement
2. Changes in permanent income
3. Elimination of the restrictions on liquidity
4. Stabilization and inflation control. If stabilization is not credible and prices are perceived to be unsustainably low, is present consumption encouraged and saving discouraged?
5. Trade liberalization. Do cheaper imports stimulate the present consumption of durable goods and reduce saving?
6. Temporary shocks to the terms of trade
7. Internal saving and capital flows. Does foreign capital have a negative impact on domestic saving?
8. The relationship between public and private saving. Is there Ricardian equivalence?
9. Tax reform and saving. Have changes in pension systems affected saving?

CONCLUSIONS

Despite the heterogeneity of approaches and case studies, there is overwhelming empirical evidence on several points:

1. While there is some degree of offset between public and private saving, households do not fully internalize the consumption decisions of

the public sector. Indeed, in most instances the estimated degree of offset is quite low. This implies that governments can have an active role in influencing the level of domestic saving.

2. Possibly explaining the absence of Ricardian equivalence, liquidity constraints appear to be quantitatively important. The bulk of the evidence from both macro and micro data on firms and households suggests that: 1) some portion of the population has no access to credit markets and consumption decisions are ruled by current income; 2) credit aggregates (in the macro data) or access to credit (in the micro data) provide much information about the prevalence of constraints and can explain much of the behavior in saving rates during periods in which those constraints changed markedly. Increases in firms' saving rates in Chile have been linked to the tightening of liquidity constraints during the banking crisis years, and declines in saving rates in Argentina, Colombia, Italy, Mexico, Peru (for households), the United Kingdom, and Uruguay have been associated with their relaxation. In this regard, a fruitful line of inquiry would explore the role of monetary and financial sector policies in influencing aggregate saving.
3. The study on Argentina had much to say about what drives consumption booms and, particularly, booms that are driven by a surge in household expenditure in durable goods. Indeed, household decisions on whether to act now or postpone durable goods purchases have much to say about cycles in consumption/saving.
4. The bulk of the evidence suggests that foreign saving is more likely to displace domestic saving than to complement it—although in most cases the extent of offset is partial.

   Since foreign saving is potentially more volatile than its domestic counterpart, these results call into question the desirability of having "too much" foreign saving, or capital inflows. It calls for a reassessment of the desirability (if not the feasibility and usefulness) of capital controls. It again raises the issue of liquidity constraints, whether these come from the domestic financial sector or are imposed from abroad by fickle capital markets.
5. Although many of the results suggest a growth-saving causal link, the ambiguity as to what comes first—saving or growth—highlights the need for further study in this area.
6. There is, at best, mixed support for the Life-Cycle Hypothesis (LCH) and no support to suggest that income distribution has anything to add to our understanding of what drives saving rates. Certainly, if a skewed income distribution provided the boost to private saving that consumer theory tells us it should, then Latin America should have much higher saving rates than Asia.
7. Whether terms of trade shocks have a significant or minimal impact on saving may depend importantly on the concentration of, and primary commodity content of, exports. Apparently, countries with the least diversified export structure and greatest primary commodity exposure are the most affected in terms of the impact on saving in terms of trade developments.

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PARTICIPATING INSTITUTIONS

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- FUSADES – Fundación Salvadoreña para el Desarrollo Económico y Social
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- IEP – Instituto de Estudios Peruanos, Peru
- CINVE – Centro de Investigaciones Económicas, Uruguay
- IIE – Instituto de Investigaciones Económicas y Sociales, Universidad Católica Andrés Bello, Venezuela

COUNTRIES STUDIED

Brazil, Chile, Colombia, El Salvador, Mexico, Peru, Uruguay, Venezuela

STUDIES PUBLISHED

- "Análisis sobre el aumento del ahorro en Chile." By Manuel R. Agosín, Gustavo Crespi, and Leonardo Letelier. Working Paper R-309.
- "Saving Determinants in Colombia: 1925–1994." By Mauricio Cárdenas and Andrés Escobar. Working Paper R-310.
- "The Determinants of Saving: Lessons from Italy." By Tullio Jappelli and Marco Pagano. Working Paper R-313.
- "El ahorro privado en Venezuela: tendencias y determinantes." By Luis Zambrano S., Matias Riutort, Rafael Muñoz, and Juan Carlos Guevara. Working Paper R-322.
- "Determinantes del ahorro interno en Uruguay." By Nelson Noya, Fernando Lorenzo, and Carlos Grau-Pérez. Working Paper R-323.
- "Determinantes del ahorro interno: el caso argentino." By Ricardo López-Murphy, Fernando Navajas, Santiago Urbiztondo, and Cynthia Moskovitz. Working Paper R-324.
- "Determinantes del ahorro interno y ajuste estructural en el Perú, 1990–1995." By Efraín Gonzales de Olarte, Cecilia Lévano Castro, and Pedro Llontop Ledesma. Working Paper R-327.
- "Trade Liberalization and Private Savings: The Spanish Experience, 1960–1995." By Michele Boldrin and Juan Manuel Martin Prieto. Working Paper R-328.
- "Swinging since the 60's: Fluctuations in UK Saving and Lessons for Latin America." By David Begg and Stephany Griffith-Jones. Working Paper R-334.
- "Paraguay: mercado de seguros y el desarrollo de un mercado de capitales a largo plazo." By Lorraine Ocampos, Emilio Ortiz Trepowski and Bernardo A. Navarro. Working Paper R-337.
- "Explicaciones de la caída del ahorro privado en Mexico desde tres perspectivas." By Angel Calderón-Madrid. Working Paper R-346.

BOOK PUBLISHED

Accounting for Saving: Financial Liberalization, Capital Flows and Growth in Latin America and Europe. Compiled by Carmen Reinhart. Washington, DC: Inter-American Development Bank, 1999.

The Structure of Public Debt in Latin America

As demonstrated by the Mexican crises of the 1980s and 1990s, public debt can be a central factor in balance of payments crises. Some explanations of these crises emphasize aspects of the structure of public debt, such as denomination in foreign currency or concentration in terms of maturity. Other approaches, though, assert that balance of payments crises occur as a result of speculative attacks on local currency in favor of the dollar, when monetary authorities' ability to maintain an exchange rate regime is questioned.

The existence of such widely divergent explanations demonstrates the need for a better understanding of public debt and the way it has been managed in Latin America. It is, therefore, important to develop a conceptual framework that will further the understanding of the positive and negative aspects of different debt configurations and make it possible to interpret their historical evolution, in order to derive lessons that will improve debt management in the future.

START DATE: June 1997

OBJECTIVE

This study compiles and analyzes information about public debt structure management, its macroeconomic effects, and its role in the definition of economic policies.

This objective consists of three components:

1. The development of a database with information on the evolution of public debt, particularly regarding debt structure and stocks, whose features will be described using technical statistics.
2. Deriving lessons from experience in terms of understanding the particular role of different types of public debt, including the determinants of the structure of public debt, as well as the macroeconomic effects of each type of debt.
3. Analyzing the current situation and future prospects of the structure of public debt.

METHODOLOGY

The methodology of this project, which examines the structure of public debt in five countries (Argentina, Brazil, Colombia, Costa Rica, and Mexico), has two principal components.

The first component consists of an empirical study of national data, utilizing both statistical description and time-series analysis. Of particular interest are prevailing tendencies in the structure of public debt (e.g., classes of debt, maturities, and currency in which debt is issued) and significant changes in debt structure, as well as the domestic and external conditions responsible for these tendencies and/or changes.

The second component consists of evaluating the empirical findings in relation to recent theoretical developments regarding the implications of incomplete markets, incentives for disguised repudiation of debt, and incentives for open repudiation of debt.

CONCLUSIONS

The studies published thus far suggest the following conclusions:

1. The management of public debt can be used as a policy tool to fight inflation (though not necessarily during megainflation), reduce expectations of devaluation, and diminish budgetary fluctuations over time, among other objectives.
2. Public debt management does not provide an effective tool for tax smoothing.
3. Risk premiums do not appear to bear a close resemblance to debt structure.
4. Internal and external debt are not perfect substitutes.

COORDINATORS

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- Eduardo Fernández-Arias, IDB

PARTICIPATING INSTITUTIONS

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- PUC-RIO – Pontifícia Universidade Católica do Rio de Janeiro, Brazil
- FEDESARROLLO – Fundación para la Educación Superior y el Desarrollo, Colombia
- EE-UN – Escuela de Economía, Universidad Nacional, Costa Rica
- CIDE – Centro de Investigación y Docencia Económicas, Mexico

COUNTRIES STUDIED

Argentina, Brazil, Colombia, Costa Rica, Mexico

STUDIES PUBLISHED

- "La estructura de la deuda pública en Mexico: lecciones y perspectivas." By Fausto Hernández Trillo and Alejandro Villagómez Amezcua. Working Paper R-405.
- "Determinantes y composición del endeudamiento público en Colombia." By Santiago Herrera. Working Paper R-406.
- "The Structure of Public Sector Debt in Brazil." By Afonso S. Bevilaqua, Dionísio Dias Carneiro, Márcio Gomes Pinto, and Rogério Werneck et. al. Working Paper R-424.

The Political Economy of Exchange Rate Policies in Latin America and the Caribbean

The exchange rate has become the single most prominent instrument of national economic policy in Latin America and the Caribbean. Argentina's convertibility plan, currency crises in Mexico and Brazil, and increasing discussion of dollarization highlight the centrality of currency policy to the future development of the region. While research on the purely economic sources and implications of exchange rate trends is relatively advanced, scholars, observers, and practitioners agree that research on the important political determinants of exchange rate policies, and on their interaction with economic factors, is poorly developed.

START DATE: **September 1997**

OBJECTIVE

The objective of this project is to incorporate political and political economy considerations into an analysis of the Latin American currency experience since the early 1960s.

The analyses attempt to explain a series of outcomes. Countries vary in their choice of overall exchange rate regime, from firmly fixed to freely floating, with virtually all conceivable possibilities in between. Indeed, some countries have shifted back and forth between these regimes. There is also substantial variation in the overall stance of currency policy. Some governments are eager to avoid a real appreciation and maintain a "realistic" real exchange rate, while others seem relatively unconcerned about "overvaluation." This variation in regime choice, and in policy stance, can be observed over time among countries, within countries, and in the region as a whole.

METHODOLOGY

Both the cross-national statistical study and the country studies included explicit consideration of the following factors expected to influence national exchange rate policy, some of which may well be endogenous to this policy:

1. Economic structure: susceptibility to terms of trade shocks, openness
2. Macroeconomic history: levels of inflation, GDP growth rates, budget deficits, trade and current account balances, foreign exchange reserves, and accumulated external debt
3. Other economic policies: e.g., trade policy, capital controls
4. Interest groups: size and influence of manufacturing, agricultural, and raw materials sectors; organization and impact of labor unions; the roles of exports, import-competing groups, and holders of foreign currency liabilities

5. Political institutions: central bank independence, election timing, government stability, and party fragmentation
6. Regional and global developments: regional monetary and trade agreements, worldwide trends in prevailing exchange rate regime.

CONCLUSIONS

The studies revealed an extraordinarily wide range of experiences and supported a series of interrelated explanations. While there is great variation among countries, some generalizations can be drawn:

1. The probability of fixing is highest in very closed, import-substituting economies (which are less sensitive to real appreciation), and extremely open, very small economies (which are very sensitive to nominal currency fluctuations). Relatively open economies are, all else being equal, more likely to float.
2. The probability of fixing is highest in countries with very low inflation (where the risk of a real appreciation is low) and very high or hyperinflation (where a nominal anchor can help end the inflationary episode). Countries with moderate inflation levels are more likely to float.
3. Governments in countries with powerful import-competing sectors (especially manufacturers in liberalized economies) and/or powerful exporting sectors (especially export agriculture) are typically eager to avoid a substantial real appreciation of the exchange rate and act quickly to reverse one.
4. Governments facing elections are likely to allow a real appreciation of the currency in order to increase the purchasing power of the electorate or to avoid politically costly inflation prior to the election. This sometimes requires a substantial, countervailing depreciation after the election is held.

While all these results should be regarded as preliminary, they are extremely suggestive. The project provides a model of how to integrate the analysis of economic and political variables in the making of exchange rate policy. It has spurred substantial additional research by participants and others, and promises to contribute significantly to an understanding of this complex and important issue.

COORDINATORS

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- Ricardo Hausmann, IDB

PARTICIPATING INSTITUTIONS

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- CEA – Centro de Economía Aplicada, Departamento de Ingeniería Industrial, Universidad de Chile
- FEDESARROLLO – Fundación para la Educación Superior y el Desarrollo, Colombia
- GRADE – Grupo de Análisis para el Desarrollo, Peru

COUNTRIES STUDIED

Argentina, Barbados, Brazil, Chile, Colombia, Peru

STUDIES PUBLISHED

- "The Political Economy of Exchange Rate Policies in Latin America and the Caribbean: The Case of Peru." By GRADE. Working Paper R-365.
- "The Political Economy of Exchange Rate Policy in Colombia." By Juan C. Jaramillo, Roberto Steiner, and Natalia Salazar. Working Paper R-366.

- "The Political Economy of Exchange Rate Policy in Brazil: 1964–1997." By Marco Bonomo and Cristina Terra. Working Paper R-367.
- "Exchange Rate Policy in Chile since 1960: Political Economy and the Choice of Regime." By José de Gregorio. Working Paper R-377.
- "The Political Economy of Exchange Rate Policies in Argentina." By Eugenio Díaz-Bonilla and Héctor E. Schamis. Working Paper R-379.
- "The Political Economy of Exchange Rate Policy in the Caribbean." By DeLisle Worrell, Don Marshall, and Nicole Smith. Working Paper R-401.
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Institutional Arrangements to Ensure Willingness to Pay in Financial Markets: A Comparative Analysis of Latin America and Europe

Policy and academic discussions often neglect the fact that default can arise from borrowers' unwillingness to pay at least as much as from their inability to repay. This is especially true of Latin American countries, where poor protection of creditors' rights partly explains both the high default rate commonly observed in the formal credit sector and the existence of a large informal credit sector, where alternative enforcement mechanisms replace the ineffectiveness of the law.

START DATE: **September 1997**

OBJECTIVE

The objective of this project was fourfold. First, it attempted to understand how the ineffectiveness of the legal system affects credit market performance. It also studied the alternative arrangements set up by the private sector to circumvent the problems created by the unreliability of courts, as well as the reliability of such mechanisms. Finally, an effort was made to analyze how the institutional framework could be improved to ensure greater willingness to repay in credit markets.

The following set of hypotheses guided research:

1. The legal system and judiciary enforcement are important in ensuring borrowers' willingness to repay. In the course of history, countries have developed different legal systems with different degrees of creditor rights protection. Even countries with the same legal tradition and similar rules may enforce them differently, depending on the efficiency and honesty of their judiciaries.

   Equally important in determining borrowers' incentives to repay are the actual features of loan contracts, such as the availability of collateral or guarantees by other people, the number of creditors and seniority rules, the existence of long-term credit relationships, etc. Some of these features, such as the availability of collateralizable assets, depend partly on the type of economic activity that the loan is intended to finance. Others, such as the existence of long-term banking relationships, depend on the overall structure of the credit market. Still others, such as seniority rules, depend on decisions taken by borrowers and lenders. The effectiveness of each of these features in ensuring repayment by solvent borrowers partly depends on the legal system and its enforcement. For instance, loan collateralization is not very effective in raising borrowers' incentives to repay if the judicial procedure to seize and liquidate the collateral is lengthy and expensive.
2. Since access to the legal system can be very costly, private incentive mechanisms have been created to supplement formal judicial processes. Nonstandard loan contracts or enforcement mechanisms to increase borrowers' incentives to repay are particularly common in developing countries where poor law enforcement and lack of collateral would otherwise cut a large segment of the

pool of potential borrowers off from credit. For example, in the group lending arrangements common in rural communities, joint liability may create an incentive to repay, whereas individual liability would have led to default. Similarly, credit cooperatives are sometimes said to face lower default rates than commercial lenders because of the peer monitoring exerted by their members, and the non-economic sanctions default borrowers could face. Finally, lenders can discipline borrowers simply by exchanging information about their credit histories, either informally or via credit bureaus. Because access to future credit is affected by one's credit history, this information exchange provides a mechanism to punish defaulting borrowers and ensure that solvent borrowers will repay.

3. By affecting the borrowers' ex post willingness to pay, these features determine the willingness of creditors to extend loans ex ante, as well as the terms at which credit will be forthcoming. By the same token, they determine the effectiveness of credit markets in mediating and allocating saving among alternative users.

METHODOLOGY

The researchers collected large amounts of new data specifically for this research project, partly using a standardized questionnaire designed and discussed during the project. They also studied written documentation, performed numerous interviews, and conducted numerous statistical tests to check the validity and applicability of these hypotheses.

CONCLUSIONS

The following conclusions emerged from the analyses:

1. The design of legal procedures, and their actual length and cost, matters for credit markets. An impressive amount of evidence showed that these factors had a strong impact on the amount of credit extended as well as on the design of the lending contracts used.
2. The private sector finds ways around the low protection of creditor rights. Here, methods vary depending on the institutional setting, from extensive use of collateralization, sophisticated information sharing among lenders, intensive monitoring, and emerging instances of relationship lending (especially in Costa Rica and in Peruvian and Paraguayan lending programs to microenterprises by NGOs) to the reliance-enterprises on criminal sanctions associated with the breach of contracts.
3. The credit industry has often made considerable progress in its lending practices. In many countries, credit institutions have improved their mode of operation and the default rate has decreased considerably. The progress is due partly to improved bank management (especially a growing understanding of the need for accurate screening and monitoring), prudential supervision, and the introduction or improvement of credit information systems, such as credit bureaus and public credit registers.
4. Judiciary reform (greater speed, reliability, and honesty) is a "must." The private sector is doing as well as it can in the presence of a very seriously mismanaged public judicial system. But it cannot overcome such a serious institutional failure as a badly (and, in some countries, abysmally) functioning judiciary. The only way to make a quantum leap regarding the willingness to repay is to seriously reform the legal procedures concerning credit relationships and the judiciary, thereby improving its competence, its sensitivity to the needs of a market economy and, above all, its speed and honesty.

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COUNTRIES STUDIED

Argentina, Brazil, Chile, Costa Rica, Paraguay, Peru

STUDIES PUBLISHED

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BOOK PUBLISHED

Defusing Default: Incentives and Institutions. Marco Pagano, éditor. Washington, DC: Inter-American Development Bank. 2001.

Geography and Development in Latin America

Until recently, the influence of geography on social and economic development has been almost completely ignored in economic analyses. Thanks to recent theoretical and empirical studies, however, numerous factors have proven to be closely linked to income differentials and growth. These factors include a country's distance from both the equator and world centers of consumption and its access to oceans or navigable waters. However, little is known about the specific ways in which geographic factors influence growth or whether international findings remain valid for differences within countries as well. Answering these questions is vital to designing national policies capable of controlling the influence of geography.

START DATE: October 1998

OBJECTIVE

The objective of this study was to analyze the different ways in which geography influences the levels of income, productivity, mortality, economic growth, and the spatial distribution of populations in individual countries.

METHODOLOGY

The studies were based on detailed information at the departmental, regional, municipal, and even family levels. They used these data to empirically detect the influence that geographic factors such as temperature, rainfall, altitude, distances from ports, borders and cities, land conditions, infrastructure, electricity, and other social and public services have on development and living standards. Nine proposals were selected for five countries (Bolivia, Brazil, Colombia, Mexico, and Peru). Each emphasized one or more of these factors.

CONCLUSIONS

The empirical conclusions of the studies were robust and surprising:

1. Geographic conditions explain, in large part, the income differences among provinces and municipalities within each country. Typically, between half and two-thirds of those variations are associated with geographic variables.
2. Geography is partially responsible for the high levels of inequality characteristic of Latin America. Nearly half of the inequality among states in both Mexico and Brazil reflects geographic differences.
3. Variations in the growth rates of different regions are also due primarily to geography. In Bolivia, growth rates in the lowlands are more than 4.5 points higher than in the highlands. Three-quarters of this difference is due to geographic factors.
4. Geography has been equally influential in the area of health. In both Peru and Brazil, about

three-quarters of the disparity between municipal and provincial infant mortality rates is associated with rainfall, temperature, altitude, and latitude.

5. The political fragmentation of territories, which in turn is influenced by geographic and historical factors, can become a barrier to economic growth. In Mexico, the states that are most fragmented into distinct municipalities have lower growth rates, worse infrastructures, and more trouble meeting their social needs.

The implications of these results are disturbing:

1. The gaps between rich and poor areas, in the majority of cases studied, do not seem to be closing. In Mexico, Colombia, and Bolivia there are strong forces pulling the rich and poor apart.
2. The process of economic integration within and among countries has not reduced the influence of geography on the economic and living conditions of populations. In more integrated economies, transportation costs and the advantages of location are more influential than in nonintegrated economies.
3. Since Latin America has some of the most geographically fragmented countries in the world, the economic integration process may have a dramatic impact on the geographic distribution of economic activities and of populations. Mexico and Bolivia, in particular, are evidence of these changes.

Because geography has such a profound influence on social and economic development, important policy implications can be drawn from these studies:

1. Geographic conditions, both natural and created, should be systematically incorporated into the design and evaluation of health and infrastructure policies. None of the countries studied (and perhaps none in Latin America) do this. Geography should also be incorporated into targeted social protection programs, as is done in various countries.
2. Political, fiscal, and administrative decentralization can be an adequate response for regions to adapt themselves to the changing influence of geography. However, this requires that decentralization rules be more flexible and dynamic.
3. Political division of territories may either aggravate or alleviate the limitations that geography poses to economic and social development. The trend toward political fragmentation should be contained. Adequate levels of territorial consolidation for each country or region should be studied on a case-by-case basis.

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- GRADE – Grupo de Análisis para el Desarrollo, Peru

COUNTRIES STUDIED

Bolivia, Brazil, Chile, Colombia, Mexico, Peru

STUDIES PUBLISHED

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BOOK PUBLISHED:

Is Geography Destiny? Lessons from Latin America. Alejandro Gaviria, Eduardo Lora, and John Luke Gallup, editors. Washington, DC: Inter-American Development Bank, 2003.

Debt Composition and Balance Sheet Effects of Exchange and Interest Rate Volatility: A Firm-Level Analysis

A large theoretical literature discusses how currency and maturity mismatches affect firms' balance sheets and the overall level of economic activity. The main point in the literature is that a real devaluation increases the domestic currency value of dollar debt and, by weakening firms' balance sheets, prevents them from increasing production or investing. Devaluations can also increase the cost of imported inputs.

Maturity mismatches are also important; defense of a pegged exchange rate may lead to high real interest rates that can harm firms with short-term domestic currency debt. It has thus been argued that countries where firms have large currency mismatches often exhibit a "fear of floating" and heavily manage the exchange rate. At the same time, some countries where firms have large maturity mismatches let the exchange rate float more freely, thus avoiding the high real interest rates associated with defending the exchange rate. Therefore, the presence and magnitude of currency and maturity mismatches largely determine the advantages and disadvantages of different exchange rate regimes.

Whether the positive effects of devaluation outweigh the negative ones is an empirical question that requires firm-level data and information on firms' balance sheet composition and pricing policies. Such empirical analysis, however, has so far been limited, mostly due to the difficulty of assembling a comprehensive data set that contains firm-level data on the composition of liability and pricing policies. Moreover, real exchange rate fluctuations may both stimulate demand and increase the cost of imported inputs. Better data and enhanced models are necessary to uncover how the relationship between currency and maturity mismatches and interest and exchange rate volatility affects economic activity.

START DATE: May 2000

OBJECTIVE

The objective of this project is twofold. First, the project aims to collect firm-level data on liability composition and pricing policies for a sample of Latin American countries. Second, the project aims to use this data set to test how exchange rate and interest rate volatility affect firms' decisions in terms of investment, production, and employment. In particular, the project seeks to answer the following questions:

1. What is the liability structure of Latin American firms? In particular, what is the average leverage, currency, and maturity composition of firms' liabilities? Where does the debt originate? Is foreign-denominated debt contracted domestically? Does it come from foreign creditors?
2. Is there a relationship between liability composition and characteristics of the firm? In particular, does the sector of production or the share of tradable goods in production affect liability composition? Does firm ownership (family-owned versus publicly traded, domestic versus foreign) affect liability composition? Moreover, what is the relationship between liability composition and the currency denomination of revenues?

3. How do exchange rate and interest rate fluctuations affect firms' performance, and what is the interaction between exchange rate and interest rate volatility and firms' balance sheet composition? Do firms with short-term debt suffer more when there are big jumps in interest rates? Do firms with dollar liabilities suffer more when there are movements in the exchange rate or not? Does the balance sheet effect dominate the interest rate and competitiveness effects or is the opposite true? How do results vary across firms with different characteristics?
4. How do exchange rate movements affect the cost of firms' imported inputs and hence the overall results?

CONCLUSIONS

The studies in this project constitute a significant advancement in understanding the currency composition of debt and the existence and importance of balance sheet effects of real exchange rate depreciations. In the cases of Argentina, Colombia, Mexico, and Peru, important evidence on balance sheet effects are found. The evidence for Brazil and Chile is weaker.

Bonomo, Martins, and Pinto (2003) find a negative, but not statistically significant, balance sheet effect for Brazil. The authors speculate that the lack of significance may be due to the role played by the government in providing hedges at the time of the crisis.

In Colombia, there is some evidence of balance sheet effects. Echeverry, Fergusson, Steiner, and Aguilar (2003) do not find consistently robust evidence of balance sheet effects when using the investment ratio as the relevant outcome measure. However, when analyzing the impact of exchange rate depreciation on the profitability of firms, they find that firms with higher foreign currency debt have a stronger reduction in profitability following a depreciation. They also find some evidence that exporting firms tend to have larger increases in their profits during depreciations, whereas the impact of having a higher share of imported inputs, even if negative, is not robustly significant.

In the case of Mexico, where dollar debt has fluctuated between 25 percent and 43 percent of total short-term debt, Pratab, Lobato, and Somuano (2003) find evidence of a negative and significant balance sheet effect on investment in most of their specifications. There is also evidence that a depreciation has a more severe negative effect on earnings for more dollarized firms. Given dollarization, the effect of depreciation is more positive for firms with a greater share of exports.

With nearly 60 percent of firms' debt in foreign currency, the Carranza, Cayo, and Galdon-Sánchez (2003) study on Peru provides insights into the impact of exchange rate fluctuations in one of the most dollarized countries in Latin America. The paper provides suggestive evidence of negative balance sheet effects for Peruvian firms, though the significance varies across specifications. These results can be linked to the finding that firms match the currency composition of liabilities with the composition of their revenues.

Argentina is a special case because, during the period under observation, it maintained an exchange rate regime in which the peso was fixed by law to the U.S. dollar. In their study, Galiani, Levy-Yeyati, and Schargrodsky, (2003) focus on what Fisher labeled as "debt deflation." They recognize that a super-fixed regime does not eliminate the possibility of negative balance sheet effects due to adjustments of the real exchange rate and point out that, with a fixed exchange rate, the real exchange rate adjusts to a shock via a process of deflation that, by reducing the relative price of non-tradables, reduces the net worth of the non-tradable sector. As the nominal exchange rate is fixed, this reduction of net worth does not depend on the currency composition of firms' liabilities.

The paper finds evidence that the relative price changes affect earnings in the expected direction, which implies that the earnings of non-export-oriented firms suffered over the period. Since earnings enter significantly into the investment equations, investment by these firms was also adversely affected. It also finds evidence that greater dollarization affects earnings positively, presumably due to lower financing costs during the convertibility period. Finally, it finds that the interaction between dollar debt and the perceived risk of a devaluation (using proxies based on interest rate differentials) is indeed negative and statistically significant, providing empirical support for a negative balance sheet effect of expected devaluation.

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COUNTRIES STUDIED

Argentina, Brazil, Chile, Colombia, Mexico, Peru

STUDIES PUBLISHED

The papers collected in this network project were published in the *Emerging Markets Review*, Volume 4, No. 4, December 2003. The papers provide evidence on the currency composition of debt and on the balance sheet effect of liability dollarization for real investment. All the papers are based on detailed balance sheet data for large panels of firms. Many of the data sets had not been used previously for this purpose, and they bring rich new evidence to bear on these important issues. A previous version of the papers was presented at a joint Inter-American Development Bank-Boston College Conference in Boston, May 23–24, 2003.

Determinants and Consequences of Financial Constraints Facing Firms in Latin America and the Caribbean

Bank credit plays a very important role for firms, especially in developing countries where equity markets are considerably underdeveloped. If access to bank loans is restricted, projects cannot be undertaken and economic activity can stagnate. If credit is constrained, so is investment, and since technology is often embedded in new capital goods, the ability to absorb new technologies is adversely affected, as is the capacity of economies to grow. Hence, the ability of the banking industry to efficiently channel resources to firms becomes an important determinant for the process of economic development and growth.

START DATE: **September 2000**

OBJECTIVE

The objective of this project was to document and analyze the importance, determinants, and consequences of financial constraints at the firm level in Latin America by searching for quantitative evidence of:

1. Firms' financing choices (internal funds, bank loans, securities market, long vs. short-term debt, domestic vs. foreign currency debt, trade credit, informal markets, etc.)
2. How these choices are affected by credit supply restrictions
3. The characteristics of the firms affected by credit constraints
4. What types of credit contracts are constrained (long term vs. short term)
5. How firms' real choices respond to financial constraints

Moreover, we were interested in a micro-based analysis of whether the evolution of financial markets, following financial reform or major macroeconomic events, affected firms' access to bank financing in particular and external financing in general, and if the impact differed according to different types of firms.

METHODOLOGY

Seven papers covering Argentina, Colombia, Costa Rica, Ecuador, Mexico, and Uruguay were selected. Some of the papers investigate the determinants of firms' financing choices using firm-level panel data containing balance sheet information (Argentina and Ecuador). Others, instead, investigate how firms' and owners' characteristics at a certain point in time affect access to bank financing, and the effect of the latter on several measures of firm performance, such as profitability, growth, and market value (Costa Rica). Another paper (Argentina) analyzes what affects the access to and the cost of bank credit, including factors such as closeness of bank relationships and credit history, using data from the Central de Deudores. The other papers focus on assessing the presence and severity of financing constraints, by focusing on firms' investment choices (Argentina, Costa Rica, Ecuador, Mexico, and Uruguay). All of them share a common methodological approach: they are based on panel estimation of an investment equation containing a proxy for fundamentals, as well as financial variables that capture the availability of internal sources of finance and the net worth position of the firm. These studies are also based on firm-level data.

CONCLUSIONS

Some main conclusions and policy recommendations of the study include:

1. Firms in Latin America tend to be financially constrained. The tightness of constraints tends to vary in time and across different types of firms. Firms that have access to foreign funds, via exports or via ownership links, appear to be less constrained. So are firms that have access to the internal credit markets of business conglomerates. Notably smaller firms tend to suffer more from financial constraints than larger ones. In this sense, it is interesting to note how these results relate to recent research by Lora (2001). Lora points out that firms in Latin America tend to be small mainly because of the small size of financial markets, the bad quality of the infrastructure, and the deficient institutions in which firms need to operate. Policies that alleviate any of these can, of course, reduce the informational asymmetries that small firms face, and hence can reduce constraints.
2. Financial disruptions can have severe real costs. Financial crashes tend to increase the tightness of financial constraints. However, the impact of the crisis is not equal across firms. Firms that have ties to external sources of funds, via exports or via ownership links, appear to be less constrained in the post-crisis period. This result, consistent with recent research by Calvo, Izquierdo, and Talvi (2002), shows that policies that support openness are fundamental to alleviating the vulnerability of the real and financial sectors to international shocks. Moreover, policies that support foreign participation in domestic markets can reduce the vulnerability of firms, at least from external shocks of a moderate size.
3. The debt structure of firms is strongly determined by their tangibility. This proxies the collateral of firms. Firms with greater collateral are allowed to hire longer-term debt than those that have less access to physical capital. This leads to direct policy recommendations for many Latin American countries regarding rules and regulations on collateral use. On the one hand, it favors policies that enforce creditor rights. Without creditor protection, collateral is worthless. On the other hand, it identifies the need to develop instruments and institutions that allow firms, as well as individuals, to register their property over assets that can then be used as collateral.
4. Financial liberalization can have positive effects on real activity, by relaxing liquidity constraints. A direct policy recommendation derived from this study is that policies that promote liberalization of financial markets (e.g., removing interest rate controls, directed credit, allowing foreign participation in domestic markets, etc.) can have a positive impact on how the financial system allocates credit, allowing firms with high returns to invest in their profitable projects.
5. Information sharing, credit history, and the adequate functioning of credit registries are fundamental tools in reducing financing constraints. The availability of information has been shown to be crucial for sound lending decisions. The greater availability of information reduces default rates and increases access to credit. Accurate credit information has substantially greater predictive power regarding the performance of firms than the data contained in financial statements. Better-informed lenders are able to provide better financial services to bor-

rowers. In countries where credit bureaus are more developed, financial constraints faced by firms are less severe.

6. In order to exploit the benefits of credit registries, an adequate legal framework that encourages information sharing among lenders must be in place. In this regard, bank secrecy laws, which can restrict information flows, have to be reviewed. Imprecise privacy laws can impose limits on credit reporting and compromise the usefulness of credit-reporting agencies. However, rules that impede the improper use of credit information must exist in order to guarantee that information sharing will not conspire against the safety and security of the people reported in the registry.

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COUNTRIES STUDIED

Argentina, Colombia, Costa Rica, Ecuador, Mexico, Uruguay

STUDIES PUBLISHED

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- "Access to Credit and the Effect of Credit Constraints on Costa Rican Manufacturing Firms." By Alexander Monge-Naranjo and Luis J. Hall. Working Paper R-471.
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- "Determinants and Consequences of Financial Constraints Facing Firms in Argentina." By José M. Fanelli, Ricardo N. Bebczuk, and Juan J. Pradelli. Working Paper R-453.
- "Credit, Financial Liberalization and Manufacturing Investment in Colombia." By María Angélica Arbeláez and Juan José Echavarría. Working Paper R-450.
- "Access to Long-Term Debt and Effects on Firms' Performance: Lessons from Ecuador." By Fidel Jaramillo and Fabio Schiantarelli. Working Paper R-460.
- "Investment Equations and Financial Restrictions at Firm Level: The Case of Uruguay." By Julio de Brun, Eduardo Barbieri, and Nestor Gandelman. Working Paper R-462.

BOOK PUBLISHED

Credit Constraints and Investment in Latin America. Arturo Galindo and Fabio Schiantarelli, editors. Washington, DC: Inter-American Development Bank. 2003.

The Elasticity of Substitution in Demand for Non-Tradable Goods in Latin America

The elasticity of substitution in the demand for non-tradable goods relative to tradable goods plays a critical role in the analysis of several key economic phenomena that affect developing countries, including those of Latin America. A large body of literature in open-economy macroeconomics has shown that the elasticity of substitution in the demand for non-tradable goods is an important determinant of the short-run response of the real exchange rate to shocks hitting the economy, and that, in turn, the real exchange-rate response is critical for determining the responses of macroeconomic variables to those same shocks.

Three important issues for which knowledge of the elasticity of substitution in demand for non-tradables is crucial are:

1. The response of the trade balance and the current account to terms-of-trade shocks
2. The analysis of deviations from real interest rate parity caused by real exchange rate fluctuations
3. The impact of sudden stops in capital flows on the real exchange rate and fiscal sustainability.

Given current research at the IDB, this project focused on the third issue. Work by Calvo, Izquierdo, and Talvi (2002) shows that sudden stops in capital flows that are persistent in time may generate substantial fluctuations in the real exchange rate, particularly when the elasticity of substitution in demand for non-tradable goods is low. In turn, large fluctuations in the real exchange rate can bring along a substantial revaluation of the public debt-to-GDP ratio, as well as the emergence of contingent liabilities in the financial sector (bankruptcies of non-tradable sectors indebted in foreign currency, typically absorbed by the public sector) that may seriously challenge fiscal sustainability.

Despite the central role that the elasticity of substitution for demand of non-tradable goods plays in many areas of international macroeconomics, there is little empirical work showing estimates on the value of this elasticity for the majority of industrial and developing countries.

START DATE: April 2003

OBJECTIVE

The goal of this project was to produce reliable empirical studies providing estimates of the elasticity of substitution in the demand for non-tradable goods for Latin American countries. These estimates would establish whether the elasticity of substitution has a multiplier effect on relative prices, in response to a sudden collapse of tradable goods consumption following a sudden stop in capital flows; i.e., whether the real exchange rate will react by more than the percentage fall in consumption of tradable goods when there is a cut in financing of the current account deficit.

METHODOLOGY

The specific tasks that the research teams were asked to complete were:

1. Gather available sectoral quantity and price time-series data from National Income Accounts, expenditure surveys, and the consumer price index.
2. Use the data to create measures of private consumer expenditure in tradable and non- tradable goods, and of the relative price of non-tradable goods in units of tradable goods.
3. Use the tradable and non-tradable data to estimate the elasticity of substitution in demand for non-tradables, conducting a series of controlled experiments to study the robustness of the estimated elasticities. Most specifications consisted of the estimation of vector error–correction (VEC) models.

CONCLUSIONS

Estimates indicate that, while the range of estimates of the elasticity of substitution is relatively wide (0.28 to 0.73), it is consistent in suggesting the existence of a "multiplier effect" on relative prices in response to a sudden collapse of consumption of tradable goods following a sudden stop in the financing of the current account. The estimates of the long-run elasticity of substitution for Argentina and Uruguay are virtually identical, at around 0.45. Costa Rica's most reliable estimate produced with annual data is about half of that, while the estimate for Bolivia is about 0.73.

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COUNTRIES STUDIED

Argentina, Bolivia, Costa Rica, Uruguay

STUDIES PUBLISHED

- "The Elasticity of Substitution of Demand for Non-Tradable Goods in Costa Rica." By Gilberto Arce and Edgar Robles. Working Paper R-489.
- "The Elasticity of Substitution in Demand for Non-Tradable Goods in Latin America: The Case of Argentina." By Martín González Rozada, Pablo Andrés Neumeyer, Alejandra Clemente, Diego Luciano Sasson, and Nicholas Trachter. Working Paper R-485.
- "The Elasticity of Substitution in Demand for Non-Tradable Goods in Bolivia." By Gover Barja Daza, Javier Monterrey Arce, and Sergio Villarroel Böhrt. Working Paper R-488.
- "The Elasticity of Substitution in Demand for Non-Tradable Goods in Uruguay." By Fernando Lorenzo, Rosa Osimani, and Patricio Valenzuela. Working Paper R-480.

Corporate Governance in Latin America and the Caribbean

The institutions of corporate governance are those organizations and rules that influence the expected returns to investing and giving authority over one's resources to insiders. Such institutions alter the payoffs to insiders and outsiders, affecting the actions that will be observed, and facilitate or constrain the grabbing hands of public and private actors. There is no single paradigm on corporate governance that works in all countries and all companies. Indeed, there exist many different codes of best practices that take into account differing legislation, board structures, and business practices in individual countries. However, there are standards that can apply across a broad range of legal, political, and economic environments. The OECD has articulated a set of core principles of corporate governance practices that are relevant across a range of jurisdictions. These are (i) fairness; (ii) transparency; (iii) accountability; and (iv) responsibility, and may be made operational by studying the ownership structure of the firm, the financial stakeholder relations, the financial transparency and information disclosure methods, and the board structure and process.

In fact, recent research highlights the importance of corporate governance in developing countries since it has been demonstrated that, across countries, corporate governance is an important factor in financial market development, firm value, and firm performance. In particular, these authors provide systematic evidence on some critical aspects related to corporate governance, such as charter measures, ownership, investor protection, and agency problems.

START DATE: **June 2003**

OBJECTIVE

The objective is to produce original studies that can help us understand the effect of various corporate governance arrangements in Latin America. The projects are based on the systematic analysis of data and formal empirical evidence across firms or a specific group of firms that make up a specific sector or sectors (for example, banks, as in the case of venture capital, institutional investors, and so on) and not on case studies. Projects encompass both types of outside financiers to firms, that is, shareholders and creditors.

Topics include the effect of investor protections, including laws, regulations, and enforcement on: (1) the size and breadth of capital markets (debt and equity); (2) firm valuations and the cost of capital; (3) ownership structures and voting rights; (4) dividend payout policies; and (5) self-dealing and/or related party transactions. In order to address these questions, this research may address a broad variety of issues, but should place emphasis on ownership. Teams may provide evidence based on charter measures, on (i) control of traded firms ranked in terms of directors' rights; (ii) one-share one-vote, cross-shareholdings, and pyramids; (iii) family control; and (iv) control by financial institutions, and the links of ownership with agency issues, investor protection issues, and the like.

METHODOLOGY

Six country cases and one cross-country study were selected for this study. The empirical approach includes a combination of:

1. Statistical analysis that uses survey and legislative data on the corporate governance situation of the corresponding country
2. Regression analysis

CONCLUSIONS

In general, preliminary research shows that corporate governance issues, and in particular, ownership issues have had an important effect on firm-level outcomes. In particular, it is expected that future research will shed light on the following issues:

1. Whether effective governance institutions improve information flows and avoid an adverse selection problem. In fact, it has been argued that insiders who have an incentive to provide information about good investment projects also have an incentive to withhold information when investment projects go bad or when they have been diverting promised returns. Investors know that bad information is covered up and act accordingly, raising the returns required or refusing to invest at all. In contrast, where information flows to outsiders are timely, accurate, and credible, diversions are more difficult to hide, and resources are more likely to be matched with promising investment projects and managers.
2. Whether effective institutions of governance make insiders accountable. To ensure that resources are always being targeted to their most efficient uses, investors need to be able to punish insiders explicitly or implicitly. Such accountability mechanisms are enhanced when investors have clearly defined powers in advance, the ability to coordinate their actions, and low-cost mechanisms for resolving disputes with insiders.

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- IESA – Instituto de Estudios Superiores de Administración, Venezuela

COUNTRIES STUDIED

Argentina, Brazil, Chile, Colombia, Costa Rica, Venezuela, Region

STUDIES PUBLISHED

- "Insider Trading and Corporate Governance in Latin America." By Juan Cruces and Enrique Kawamura. Working Paper R-513.

- "Corporate Governance and Value in Brazil (and in Chile)." By Ricardo P. C. Leal and André L. Carvalhal da Silva. Working Paper R-514.
- "The Effect of Corporate Governance Practices on Company Market Valuation and Payout Policy in Chile." By Fernando Lefort and Eduardo Walker. Working Paper R-515.
- "Corporate Governance and Ownership: Measurement and Impact on Corporate Performance and Dividend Policies in Argentina." By Ricardo N. Bebczuk. Working Paper R-516.
- "CEO and Director Turnover in Venezuela." By Urbi Garay and Maximiliano González. Working Paper 517.
- "Corporate Valuation and Governance: Evidence from Colombia." By Luis H. Gutiérrez and Carlos Pombo. Working Paper 518.
- "Corporate Governance in Costa Rica." By Gilberto E. Arce and Edgar C. Robles. Working Paper 519.
- "Ownership and Control in Colombian Corporations." By Luis H. Gutiérrez, Carlos Pombo, and Rodrigo Taborda. Working Paper 520.

BOOK PUBLISHED

Investor Protection in Latin America. Alberto Chong and Florencio López-de-Silanes, editors. Palo Alto, CA and Washington, DC: Stanford University Press and World Bank Press. 2006.

Preparation of Basic Textbooks on the Economies of Latin America and the Caribbean

The teaching of economics throughout Latin America is dominated by texts written in the English-speaking world. In contrast to the abundance and diversity of foreign works for use in basic economics courses, introductory textbooks dedicated to studying the functioning of domestic economies are few in number. An informal survey of recent graduates in economics from the six largest Spanish-speaking countries of the Americas showed that in no country is there a widely known textbook that serves to introduce students at the secondary level and at the first level of university to national economic problems, to economic institutions, or to the most frequently used economic statistics and indicators.

Consequently, there exists an important niche for textbooks that can be widely used in economics and other university programs, as well as at the secondary level, for introducing the study of regional countries' problems, institutions, and statistics. The reason for the absence of these textbooks is, simply, the small size of the national markets for this type of work, which renders unfeasible the investment of resources in a textbook worthy of the name. Nonetheless, the markets are not so small that, once the fixed costs implied in their preparation are covered, they cannot be distributed successfully. In fact, important national and international distribution companies are on the lookout for economics textbooks targeting national university student markets.

START DATE: **February 2004**

OBJECTIVE

The objective of this Research Network project is to provide financial support for the preparation of textbooks on the economies, economic institutions, and/or the economic statistics of a country (or a group of countries, as would be advisable for the countries of Central America).

METHODOLOGY

Books are expected to include the following characteristics:

1. An aggregate approach (in contrast to sectoral approaches or an emphasis on micro aspects)
2. An emphasis on national problems, institutions, and/or statistics, while maintaining an international comparative vision
3. An introductory-level approach, oriented to the first year of university or the last years of the secondary level
4. Minimal mathematical requirements
5. Use of instructional resources such as graphics, tables, boxes featuring cases or events, summaries of key concepts, exercises, and questions

The books should not be mere narrations of historic acts, developments, government policies, among other facts. Rather, they should address these matters with an analytical approach. This implies organizing the text according to themes (long-term growth, short-term stabilization, fiscal and monetary policy, financial development, etc.) and not by governments or historical periods.

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- FEDESARROLLO – Fundación para la Educación Superior y el Desarrollo, Colombia
- La Academia de Centroamérica, Costa Rica
- CINVE – Centro de Investigaciones Económicas, Uruguay
- UCV – Universidad Central de Venezuela and UCAB Universidad Católica Andrés Bello, Venezuela

COUNTRIES STUDIED

Argentina, Brazil, Colombia, Costa Rica, Uruguay, Venezuela

PUBLICATIONS

- *Direito, Economia e Mercados*. By Armando Castelar Pinheiro and Jairo Saad. São Paulo: Editora Campus/Elsevier e Ibmec. 2005.
- *Macroeconomía Argentina*. By Miguel Braun and Lucas Llach. Buenos Aires: Alfaomega Grupo Editor Argentino. 2006.
- *Para Entender la Economía del Uruguay*. By CINVE. Montevideo: Fundación de Cultura Universitaria. 2006 (Author is an institution)
- *Economía en el Trópico*. By Gilberto E. Arce, Eduardo Lizano and Edgar Robles. San José: Academia de Centroamérica. 2007
- *Macroeconomía y Petróleo*. By Osmel E. Manzano, Rodolfo J. Méndez, José G. Pineda, and Germán Rios. México: Pearson Educación de México. 2007.

The Emergence of New, Successful Export Activities in Latin America and the Caribbean

Recent research has emphasized the importance of structural change, and in particular the discovery of new, successful export activities, as elements of high growth episodes. One likely implication of these findings is that the process of coming up with new varieties or higher-quality versions of old varieties of exports is crucial for export growth: were this process of "discovery" to stop, declining terms of trade and rates of return to different types of capital would choke off accumulation and growth.

Given the relevance of discovery for export growth and development, it seems necessary to understand the process. Why do some countries experience faster discovery than others? One approach is to measure discovery and relate it to other variables. However, such efforts are severely hampered by data availability and the difficulties of identifying all relevant data.

An alternative approach, more qualitative in nature, is to explore at a deeper level a few cases where new export activities have emerged in developing countries. This project consists of case studies on the emergence of new export sectors that will lead to a better understanding of the characteristics of the pioneer firms and the challenges they face; the characteristics of imitating firms and the diffusion process, in particular the challenges and magnitude of spillovers; and the role of trade liberalization, foreign direct investment, government support, and other similar elements in encouraging or inhibiting discovery and diffusion.

START DATE: February 2005

OBJECTIVES

The study aims to further the understanding of the drivers of export growth. Of particular interest are the elements that affect the discovery of new export-oriented activities and their diffusion in the economy. The project is designed to increase understanding of the process of discovery in order to contribute to the current debate, and, in particular, to propose policies and reforms to increase the pace of discovery. Thus, the project aims to help the IDB and others to identify the key elements in successful export cases to inform an outward-oriented development strategy in each particular country; and to promote and put in place policy reforms that are more likely to achieve the desired development objectives, based on a more thorough understanding of the relative importance of various market failures.

METHODOLOGY

The studies in this project address the following questions:

1. The first mover: Which was the first firm to export a non-negligible amount of the product, and what were the characteristics and history of that firm? Where did the idea come from, and what was the motivation for selecting this particular country/product? What were the greatest

hurdles to overcome, and what was the degree of learning and productivity improvement? How did the first mover penetrate the foreign market? What, from the point of view of the first mover, were the positive spillovers, if any, that they generated for subsequent entrants, and how has diffusion affected the first mover? What are the other relevant aspects of the first mover's story?

2. Diffusion: What is the process whereby other firms eventually joined the pioneer in exporting the new good? What are the characteristics of the imitating firms (foreign/domestic, firms/individual entrepreneurs, coming from other industries upstream/downstream or using similar technology, or coming from unrelated industries, etc.)? Did these firms discover new markets for the good, or did they supply the same markets as the first mover? What happened to the share of exports accounted by the first mover? Was export growth related to the rate of diffusion? What was the process by which the knowledge diffused? Did significant uncertainty remain at the planning process? What was the learning curve like during the early years of operation? Was the same degree of investment in cultivating foreign markets necessary?
3. Public response: What, if anything, did the government do to stimulate the discovery process (such as tax incentives or special economic zones) and/or accelerate diffusion? Were there other external non-state actors that aided in the process of discovery and diffusion, such as nongovernmental organizations, industry and trade associations, or academic institutions?

CASE STUDIES

Each working paper focuses on one country and investigates three to five cases of discoveries—meaning a successful export activity that was not produced two decades ago (even for the domestic market) but has recently emerged and experienced strong growth, going from basically zero to becoming a "major" export. The working papers explore the following cases:

- Argentina: Biotechnology applied to human health, blueberries, and chocolate confections
- Brazil: Two from the manufacturing sector (furniture and swimwear) and two from the agricultural sector (soybeans and fruit, particularly grapes)
- Brazil: Aircraft, cell phones, and pork
- Brazil: Aircraft, cell phones, and swine meat
- Chile: Wine, blueberries, and pork
- Mexico: Avocados, medical equipment, and call centers
- Uruguay: Computer software, forest products, caviar and sturgeon meat, and animal vaccines

CONCLUSIONS

The individual studies contain dozens of industry-specific, sector-specific, and country-specific conclusions. From these insights, some general conclusions can be drawn.

1. Market failures are common in the area of export discovery and justify the role of government.
2. Government interventions need to be extremely careful in order to produce the desired effects, since policymakers' choices may yield unexpected results. Economic agents may react in directions that are unpredictable, and externalities may play a role in shaping future outcomes. Despite the unpredictability of the outcomes of a given government intervention, the study of how government actions have impacted on high-growth episodes may help positive policy interventions in the future.
3. Government intervention has typically aimed at removing entry barriers that innovators faced or could face in the areas of infrastructure, research, and development; protecting

innovators against initial failures; increasing innovators' payoff; stimulating communication and the transfer of know-how (stimulating diffusion); subsidizing international marketing activities; and stimulating laggards.

4. It takes much more than policy to produce a successful exporter. Even in the case of aircraft in Brazil (Embraer), in which the state had a greater role in "discovering" a comparative advantage than in other cases studied, success also owed much to chance. It is not clear whether that experience can be easily replicated. This underscores the point that policymakers should be more concerned about creating the right conditions for export discoveries to happen than to make the discoveries themselves. This suggests the need for fundamental investments in the areas of education, research, and development, as well as the importance of providing a favorable regulatory and investment climate.

5. Foreign investment has played a major role in the activities of several of the cases studied (wine and pork in Chile). Foreign buyers and export agents can play an important role in the diffusion of technical and export marketing know-how, but they typically only play this role in later phases of the diffusion process.

6. A number of factors have influenced the diffusion process, either by accelerating or reducing its speed. In the case of Brazil, for instance:

- Cultural aspects seem to play an important role. A more cooperative culture (furniture, grapes, soybeans) seems to facilitate diffusion, as opposed to a more individualist culture (swimwear).
- Social ties between individuals can be a major factor in facilitating the diffusion process (furniture, soybeans). Social ties originate from kinship, intermarriages, vicinity, church, or previous employment relationships.
- The presence of flagship firms seems to facilitate diffusion (furniture, grapes). Flagship firms tend to actively promote diffusion among the cluster, the industry, or the region. By contrast, weak flagship firms (swimwear) could be associated with a longer, more complex, or erratic diffusion process.
- Spin-offs seem to facilitate diffusion when parent companies see the spin-off as acceptable or legitimate (furniture).
- Imitation of first movers' strategies may indicate a successful diffusion process (furniture, grapes), but it can also increase the risk of failure for the cluster or the industry. By contrast, divergent strategic behavior (swimwear) may suggest erratic or uncoordinated diffusion, but may bring dynamism and innovation to the industry while reducing the risk of industry failure.
- Research institutes may play an important role in helping to overcome technological challenges, by facilitating diffusion (soybeans).
- Channels of communication, whether formal or informal, must be established to facilitate the diffusion process.

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- Universidad de Chile, Departamento de Economía, Chile

COUNTRIES STUDIED

Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Uruguay

STUDIES PUBLISHED

- "The Emergence of New Successful Export Activities in Argentina: Self-Discovery, Knowledge Niches, or Barriers to Riches?" By Angela Inés Butler, Ricardo Rozemberg, Hernán Rufo, and Gabriel Sánchez. 2008. Working Paper R-548.
- "The Emergence of New and Successful Export Activities in Brazil: Four Case Studies from the Manufacturing and the Agricultural Sector." By Angela Da Rocha, Alexandre Darze, Beatriz Kury, and Joana Monteiro. Working Paper R-550.
- "New Export Activities in Brazil: Comparative Advantage, Policy or Self-Discovery?" By Regis Bonelli and Armando Castelar Pinheiro. Working Paper R-551.
- "The Emergence of New Successful Export Activities in Latin America: The Case of Chile." By Manuel R. Agosin and Claudio Bravo-Ortega. Working Paper R-552.
- "The Emergence of Successful Export Activities in Mexico: Three Case Studies." By Edgar Aragón, Marcia Campos, and Anne Fouquet. Working Paper R-555.
- "The Emergence of Successful Export Activities in Uruguay: Four Case Studies." By Carlos Casacuberta, Rosario Domingo, Hector Pastori, Lucia Pittaluga, and Michele Snoeck. Working Paper R-556.
- "The Role of Flagship Firms, External Actors and Support Institutions in the Emergence of Successful Export Activities in Brazil: Two Industrial Cluster Studies." By Angela Da Rocha, Beatriz Kury, and Joana Monteiro. Working Paper R-557.

BOOK PUBLISHED

Export Pioneers in Latin America. Eduardo Fernández-Arias, Ricardo Hausmann, Andrés Rodríguez-Clare, and Ernesto Stein, editors. Washington, DC and Cambridge, MA: Inter-American Development Bank and David Rockefeller Center for Latin American Studies, Harvard University, 2012.

The Development of Latin American Bond Markets

INTRODUCTION

Why might it be important to have a deep and liquid bond market? It has been argued that the existence of a local market for corporate bonds reduces costs of funding. Banks and bond markets, according to conventional theory, have different natural clienteles. Banks can economically provide finance for smaller borrowers, while bond markets, where issues are subject to a substantial minimum efficient scale, can do so at lower cost for large corporations with substantial funding needs. In addition, a well-developed bond market provides an alternative to bank intermediation that may be valuable in times of financial distress. There are also possible benefits linked to the development of a liquid market for government debt.

START DATE: March 2005

OBJECTIVE

The general objective of this Research Network project was to further the knowledge of the state and development of the main nonbank credit vehicle, the bond market, in Latin America. The study covered both public and private debt instruments, because the two are closely intertwined.

Specifically, the first objective of this project was to document the characteristics of Latin American bond markets and to evaluate their level of "underdevelopment" relative to other forms of financing.

The second objective was to determine the factors behind the recent growth (or lack thereof) in the bond markets.

The third objective was to describe whether policies aimed at promoting the growth of the Latin American bond market can have a positive effect on the economic performance of the region.

METHODOLOGY

This study uses three main approaches to address its objectives:

1. Analyzes conceptual models of the role of bonds in corporate finance
2. Presents country case studies
3. Exploits international comparisons

This study presents a framework that addresses the value of bond markets for firms that operate in the typical emerging market environment, namely, in the presence of fragile credit markets and tenuous macroeconomic stability.

Each of the six national case studies analyzes broad historical trends in the development of markets for public and debt securities, their current state, and the main obstacles and distortions that may impede their fuller development. The case studies used focus on both private and government bonds because the interactions between the two markets are extensive, and wherever possible, also analyze firm and issue-level data, addressing questions such as what types of firms issue bonds and what sort of investors buy them rather than sticking to national aggregates. Most of the case studies utilize not only micro-data sets but also the results of surveys of issuers and investors specifically commissioned for this volume.

Finally, this study analyzes data on bond market development for a cross section of emerging markets and advanced countries, as a way of summarizing the state of play.

CONCLUSIONS

Regarding the characteristics of Latin American bond markets and the evaluation of their level of "underdevelopment" relative to other forms of financing, the studies included paint a mixed picture. On the one hand, government bond markets have been growing substantially and are increasingly characterized by longer-term nominal instruments. Private bond markets, on the other hand, remain small—well below those of the industrial countries but also smaller than those of the emerging economies of East Asia.

In relation to the factors behind the recent growth (or lack thereof) in the bond markets, macroeconomic stabilizing and the privatization of pension systems have played an important role in the development of domestic bond markets, on the positive side. Interestingly, crisis episodes have also helped to kick-start public bond markets. On the negative side, inflation fears, default episodes, corporate scandals, and the relatively small number of large firms (in the case of private bonds) are among the main obstacles to the development of the Latin American bond markets. Regular restrictions and regulatory reforms are also found to be important for hindering or promoting private bond financing. Of particular interest are the development of the flexible *certificados bursátiles* in Mexico and the deferred payment checks in Argentina as tradable debt instruments.

Concerning the effect of policies aimed at promoting the growth of the Latin American bond market, the studies published show that many countries now have a government yield curve, which is gradually pushing out its maturity, providing market interest rates for the pricing of private instruments, and facilitating the conduct of monetary policy. Holding total public debt constant, these developments are also likely to benefit the private bond market and the domestic financial sector more generally. In contrast, in most countries covered, private bond financing is so small that aggregate benefits are likely to be more marginal and concentrated in the largest firms. Furthermore, both firm and market size seem to be important obstacles to the development of this market, so it is not clear whether policies aimed at promoting the issuance of traditional instruments will be sufficient to foster private bond markets in all countries of the region. Addressing the issue of small market size may also require cross-country coordination—especially amongst the smaller countries of the region—and possibly establishing strong links with regional and global bond markets as well.

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- Universidad del CEMA, Argentina
- Universidad ORT, Uruguay
- Universidad Pompeu Fabra and Columbia University

COUNTRIES STUDIED

Argentina, Brazil, Chile, Colombia, Mexico, Uruguay

SELECTED PROPOSALS

- "The Development and Challenges Faced by the Mexican Bond Market." ITAM (Instituto Tecnológico Autónomo de México)
- "The Development of the Chilean Bond Market." UAI (Universidad Adolfo Ibáñez)
- "The Development of Latin American Bond Markets: The Case of Colombia." FEDESARROLLO (Fundación para la Educación Superior y el Desarrollo)
- "The Development of Latin American Bond Markets: The Case of Argentina." Universidad del CEMA
- "The Development of the Brazilian Bond Market." The COPPEAD Graduate School of Business, Federal University of Rio de Janeiro
- "The Fixed-Income Market in Uruguay." Universidad ORT

BOOK PUBLISHED

Bond Markets in Latin America: On the Verge of a Big Bang? Eduardo Borensztein, Kevin Cowan, Barry Eichengreen, and Ugo Panizza, editors. Cambridge, MA: MIT. 2008.

Land Markets in Latin American and Caribbean Cities

An essential condition for a well-functioning housing sector is the availability of serviced land for residential use at a price that is affordable to most people. The rapid urbanization process that took place in Latin America and the Caribbean in the second half of the twentieth century put unprecedented pressure on the land market in the region.

This Research Network project supports studies that analyze land markets, policies, and outcomes in selected Latin American and Caribbean countries, to develop policy recommendations to improve the availability of affordable, serviced land for residential use. The studies assess the effect of the property rights regime, the regulatory regime, and infrastructure development on three land market outcomes: land affordability; the premium associated with servicing land; and the premium associated with converting rural land to urban land.

START DATE: March 2010

OBJECTIVE

The specific objectives of the study are to answer the following questions:

- What factors in the policy environment for land markets have a significant effect on land market outcomes?
- What policies are associated with an increase in urban land affordability?
- What policies are associated with a decrease in the premium associated with servicing land?
- What policies are associated with a decrease in the premium associated with converting land from rural to urban?

METHODOLOGY

Each study selects areas or neighborhoods in two cities in each country that are experiencing urban growth and have differences in terms of the size of the informal market, the stringency of the regulatory regime, and the level of investment in basic infrastructure. The studies are structured in three parts: a descriptive assessment of the land market in each city; a comparative statics of the effects of property rights regime, the regulatory regime, and infrastructure development on land market outcomes (controlling for other differences between the two cities, such as household incomes, population size, and transportation costs); and policy recommendations.

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COUNTRIES STUDIED

Argentina, Brazil, Chile, Colombia

SELECTED PROPOSALS

- "A Proposal for Analysis of Land Markets in Brazilian Municipalities"
- "Land Markets in the Peripheries of Three Argentine Cities: Buenos Aires, Córdoba, and Rosario"
- "Land Titling, Market Development, and the Dynamics of Regularization and De-Regularization"
- "Urban Structure, Land Markets, and Social Housing in Santiago, Chile"

BOOK PUBLISHED

Room for Development: Housing Markets in Latin America and the Caribbean. César P. Bouillon, editor. Houndmills, Basingstoke, Hampshire: Palgrave Macmillan. 2012.

Subnational Revenue Mobilization in Latin American and Caribbean Countries

The devolution of spending responsibilities to subnational governments (SNGs) has proceeded at a rapid pace in most Latin American and Caribbean countries in recent years, but has not been matched by a commensurate decentralization of revenue-raising responsibilities. A reduction of such imbalances over the medium term through mobilization of a subnational government's own revenues would help improve fiscal sustainability, create additional fiscal space to attend to spending priorities—especially in socially sensitive areas and infrastructure—and increase the political accountability of SNGs to their electorates because citizens would pay more taxes at the subnational level and require better public services from local authorities. Moreover, in a number of countries in the region, existing subnational taxes suffer from significant design flaws, and their reform would improve efficiency and equity. Finally, in most countries, tax administration capacity at the intermediate level (state, province, or department)—and even more so, at the local level (cities and smaller municipalities)—remains quite weak, hampering the revenue mobilization effort. This project investigates the scope for mobilizing additional revenue at the subnational level in major countries of Latin America and the Caribbean.

START DATE: **September 2010**

OBJECTIVE

This project aims to identify the main obstacles to mobilizing subnational revenues in the region, in light of both theoretical considerations and empirical evidence, and to propose options to increase the revenues of subnational governments in a manner as efficient, equitable, and administratively feasible as possible.

METHODOLOGY

The papers address the following issues:

- The size of the vertical imbalance and how that gap is typically filled
- The implications of these arrangements for overall revenue mobilization, fiscal balances, and medium-term public debt sustainability, as well as for the ability of a country's SNGs to provide common standards of service
- Current subnational taxes and how they relate to each criterion outlined above
- The political economy factors that underlie current arrangements and outcomes, and how likely they are to hamper future reform efforts
- The main priorities for reform of subnational taxation in each country
- Legal and/or political constraints to asymmetric approaches to the reform effort, and how reforms might be tailored to SNGs facing varying economic circumstances and capacity levels
- The potential role of technical assistance and multilateral financing in building national and subna-

tional government consensus and capacity to carry out desired reforms

- Based on analysis of the above issues, the case studies provide clear, thorough, and prioritized recommendations for policy and institutional reforms, taking into account the country's historical legacies, legal framework, and political economy context.

CONCLUSIONS

Many subnational governments in the region are highly dependent on intergovernmental transfers, lack administrative and technical capacity, and are interested in avoiding the economic and political costs of collecting their own revenues. [from the Peru paper]

Improving revenue mobilization requires a systemic approach, in which equity and efficiency are addressed simultaneously while subnational governments are provided with both the ability and the incentives to maximize their own revenue collections. [from the Peru paper]

For Argentina: The cascade provincial sales tax is an important feature of the Argentine subnational revenue system. Automatic transfers improve collection of the cascade sales tax and the property tax by increasing the disposable income of the private and public sectors of those provinces favored by the regional redistribution of income. Discretionary transfers reduce the own-source revenue effort and encourage public investment.

For Colombia: Mobilizing revenues for the departments requires introducing different tax bases and modifying the current Colombian departmental tax regime. A value-added tax (VAT) surcharge and/or a retail tax could be established. Mobilizing resources for municipalities requires more efficient exploitation of their existing tax bases. The efficiency of local tax collection could be improved by enhancing the administrative capacity of the municipalities and updating the tax bases of local taxes.

For Mexico: Mexico will face one of the biggest fiscal challenges in its history: the need to diversify its tax revenue in order to decrease its high dependence on oil revenues. States are exploiting their current tax bases, particularly the payroll tax, appropriately. Mexican municipalities, however, have a low rate of tax collection compared to their potential, especially in relation to the property tax, which is their most important source of revenue and relatively simple to collect. Empirical evidence suggests that tax collection efforts are strongly related to GDP per capita, and that some political economy factors can influence them. Political affiliation, for example, influences the tax collection effort of municipalities more than that of states. A state surcharge on the VAT and personal income tax could increase states' own revenues. However, doing so without broadening the tax base and redefining the revenue-sharing allocation criteria would have a strong and adverse impact on the revenue distribution of subnational governments.

For Peru: Among the most important problems in Peru are the acute inequalities and inefficiencies associated with revenue sharing from extractive industries. These revenues represent a significant share of subnational budgets and currently are distributed without consideration of the relative expenditure needs or fiscal capacity of subnational units. To address this problem, a measure of fiscal capacity could be incorporated into the formula of the municipal equalization transfer program, the FONCOMUN. Other possible reforms include the reassignment of revenue sources among municipal, provincial, and district governments, and the assignment of new taxes to regional governments.

For Venezuela: Volatility has been the main feature in Venezuela's macroeconomy, mainly because of its high reliance on oil revenues; such volatility affects subnational finances. Increasing subnational governments' resources through taxation will not only help reduce revenue volatility but will also improve accountability. States could be given tax authority, along with various resource-generating mechanisms, including perhaps a state tax on gasoline consumption and a state tax on electricity consumption. A VAT piggy-backing mechanism could also be explored. A personal income tax surcharge could be introduced at the municipal level, which could also be implemented at the state level. The institutional and administrative capacities of municipal governments need to be strengthened to collect existing taxes. More generally, the disparities that could result from these changes should be addressed by making the transfer system more redistributive. The transfer mechanism also needs to be changed to reduce the volatility that subnational governments face.

COORDINATORS

- Teresa Ter-Minassian, former director of the Fiscal Affairs Department, International Monetary Fund
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- Ernesto Stein, IDB
- Rafael de la Cruz

PARTICIPATING INSTITUTIONS

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- CEDE – Centro de Estudios Económicos, Universidad de los Andes
- IMCO – Instituto Mexicano para la Competitividad A. C.
- Georgia State University – Andrew Young School of Policy Studies
- UCAB-Universidad Católica Andrés Bello, Escuela de Economía – Facultad de Ciencias Económicas y Sociales
- Giorgio Brosio

COUNTRIES STUDIED

Argentina, Bolivia, Colombia, Mexico, Peru, Venezuela

SELECTED PROPOSALS

- "Subnational Revenue Mobilization in Latin America and Caribbean Countries: The Case of Venezuela"
- "Subnational Revenue Mobilization in Argentina"
- "Subnational Revenue Mobilization in Bolivia"
- "Subnational Revenue Mobilization in Latin American and Caribbean Countries. Case Study: Colombia"
- "Subnational Revenue Mobilization in Mexico"
- "Subnational Revenue Mobilization in Peru"
- "Subnational Revenue Mobilization: The Case of Venezuela"

STUDIES PUBLISHED

- "Sub-national Revenue Mobilization in Latin American and Caribbean Countries: The Case of Argentina." By Daniel Artana, Sebastián Auguste, Marcela Cristini, Cynthia Moskovitz, and Ivana Templado. Working Paper IDB-297.
- "Reducing Reliance on Natural Resource Revenue and Increasing Subnational Tax Autonomy in Bolivia." By Giorgio Brosio. Working Paper IDB-298.
- "Sub-national Revenue Mobilization in Peru." By Gustavo Canavire-Bacarreza, Jorge Martínez-Vázquez, and Cristián Sepulveda. Working Paper IDB-299.
- "Sub-national Revenue Mobilization in Latin American and Caribbean Countries: The Case of Venezuela." By Germán Ríos, Federico Ortega, and J. Sebastian Scrofina. Working Paper IDB-300.
- "Sub-national Revenue Mobilization in Mexico." By Luis Cesar Castañeda and Juan Pardinas. Working Paper IDB-354.
- "Sub-national Revenue Mobilization in Latin American and Caribbean Countries: The Case of

Colombia." By Fabio Sánchez Torres, Irina España Eljaiek, and Jannet Zenteno González. Working Paper IDB-355.

BOOK PUBLISHED

More than Revenue: Taxation as a Development Tool. Ana Corbacho, Vicente Fretes Cibils, and Eduardo Lora, editors. New York, NY: Palgrave Macmillan. 2013.

The Future of Taxation in Latin America and the Caribbean

The overriding objective of tax policies and tax policy reforms in Latin America and the Caribbean has been strengthening the mobilization of fiscal revenues. Although this objective is important, it should not overshadow other objectives of tax policies such as contributing to macroeconomic stability, improving the allocation of productive resources, and contributing to the reduction of inequality.

The research studies in this project investigated four issues that aim to meet one or more of these other objectives that have been largely neglected by both academics and policymakers in the region: understanding the cyclical behavior of fiscal revenues; the impact of fiscal revenue collection on the nonrenewable natural resource sectors in Latin America and the Caribbean; the potential and challenges of property and land taxation; and the potential and distributive consequences of environmental taxes.

START DATE: **May 2011**

OBJECTIVE

Overall, the project aims to investigate approaches that can replace the existing distortionary, inadequate, and regressive tax systems with approaches that promote economic growth, mobility, and social equality. Specific objectives for the four subprojects are summarized below.

Fiscal revenues: This subproject sheds light on three aspects of the relationship between fiscal revenues and the economic cycle in selected Latin American and Caribbean countries: the size of automatic stabilizers on the revenue side and the possibilities for enhancing them; the impact of the cycle on revenue elasticities and tax compliance; and the direct and indirect effects of commodity-related revenues.

Nonrenewable natural resource sectors: This subproject assesses the impact of fiscal revenue collection from oil, gas, and minerals on the development and exploitation of these sectors in the region.

Property and land taxation: This subproject estimates the potential of the property tax in the region under diverse scenarios; identifies the main constraints to the traditional property tax as a source of local revenue; determines key policy, institutional, or technical actions that can be implemented to achieve the real potential of property taxation; and evaluates alternatives to property and land taxation to identify suitable revenue-generating instruments for local governments in the region.

Environmental taxes: This subproject investigates the potential of environmental taxes as a source of revenue for Latin American and Caribbean countries; examines the economic and environmental impacts of existing and/or potential environmentally related taxes in the region; and explores environmental tax reforms that could be introduced to increase social welfare.

METHODOLOGY

Fiscal revenues. Studies use a variety of research methods to address the issues in this area, including micro-simulation techniques, cross-country econometric analyses, country-specific simulations, and calibrated models.

Nonrenewable natural resource sectors. The studies describe the current tax regimes and other forms of state intervention in the sectors. They also use financial modeling and other analytical techniques to analyze changes in regimes and the various trade-offs between efficiency and fiscal revenue generation. They provide recommendations to improve efficiency without sacrificing fiscal revenues (or vice versa).

Property and land taxation. Studies use multiple research methods to address the research questions, including econometric analyses, qualitative case studies based on common interview protocols, and survey research.

Environmental taxes. Studies describe environmental or environmentally related taxes currently in effect; review the environmental situation and summarize the main environmental laws/regulations in place or under consideration; provide context for the current situation in light of international experience with environmental tax reform.

CONCLUSIONS

A new generation of tax policies is needed. Pro-development reforms must respect five basic principles:

1. The reforms must include taxes that favor the poor.
2. The reforms must establish tax systems that are simpler, with broader tax bases.
3. Tax administration must be strengthened so that all citizens and businesses meet their tax obligations.
4. Institutional agreements and consensus must be reached to ensure that local governments have the local resources needed to act as agents of development.
5. Pro-development tax reforms should build tax systems that look to the future.

TECHNICAL COORDINATORS

- Ana Corbacho and Gustavo García (understanding the cyclical behavior of fiscal revenues), IDB
- Andrew Powell and Osmel Manzano (fiscal revenues and efficiency in the region's nonrenewable natural resource sectors), IDB
- Jaime Bonet and Rafael de la Cruz (potential and challenges of the property and land tax in the region), IDB
- Sebastián Miller (environmental taxes in Latin America and the Caribbean), IDB

ADVISORY COMMITTEE

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- Vicente Fretes Ciblis, IDB
- Teresa Ter-Minassian, IDB
- Mario Marcel, OECD

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- CATIE – Centro Agronómico Tropical de Investigación y Enseñanza
- CEDE – Universidad de los Andes
- CIPPEC – Centro de Implementación de Políticas Públicas para la Equidad y el Crecimiento
- CIUP – Centro de Investigación de la Universidad del Pacífico
- FEDESARROLLO

- FIEL – Fundación de Investigaciones Económicas Latinoamericanas
- ICEFI-IARNA – Instituto Centroamericano de Estudios Fiscales and Instituto de Agricultura, Recursos Naturales y Ambiente, Rafael Landívar University.
- MACROCONSULT
- UDESA – Universidad de San Andrés
- UTDT – Universidad Torcuato di Tella
- UWI-SEDU – Sustainable Economic Development Unit, Department of Economics, University of West Indies

COUNTRIES STUDIED

Argentina, Colombia, Costa Rica, Guatemala, Peru, Trinidad and Tobago

SELECTED PROPOSALS

- "Assessing Water-related Economic Instruments in Central America"
- "Effects of Non-Renewable Resource Abundance and Fiscal Dependence"
- "Environmentally Related Energy Taxes in Argentina, Bolivia and Uruguay"
- "Fiscal Revenues and Efficiency in LAC Non-Renewable Natural Resource Sectors: The Case of Peruvian Mining, Oil and Gas Sectors"
- "Fiscal Revenues and Efficiency in LAC Non-Renewable Natural Resource Sectors"
- "Positive and Normative Fiscal Policy: Some Quantitative Implications for Latin America and the Caribbean"
- "Potential and Challenges of Property and Land Taxation in Argentina"
- "Potential and Challenges of the Property Tax in Latin America and the Caribbean: The Case of Colombia"
- "Survey and Assessment of Environmental Taxes in Caribbean Countries – Trinidad and Tobago, Jamaica and St. Lucia"
- "Taxation of Non-Renewable Natural Resources in Argentina: The Cases of the Oil, Gas, and Copper Sectors."
- "The Impact of the Cycle on Revenue Elasticities and Tax Compliance"
- "What Drives Land Tax Collection in Costa Rica?"

OTHER TOPICS INVESTIGATED

Cyclical behavior of fiscal revenues

- Positive and normative fiscal policy: Some quantitative implications for Latin America and the Caribbean
- The impact of the cycle on revenue elasticities and tax compliance

Taxation of the natural resource sector

- Effects of nonrenewable resource abundance and fiscal dependence
- Fiscal revenues and efficiency in the region's nonrenewable natural resource sectors: The case of Peru's mining and oil and gas sectors
- Fiscal revenues and efficiency in LAC nonrenewable natural resource sectors
- Taxation of nonrenewable natural resources in Argentina: The cases of the oil, gas and copper sectors

Property and land taxation

- Potential and challenges of property and land taxation in Argentina
- Potential and challenges of the property tax in Latin America and the Caribbean: The case of Colombia
- What drives land tax collection in Costa Rica?

Environmental taxes

- Assessing water-related economic instruments in Central America
- Environmentally related energy taxes in Argentina, Bolivia, and Uruguay
- Survey and assessment of environmental taxes in Caribbean countries: Trinidad and Tobago, Jamaica, and St. Lucia

POLICY BRIEF

"Survey and Assessment of Environmental Taxes in the Caribbean." By Marlene Attzs, Malini Maharaj, and Gopiechand Boodhan. Policy Brief 188.

STUDIES PUBLISHED

- "Employment and Taxes in Latin America: An Empirical Study of the Effects of Payroll, Corporate Income and Value-Added Taxes on Labor Outcomes." Deisy Johanna Fajardo and Eduardo Lora. Working Paper 334.
- "Manna from Heaven: The Impact of Nonrenewable Resource Revenues on Other Revenues of Resource Exporters in Latin America and the Caribbean. "By Alberto Gonzales-Castillo and Rolando Ossowski. Working Paper 337.
- "The Effects of Oil and Mineral Taxation on Non-Commodity Fiscal Revenues." By Sebastián Bustos and Guillermo Perry. Working Paper 348.
- "Workable Environmentally Related Energy Taxes." By Oscar Natale, Fernando Navajas, and Monica Panadeiros. Working Paper 351.

BOOK PUBLISHED

More than Revenue: Taxation as a Development Tool. Ana Corbacho, Vicente Fretes Ciblis, and Eduardo Lora, editors. New York, NY: Palgrave Macmillan. 2013.

Toward a "New" Inflation, Targeting Framework in Latin America and the Caribbean

Nine countries in Latin America and the Caribbean now have an inflation, targeting (IT) regime, including countries that are transitioning to this regime. Frequently, theoretical expositions of inflation targeting consider that the stabilizing instrument is the short-term interest rate, and the principal objective is to meet an inflation target. However, in practice, inflation-targeting central banks use interest rates and a set of other direct or nonconventional tools to meet inflationary and other objectives. The effects of the recent turbulent times in world capital markets on the economies of the region showed that, at times, the interest rate and these direct policy tools are sometimes used as substitutes, and at other times as complements. Moreover, central banks generally have more than one mandate—or put another way, inflation targeting in Latin America and the Caribbean has not always been characterized only by a strict adherence to an inflation target. Hence the use of direct instruments may simply be a reflection of the importance of other objectives, including output and financial stability.

This research explores whether the switch to inflation targeting in several countries in the region—and within that, the use of direct tools as well as the interest rate as policy tools—may have allowed for greater counter cyclicality and hence whether countries are now in a position to reduce economic volatility. It is hoped that recommendations for the use of different tools in different circumstances will follow to enhance countercyclical policies and help lower the amplitude of economic cycles in the region. This research project is particularly important given the high levels of economic volatility in the region.

START DATE: August 2012

OBJECTIVE

The project focuses on countries with or transitioning to an inflation-targeting regime and aims to deepen the understanding of how such regimes are working in the region. The project further aims to develop policy recommendations.

METHODOLOGY

The papers:

1. Collect information on the stated monetary policy framework in an inflation-targeting country (or countries) of the region for the period before, during, and after the global crisis
2. Collect information on the monetary policies implemented in the period before, during, and after the global crisis by an inflation-targeting country (or countries) in the region. In particular, where possible, the papers provide the explanations given—by both officials and other private analysts—for the different policy actions taken; and consider the different shocks countries experienced and how different poli-

cies have been used as a function of the shocks received

3. Collect monthly or quarterly time-series information for macroprudential policy tools such as reserve requirements, taxes on capital flows, and LTV or leverage constraints that have been relevant in accounting for monetary policy decisions in each country
4. Conduct a quantitative exercise regarding the impact of different policy tools. Ideally, the quantitative exercise measures whether and how the effectiveness of alternative tools has depended on particular circumstances (such as crisis versus noncrisis periods) or economic characteristics (such as the relative size of the financial system)

The sections focus on the following specific aspects:

- Description of the institutional arrangements for monetary, prudential, and exchange rate policies, including sovereign wealth funds and the financial stability authority
- Summary description of the main characteristics of the financial system (limited to those aspects considered important to understanding the role of macroprudential tools)
- Description of the main policy tools and the institutions in control of those tools
- Description of the shocks from 2007 to mid-2012, focusing on terms of trade and capital flows but including others when considered relevant
- Description of the policy responses in relation to shocks and objectives, and stated explanations of policy actions taken
- Further analysis of why certain policies were implemented and their effectiveness in achieving their goals, with particular reference to consistency (or lack thereof) with IT
- A quantitative exercise to be determined in each case

COORDINATORS

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PARTICIPATING INSTITUTIONS

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- FEDESARROLLO – Fundación para la Educación Superior y el Desarrollo, Colombia
- UDESA – Universidad de San Andrés, Argentina
- Fundación CAATEC, Costa Rica

COUNTRIES STUDIED

Chile, Colombia, Dominican Republic, Guatemala, Peru, Uruguay

SELECTED PROPOSALS

- "Commodity Prices, Capital Flows and Optimal Stabilization Policy"
- "Inflation Targeting in Colombia, 2002–2012: Facts, Lessons, and the Road Ahead"
- "Inflation-Targeting Practice in Colombia"
- "Toward a 'New' Inflation-Targeting Framework in Latin America and the Caribbean: Rationalizing Heterogeneity in Unconventional Monetary Policies for Chile, Colombia, and Peru"
- "Toward a 'New' Inflation-Targeting Framework in Costa Rica, Guatemala, and Dominican Republic"

- "Toward a 'New' Inflation-Targeting Framework: The Case of Uruguay"

STUDIES PUBLISHED

- "Central Bank Liquidity Management and "Unconventional" Monetary Policies." By Javier García-Cicco and Enrique Kawamura. Working Paper IDB-484.
- "Towards a 'New' Inflation Targeting Framework: The Case of Uruguay." Martín González-Rozada and Martín Sola. Working Paper IDB- 486.
- "Inflation Targeting in Colombia, 2002–2012." By Franz Hamann, Marc Hofstetter, and Miguel Urrutia. Working Paper 487.
- "Inflation Targeting and Quantitative Tightening: Effects of Reserve Requirements in Peru." By Adrián Armas, Paul Castillo, and Marco Vega. Working Paper 499.

Macroeconomic and Financial Challenges Facing Latin America and the Caribbean after the Crisis

In the aftermath of the global financial crisis and subsequent recovery, policymakers in emerging and developing economies face diverse macroeconomic and financial challenges. This project will sponsor a set of research papers focusing on Latin America and the Caribbean that individually tackle various aspects of these challenges in a particular country in the region, or consider one theme across a set of countries. In this way, the project will include an interesting collection of papers representing the spectrum of current economic challenges for the region as a whole.

Under a novel agreement, the IDB and the *Journal of International Money and Finance* (JIMF) will organize a conference in 2014 dedicated to this project, and a special issue of the *JIMF* will be published, including selected papers from the conference.

START DATE: **July 2013**

OBJECTIVE

This project aims to produce a set of research papers examining the macroeconomic and financial challenges that Latin American and Caribbean countries face in the post-crisis global economy. A general theme running through the project are the challenges provoked by the post-crisis global economic conditions.

METHODOLOGY

Selected papers have a technical modeling or empirical component, and are crafted so that the analytical work proposed sheds light on a particular challenge and related policy conundrum or decisions.

Core activities of the research may involve, but are not limited to:

1. Reviewing existing literature for the country(ies) being studied, comparing with regional or non-regional experiences, as relevant
2. Collecting and analyzing historical data on debt issuance (bonds, loans) in domestic and international markets
3. Collecting and analyzing data on the relevant macroeconomic aggregates and/or financial indicators key to understanding macrofinancial challenges
4. Developing a theoretical model or performing an empirical analysis using state-of-the-art techniques, and with due consideration of standard robustness tests, to consider a particular challenge or policy conundrum
5. Presenting either a theoretical model or an empirical analysis that sheds light on a macroeconomic challenge and policy decision(s)
6. Gathering data and analyzing country balance sheets (assets and liabilities), disaggregating into the public and private sectors and detailing the extent of corporate and bank external borrowing by currency, and disaggregating by financial and nonfinancial firms
7. Gathering data and analyzing capital inflows and their composition

8. Gathering data and analyzing currency appreciation, financial asset prices, real estate and credit booms, and credit allocation between sectors, including tradable (commodity versus noncommodity) and non-tradable sectors
9. Gathering data and analyzing shifts in GDP composition; commoditization of economies; deindustrialization; allocation of capital and labor to commodity, tradable (noncommodity) and non-tradable sectors; and other aspects of the markets for capital and labor that may point to costs regarding shifts in GDP composition
10. Discussing policy measures that attempt to ameliorate the risks and costs related to financial and real aspects of these phenomena

COORDINATORS

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MANAGING EDITOR, SPECIAL ISSUE OF THE *JOURNAL OF INTERNATIONAL MONEY AND FINANCE*

Carlos Végh, School of Advanced International Studies (SAIS), Johns Hopkins University

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- Universidad Católica Boliviana San Pablo, Bolivia
- CINVE – Centro de Investigaciones Economicas, Uruguay
- Pontifical Catholic University of Rio de Janeiro – PUC-Rio
- Universidad Catolica Boliviana San Pablo
- Centro de Investigaciones Economicas – CINVE

COUNTRIES STUDIED

Argentina, Bolivia, Brazil

SELECTED PROPOSALS

- “Argentina: Undoing Insularity in Troubled Waters”
- “Dutch Disease Episodes in Latin American Countries: Stylized Facts, De-industrialization Concerns and Policy Responses”
- “Firm Dynamics and Labor and Credit Frictions in a Small, Open Economy: A Quantitative Analysis of Implementable Policies”
- “Fiscal Rules, Procyclicality and Dutch Disease: A Normative Approach”
- “Macroeconomic and Financial Consequences of the After Crisis Credit Expansion in Brazil: A Micro Data-Based Investigation”
- “Macroeconomic Effects of Credit Deepening in Latin America”
- “Shocks, Response Valuation and Policy Suggestions for the Post-Crisis: The Case of Bolivia”
- “U.S. Monetary and Commodity Price Shocks, China’s Deceleration, and Fiscal Policy Reaction in Latin America in the Post-Crisis Scenario: A GVAR Approach”
- Special issue to be published
- The *Journal of International Money and Finance* will publish a special issue, including selected papers from the 2014 conference jointly sponsored with the IDB.

Understanding Domestic Savings in Latin America and the Caribbean

There is a widespread perception among academic and policy circles that domestic saving rates are low in the Latin American and Caribbean (LAC) region. On average, domestic saving rates in LAC have remained stagnant at approximately 18 percent of GDP since the 1980s, compared to over 30 percent in fast-growing East Asia. However, it is not clear that cross-country comparisons such as this one are the right way to evaluate the level of savings in an economy.

Different theories about saving behavior and the quantitative importance of the various factors can generate a variety of patterns at the aggregate level. Therefore, it is not surprising that countries at different stages of demographic transition and with varying growth experiences have different aggregate saving rates. It is surprising that saving rates in LAC have remained stagnant, despite the favorable demographic transition under way in the region since the 1970s. Why haven't aggregate saving rates changed much? Are there factors constraining savings in the region? More generally, it is interesting to establish facts such as why (and whether) people are saving. Who is saving? What are the main motivations? What vehicles do people use for saving?

START DATE: **February 2014**

OBJECTIVE

The main objective of this research project is to have a complete characterization of savings patterns for a set of countries in the region with available data, and to identify the determinants of, and the potential constraints to, saving.

The country case studies' specific objectives are:

1. To generate country-specific evidence on saving patterns by economic sector (i.e., public and private—in the latter case, differentiating between households and firms), documenting the contribution of each sector to aggregate national saving
2. To do an econometric study of the determinants of savings rates for each economic sector, by identifying idiosyncratic factors that may distort saving decisions in the selected country
3. In the cases of households and firms, to complement/contrast evidence based on aggregate saving data (which may be subject to aggregation problems), with evidence based on microeconomic data

METHODOLOGY

This project seeks to combine time-series evidence based on aggregate saving data by country—obtained primarily from national accounts—with cross-sectional evidence based on microeconomic data (i.e., surveys of households and businesses). Therefore, using different methodologies throughout the project is required.

Studies should include the following modules:

- **a.** Accounting decomposition of saving by economic sector using aggregate (macro) data. The objective is to illustrate each sector's contribution to national saving over time. Ideally, the sectors should be: (i) public sector; (ii) households that save voluntarily; (iii) households that are forced to save (i.e., pension contributions); and (iv) firms;
- **b.** Reduced form, time-series regressions with different saving rates (by sector) as dependent variables that take into account the time-series properties of variables;
- **c.** Cross-sectional regressions using microeconomic (households and firms) data to explore microeconomic determinants of savings. When repeated cross sections of the survey data are available, synthetic cohort techniques may be applied to exploit the variation over time.

The main objective of each study is to evaluate alternative explanations of the evolution of aggregate savings in each country, determine the sense in which aggregate saving rates may be suboptimal, identify the key factors that may induce suboptimal saving if suboptimality is indeed found, and suggest policy measures that may help address this problem.

In terms of data, this project seeks to contribute by providing new measures of saving by economic sectors. In addition to conventional saving measures based on national accounts (i.e., income minus consumption), proposed studies should—particularly in the case of private saving—seek to incorporate additional measures, including (at least): a) voluntary household saving and mandatory household saving (e.g., pension contributions).

If data are available, it would be interesting to include extensions such as:

- **a.** Consumption of durable goods (possibly including real estate);
- **b.** Human capital accumulation;
- **c.** Changes in asset values due to inflation;
- **d.** Disposition of saving – i.e., what are the country in question's main saving vehicles for each sector?

COORDINATORS

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PARTICIPATING INSTITUTIONS

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- Estrategias de Acompañamiento y Servicios Educativos, Sociedad de Responsabilidad Limitada de Capital Variable Mexico
- PUC – Pontificia Universidad Católica de Chile, Chile
- APOYO Consultoría S.A.C, Peru
- UNLP – Universidad Nacional de La Plata, Argentina
- Fundación ARU, Bolivia

COUNTRIES STUDIED

Bolivia, Chile, Mexico

SELECTED PROPOSALS

- "Firms' Savings in Latin America: Ownership Structure and Savings/Investment Decisions among Formal and Informal Firms"

- "Understanding Domestic Saving in Latin America and the Caribbean: The Case of Mexico"
- "Understanding Domestic Savings in Chile"
- "Understanding Domestic Savings in Latin America and the Caribbean"
- "Understanding the Determinants of Household Saving: Micro Evidence for Latin America"
- "Who Is Saving in Bolivia? An Analysis of the Main Factors That Determine Saving Decisions in a Poor Country of Latin America"

STUDIES PUBLISHED

Studies ongoing; expected to be published in 2015

Non-Contributory Pensions, Social Assistance Programs, and Household Savings in Latin America and the Caribbean

Over the last decade, there has been a rapid expansion of noncontributory pension programs in the Latin American and Caribbean region as part of a wider wave of social assistance programs. Several of these programs were introduced in order to mitigate the social costs of informality and/or to support the poor. More than two-thirds of all countries in the region have developed a form of noncontributory pension for their elderly. This has managed to practically eradicate old-age poverty in countries like Uruguay, Brazil, Argentina, or Chile. There are, however, concerns that these programs could have unintended outcomes on various dimensions because they change the incentives that economic agents face.

One of the possible dimensions in which noncontributory pension program (and complementary social assistance programs) could have unintended consequences is households' long-term saving decisions. This may happen through several channels. First, beneficiaries may reduce labor supply and hence potential savings. Second, future beneficiaries could either reduce labor supply or shift to informal activities in anticipation of future noncontributory pensions. Third, it is possible that the household as a whole may reduce other forms of voluntary savings. Moreover, these programs could pose important structural fiscal challenges to governments as the region's demographic transition progresses. Of course, these issues may be intertwined, because to the extent that the new programs are financed through taxes paid by current workers—as is usually the case—they could mechanically lower household saving. This is because young workers have a lower propensity to consume than retirees, particularly the elderly poor.

To date, there is very little research exploring the possible impact of these programs on domestic saving, whether through labor supply decisions, household saving, or implicit, long-term fiscal costs to public finances.

START DATE: April 2014

OBJECTIVE

The main objective of this research project is to understand how emerging noncontributory pensions and other social assistance programs may be impacting the saving rates of households in the region. The project intends to draw cross-country comparisons and policy recommendations from the collection of case studies.

The specific objectives of this project are the following:

- To generate country-specific evidence on savings patterns of households in the presence of noncontributory pensions or other social programs; this variation in savings might come from changes in the labor supply of individuals, changes in the portfolio of households, or changes in remittances, among other factors
- To study the impacts on the labor supply of individuals who are relatively far from the eligibility age of the noncontributory pension

- To examine changes in the composition of savings (voluntary, mandatory, asset, etc.) due to noncontributory pension programs or social assistance policies
- To assess the extent to which noncontributory pension programs or social assistance policies may affect savings decisions in the selected country through all channels
- To calculate the long-term fiscal cost (and therefore, the impacts on public saving) of noncontributory pension schemes
- In addition to the descriptive and econometric work, each country case study should describe the relevant demographic trends in the countries under study, including the actual and expected impacts of noncontributory pensions and other social programs on savings, labor supply, and other labor market outcomes

METHODOLOGY

This is a primarily empirical project that seeks to combine microeconometric evidence at the household level, possibly but not necessarily taking advantage of one or more policy innovations in a particular country, i.e., pension reform in Chile in 2008 or the expansion of noncontributory pensions in Argentina since 2007. The exact methodology utilized will depend on data availability.

In terms of data, this project seeks to contribute by providing new measures of saving. In addition to conventional saving measures (i.e., income minus consumption), proposed studies should seek to incorporate additional measures that include, at least:

a. Voluntary household saving and mandatory household saving (i.e., contributions to pensions).

If data are available, it would be valuable to include extensions such as:

b. Consumption of durable goods, possibly including real estate; and

c. Human capital accumulation

COORDINATORS

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PARTICIPATING INSTITUTIONS

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- ITAM – Instituto Tecnológico Autónomo de México, Mexico

COUNTRIES STUDIED

Argentina, Bolivia, Mexico

SELECTED PROPOSALS

- “Noncontributory Pensions and Savings: Evidence from Argentina”
- “The Effect of Noncontributory Pensions on Savings in Mexico”
- “Universal NonContributory Pensions in Bolivia: An Analysis of Its Effects on Elderly Labour Supply, Household Savings and Public Savings”

STUDIES PUBLISHED

Studies ongoing; expected to be published in 2015

Labor and Social Issues

- Assets of the Poor in Latin America
- Labor Legislation and Employment in Latin America and the Caribbean
- Productivity of Household Investment in Health
- Teachers in Latin America: Careers and Incentives
- Adolescents and Young Adults in Latin America: Critical Decisions at a Critical Age
- The Impact of Training Policies in Latin America and the Caribbean
- Social Exclusion: Who Is In, Who Is Out, and Why Does It Matter?
- The Economic Effects of Unions in Latin America
- A Dynamic Analysis of Household Decision Making in Latin America
- Market Institutions, Labor Market Dynamics, Growth, and Productivity: An Analysis of Latin America and the Caribbean
- Child Health, Poverty, and the Role of Social Policies
- Discrimination and Economic Outcomes
- The Quality of Education in Latin America and the Caribbean
- Understanding Quality of Life in Latin America and the Caribbean: A Multidimensional Approach
- Quality of Life in Urban Neighborhoods in Latin America and the Caribbean

- Understanding Productivity Levels, Dispersion, and Growth in Latin American and Caribbean Industries
- Innovation, R&D Investment, and Productivity in Latin American and Caribbean Firms
- Information and Communication Technologies (ICT) and Societal Empowerment
- Protecting Workers against Unemployment in Latin America and the Caribbean
- The Cost of Crime and Violence in Latin America and the Caribbean

Assets of the Poor in Latin America

Perhaps the main challenge of all Latin American countries today is poverty. Although the region has undergone extensive reform and economic liberalization, poverty levels remain high. One explanation for the persistence of poverty resides in the meager growth rates posted in the 1990s. Also, and perhaps more importantly, income distribution is extremely skewed. All Latin American countries have some form of social security and safety nets. However, it has become clear that these programs are far from a solution; at best, they can alleviate the conditions of the poor only temporarily. A new approach to eradicate poverty is called for.

START DATE: **June 1997**

OBJECTIVE

This project looks at the restrictions poor individuals face in acquiring income-earning assets and examines how to redirect poverty-reduction efforts toward eliminating these restrictions. The main change is that, rather than deeming individual income the main policy objective, this new strategy focuses on the assets that generate such incomes. If policies focus on giving access to assets, they are more likely to have a permanent positive effect on the conditions of the poor.

METHODOLOGY

This project looks at the problem of poverty from an asset-based perspective in five countries (Bolivia, Brazil, Chile, Colombia, and Costa Rica). Assets were divided into three categories: human capital, physical capital, and social capital. All studies analyze human capital. The Brazilian and Chilean projects examine physical capital, and Bolivia has a special section devoted to social capital. The following hypotheses guided research:

1. The distribution of income maps the distribution of assets.
2. Poverty is a reflection of a lack of assets. Income is only an outcome measure, and is a function of the assets themselves.
3. The poor have assets for which rewards in the labor market are particularly low.
4. The poor are not able to accumulate assets because of market imperfections.
5. Different types of assets can have a multiplier effect on one another.

All studies are based on household survey data, and all researchers worked directly on the data to perform the necessary calculations and derive their analyses.

CONCLUSIONS

The following conclusions emerged:

1. There is a clear link between the ownership of assets and income-based poverty.
2. There is a strong negative relationship between the asset stock and the reward that the market offers for such an asset. Therefore, the poor are not only poor because they have a small stock of assets, but also because having a small stock gives access only to the lowest prices in the economy.
3. The poor are not able to accumulate assets because of structural characteristics in the economy. Particularly, the underdevelopment of financial markets and the lack of mechanisms to insure against uncertainty constitute the main barriers to the accumulation process.
4. There is a link between the stock of an asset, the potential reward that individuals can obtain from its use, and the actual use of the asset. The best example is female labor force participation. Relatively uneducated women face very low returns on their low education levels and are therefore discouraged from participating in the labor market. This locks them in a vicious circle of small asset stocks, low use, and lower capacity to accumulate.
5. There is evidence of a strong multiplier effect on assets. When individuals own human capital and are able to combine assets with physical capital, the reward they receive is greater than both rewards separately. These multiplier effects result from the positive productivity of each asset on one another.

The study also provided lessons for policymakers:

1. Income simply reflects the stock of assets, the price paid for them, and the use of the asset. For this reason, focusing on eliminating restrictions to the accumulation of wealth is a better way to fight poverty. It influences prices, and so the poors' assets reap greater rewards. Also, incentives for the more intensive use of existing assets reduce their indirect cost.
2. Poverty in Latin America is a problem because productive assets are concentrated in a few hands. To tackle poverty, it is necessary to improve the distribution of assets.
3. The restrictions to accumulating some assets, especially human capital via the educational system, do not reflect a lack of access to the service. Therefore, the solution is not simply to improve the public provision of these benefits. Even when individuals have access to education they are unable to take advantage of it because of survival constraints, uncertainty, and the underdevelopment of financial markets.
4. In the 1990s, poverty has increased in the five Latin American countries studied, a result possibly linked to globalization and liberalization. Prices paid for unskilled labor, the typical poor-owned asset, have been depressed in the 1990s. World markets generally influence these prices. Therefore, poverty-reducing policies must also be oriented toward affecting the price structure in the economy.
5. Because of the negative effect of inequality on growth, poverty has even increased in the context of moderate economic growth in some cases. Therefore, although growth might be a necessary condition for poverty reduction, it has proven not to be a sufficient condition. There is scope for an active role of the government on the distributional side of the problem.

COORDINATORS

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- IICE – Instituto de Investigaciones en Ciencias Económicas, Universidad de Costa Rica, Costa Rica
- GRADE – Grupo de Análisis para el Desarrollo, Peru

COUNTRIES STUDIED

Bolivia, Brazil, Chile, Colombia, Costa Rica, Peru

STUDIES PUBLISHED

- "Pobreza y activos en Bolivia: ¿qué rol juega el capital social?" By George Gray-Molina, Wilson Jiménez, Ernesto Pérez de Rada, and Ernesto Yáñez. Working Paper R-356.
- "Assets, Markets, and Poverty in Brazil." By Marcelo Côrtes Neri. Working Paper R-357.
- "Los activos y recursos de la población pobre en América Latina: el caso de Chile." By Dante Contreras and Osvaldo Larrañaga. Working Paper R-358.
- "Los activos y recursos de la población pobre en Colombia." By José Leibovich and Jairo Núñez. Working Paper R-359.
- "El capital de los pobres en Costa Rica: acceso, utilización y rendimiento." By Juan Diego Trejos and Nancy Montiel. Working Paper R-360.
- "Los activos de los pobres en el Perú." By Javier Escobal, Jaime Saavedra, and Máximo Torero. Working Paper R-361.
- "An Asset-Based Approach to the Analysis of Poverty in Latin America." By Miguel Székely and Orazio P. Attanasio. Working Paper R-376.
- "Where to From Here? Generating Capabilities and Creating Opportunities for the Poor." By Miguel Székely. Working Paper R-431.

BOOK PUBLISHED

Portrait of the Poor: An Asset-Based Approach. Orazio P. Attanasio and Miguel Székely, editors. Washington, DC: Inter-American Development Bank. 2001.

Labor Legislation and Employment in Latin America and the Caribbean

In the era of global markets, Latin American and Caribbean labor market regulations have become obsolete—or at least this seems to be the rationale behind a recent wave of labor reforms. Unfortunately, there is not enough evidence to back up this claim or to know what outcomes to expect when labor markets are deregulated. The Labor Legislation and Employment in Latin America and the Caribbean project fills this gap.

START DATE: **June 1997**

OBJECTIVE

The main goal of this project is to study the impact of job security regulations such as mandatory severance pay, advance notice, and restrictions on the use of temporary contracts on employment and turnover rates. This project also studies the impact of unionization and payroll taxes on labor market performance.

CONCLUSIONS

A number of lessons have emerged from this research:

1. Job security regulations do not have the same impact in all countries. Whereas mandatory severance pay has a large impact on employment and turnover rates in Spanish-speaking Latin America, it does not have much of an impact in the Caribbean or Brazil. This differential impact is mainly explained by differences in the regulations' levels and design. The fact that the Caribbean is not very regulated compared to Latin America may explain why regulations have less impact in the Caribbean than in Latin America. Also, job security regulations are drafted differently in Brazil and Spanish-speaking Latin America.

2. Reducing job security increases churning in the labor market. This occurs because lower dismissal costs stimulate job creation and job destruction. The experiences of Colombia, Argentina, and Peru, for instance, indicate that a reduction in job security spurs the creation of new jobs. At the beginning of the 1990s, Colombia enacted laws reducing mandatory severance payments. After the reforms, the probability of finding employment increased more for workers who exited to formal jobs than for workers who found jobs in the informal sector. Similarly, when Argentina passed a law in 1995 allowing firms to hire workers under temporary contracts—which entail no severance pay obligations upon expiration—job creation increased and has remained high ever since.

This study also shows that reducing mandatory severance pay increases job destruction. In Colombia and Peru, job stability fell markedly during the 1990s. Similarly, in Argentina the probability of job loss increased in 1995 and has remained high ever since.

3. Reducing job security has an ambiguous impact on employment. The studies for Argentina, Colombia, and Peru indicate that lower job security is associated with higher employment rates. The evidence, however, is not as strong as the evidence on increased rotation. The lack of overwhelming evidence is not surprising because lower job security leads to both more job creation and more job destruction. The resulting balance of these two forces is uncertain, depending, among other things, on the overall state of the economy.

4. Women and the young benefit more from deregulation. The studies for Colombia and Peru show that certain groups benefit more than others from labor market deregulation. In Colombia, for instance, labor reforms increased job instability for men but not for women. Moreover, reforms were associated with a decline in unemployment duration for women, but not for men. In Peru, after the reforms, wages and employment-to-population ratios increased faster for women than for men.

Also, the young benefit more from lower severance pay than the old. This is because higher job creation facilitates the entry of youth into the labor market. In Colombia, workers under 25 years of age benefited the most from increased job creation. In Peru, the employment-to-population ratio increased for young workers and declined for workers over the age of 55.

5. Temporary contracts concentrate the cost of deregulation among fewer workers. Reforms based on temporary contracts—instead of a reduction in severance pay for all workers—focus the cost of deregulation on temporary workers. A comparison of the Colombia, Peru, and Argentina studies indicates that the increase in job instability was more evenly spread in Colombia and Peru than in Argentina, where workers hired under temporary contracts bore the burden of increased job instability. In addition, reforms based on temporary contracts tend to reduce the potential benefits of deregulation on youth and women, since they are more likely to be hired temporarily.

6. Surprisingly, high job security, through the use of severance pay funds for example, can be the source of excessive rotation in the labor market. Such is the case in Brazil, where legislative incentives motivate workers to quit their jobs. By law, employers must deposit a certain share of a worker's wages in a state-administered account. In the event of dismissal, workers obtain the accumulated funds plus an additional 40 percent, paid by the firm, as indemnity. If the worker quits, he receives nothing. Under such a system, there are mutual benefits for firms and workers to collude by reporting quits as layoffs. The employer does so in exchange for not paying the 40 percent penalty. The worker foregoes the penalty but gains access to his account. Poor fund administration and inflationary culture exacerbate rotation because accumulated funds depreciate quickly. Given these incentives, it is not surprising that the Brazilian study finds that the 1988 constitutional reform—which increased the penalty from 10 to 40 percent—did not impact the labor market. After all, high rotation implies that firms dismiss workers in very few instances, reducing the overall effect of the penalty.

7. Unionization increases wages and reduces employment, while openness reduces union bargaining power. The Uruguayan study sheds some interesting light on the impact of unions on the labor market. Unions were banned in Uruguay from 1974 to 1985. After 1985, with the advent of democracy, unions were allowed to reorganize and a tripartite negotiation system of government, firms, and worker representatives was instituted. In 1991, the government stopped intervening in the negotiations. Since then, negotiations have taken place mainly at the firm level. The study finds substantial differences in labor market performance during the three distinct periods. After 1985, unions exerted upward pressure on wages while firms had less leeway to adjust employment to wage hikes or output downturns.

This situation changed during the 1990s. Trade reforms exerted competitive pressure on domestic firms and wages adjusted downward. And as the government stopped intervening in negotiations, wages fell even more. By 1994, the industries most exposed to foreign competition, such as textiles, apparel, and nonmetallic minerals, had adjusted wages to pre-union levels. At the same time, these were the industries that suffered the largest decline in affiliation rates. These results confirm that trade reforms and decentralized bargaining discipline union wage demands.

8. The impact of payroll taxes is low but may be increasing. The studies for Argentina, the Caribbean, Peru, and Uruguay provide estimates of how much employment adjusts to wage hikes. These numbers can be used to infer the upper bounds of employment's response to payroll taxes. In general, the short-term estimates are rather low. On average, a 10 percent increase in taxes can result, at most, in a 3 percent decline in employment rates. However, for some countries the long-run estimates are much larger (i.e., a 10 percent decline in employment in Argentina). Furthermore, the Peruvian study finds that the response of employment to wage hikes has been increasing in the 1990s, and therefore payroll taxes could bite more in the future.

COORDINATORS

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- FEDESARROLLO – Fundación para la Educación Superior y el Desarrollo, Colombia
- Colegio de México, Mexico
- GRADE – Grupo de Análisis para el Desarrollo, Peru
- GEOPS – Grupo de Estudios de Economía, Organización y Políticas Sociales, Uruguay

COUNTRIES STUDIED

Argentina, Barbados, Brazil, Colombia, Jamaica, Peru, Trinidad and Tobago, Uruguay

STUDIES PUBLISHED

- "Labor Market Regulation and Employment in the Caribbean." By Andrew S. Downes, Nlandu Mamingi, and Rose-Marie Belle Antoine. Working Paper R-388.
- "The Effects of Labor Market Regulations on Employment Decisions by Firms: Empirical Evidence for Argentina." By Guillermo Mondino and Silvia Montoya. Working Paper R-391.
- "Unions and Employment in Uruguay." By Adriana Cassoni, Steven G. Allen, and Gaston J. Labadie. Working Paper R-392.
- "The Incidence of Job Security Regulations on Labor Market Flexibility and Compliance in Colombia: Evidence from the 1990 Reform." By Adriana Kugler. Working Paper R-393.

- "Labor Market Reforms and Their Impact on Formal Labor Demand and Job Market Turnover: The Case of Peru." By Jaime Saavedra and Máximo Torero. Working Paper R-394.
- "Labor Market Policies and Employment Duration: The Effects of Labor Market Reform in Argentina." By Hugo A. Hopenhayn. Working Paper R-407.
- "Job Stability and Labor Mobility in Urban Mexico: A Study Based on Duration Models and Transition Analysis." By Angel Calderón-Madrid. Working Paper R-419.
- "The Impact of Regulations on Brazilian Labor Market Performance." By Ricardo Paes de Barros and Carlos Henrique Corseuil. Working Paper R-427.

Productivity of Household Investment in Health

The role of human capital has achieved central importance in our understanding of socioeconomic development and in new efforts to improve public policy. Although extensive work has been conducted on education as a key aspect of human capital investment, relatively little work has been carried out on health. Research is needed to better understand the policies and conditions that improve health status, as well as the impact of health status on individual and family incomes.

START DATE: June 1997

OBJECTIVE

The objective of this project is to understand the public and private determinants of household investments in health, and how these health investments affect individual lifetime productivity, earnings, and income in Latin America. The long- run aim is to develop methods for using this information to improve the design of policy interventions that enhance health and increase labor productivity, especially among low-income and disadvantaged groups. Five research centers were chosen to participate from four countries (Mexico, Nicaragua, Peru, and Colombia).

The key hypotheses that guided this research were:

1. Household decisions regarding resource allocation and consumption determine in large measure the nutritional status and health of children. They also play a major role in the health attained and maintained by adults.
2. The “stock” of health accumulated by individuals affects their potential productivity and their capacity to generate income in the labor force.
3. Factors that can be altered by public policy regarding community services, environmental conditions, and prices can have a positive impact on health conditions.

METHODOLOGY

The researchers merged representative household survey data with administrative or community data to capture important variations in policies and institutions across sample clusters in the survey.

CONCLUSIONS

The following conclusions emerged from the analysis:

1. Earnings are generally lower for people who reported being ill. They are systematically lower for those who reported being ill longer. In most cases, an additional day of illness corresponded to a 1–4 percent drop in hourly earnings. Yet some population groups seem more vulnerable than others. For example, elderly Mexican men (over age 65) appear to suffer the largest impact, with a 58 percent decline in earnings for each additional day of illness.

Although this figure may be overestimated, it suggests that health status may have a stronger effect on productivity and earning potential as individuals age.

2. Two of the studies used indicators of an individual's health condition from childhood to evaluate the relationship between health status and income. For example, girls who are better nourished and healthier in childhood tend to begin menstruation earlier and suffer fewer illnesses in adulthood. Studies in Europe, the United States, and Latin America have shown that the average age of menarche (the onset of menstruation) has been declining steadily as populations become better nourished and healthier. In relation to income, the evidence from Mexico showed that after controlling for other factors, women who began to menstruate a year earlier than their peers—and presumably were healthier on average—ended up earning 26 percent more in adulthood on average. Adult height, which is a good measure of childhood health conditions and adult morbidity, is also associated with higher earnings. In Colombia, one more centimeter of height for adults translated into an increase in earnings among urban workers of about 7 percent for women and 8 percent for men.
3. In addition to the health and income relationship, the studies examine how public policies and other factors affect individual health status. Environmental conditions such as housing and sanitation have significant impacts on health, while the presence of health services and public health facilities appears to have relatively little influence on health conditions.
4. The universally strong relationship between education and earnings is only modestly reduced by the inclusion of health status, despite a general expectation that estimated returns to education were, in part, capturing the frequently unmeasured effects of health.

The studies also provide some lessons for policymaking:

1. Investing in health is economically productive and potentially income equalizing.
2. Investing in health does not necessarily mean hiring medical personnel, building hospitals, and providing health services. Rather, investments in child nutrition, sanitation, and housing conditions appear to be more effective in promoting health improvements. However, the relative cost-effectiveness of these different investments still needs to be evaluated to determine priorities.
3. Collecting better health indicators in household surveys would provide a better basis for conducting and evaluating health policies.

COORDINATORS

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PARTICIPATING INSTITUTIONS

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- FIDEG – Fundación Internacional para el Desafío
- Económico y Global, Nicaragua
- CIUP – Centro de Investigación, Universidad del Pacífico, Peru
- GRADE – Grupo de Análisis para el Desarrollo, Peru

COUNTRIES STUDIED

Colombia, Mexico, Nicaragua, Peru

STUDIES PUBLISHED

- "Salud y productividad en el Peru: un análisis empírico por género y región." By Rafael Cortéz. Working Paper R-363.
- "Productividad de la inversión en salud de los hogares en Nicaragua." By Jaime Espinosa Ferrando and Carlos Hernández Alvarez. Working Paper R-362.
- "Elderly Health and Salaries in the Mexican Labor Market." By Susan W. Parker. Working Paper R-353.
- "The Returns to Health for Peruvian Urban Adults: Differentials across Gender, the Life Cycle, and the Wage Distribution." By Edmundo Murrugarra and Martín Valdivia. Working Paper R-352.
- "Productivity of Household Investment in Health: The Case of Colombia." By Rocío Ribero and Jairo Núñez. Working Paper R-354.
- "Linking Health, Nutrition, and Wages: The Evolution of Age at Menarche and Labor Earnings among Adult Mexican Women." By Felicia Marie Knaul. Working Paper R-355.
- "Earnings and the Elusive Dividends of Health." By William D. Savedoff and T. Paul Schultz. Working Paper R-409.

BOOK PUBLISHED

Wealth from Health: Linking Social Investments to Earnings in Latin America. William D. Savedoff and T. Paul Schultz, editors. Washington, DC: Inter-American Development Bank. 2001.

Teachers in Latin America: Careers and Incentives

The quality of teachers is key to the success of the educational reforms underway in many countries throughout Latin America. However, little is known about the motivations of people who decide to pursue teaching as a career or the institutional factors that determine their effectiveness as teachers. Learning more about the occupational decisions of would-be teachers and the incentives teachers respond to while exercising their profession can help shape policies aimed at improving the quality of the teachers responsible for educating the region's youth.

START DATE: **June 1998**

OBJECTIVE

This study aims to shed light on the incentives and institutional factors that determine the makeup of the teaching population and influence their professional performance. Two hypotheses guided the research. The first hypothesis is that teachers display a set of socioeconomic, educational, and motivational characteristics that distinguish them from other groups and influence decisions to become and remain teachers. The second hypothesis is that the content of labor contracts has a direct effect on the performance of teachers.

METHODOLOGY

In six countries—Argentina, Chile, Guatemala, Peru, Uruguay, and Venezuela—information was gathered from registers and other official sources to develop a socioeconomic and educational profile of teachers and a control group. Data were also collected on labor contracts, teaching statutes, and other relevant rules that govern the work relationship of teachers with their employers.

Surveys covered the following areas:

1. Opinions of teachers and the control groups on the teaching profession, why people choose this profession, and the characteristics of teaching that draw people to this career path
2. Teacher attitudes toward their rights, obligations, and work conditions
3. The self-evaluation of teachers of their conduct and performance. The sample should consider stratification by type of contract

Researchers interviewed school supervisors, directors, and other employees, as well as teachers to gather complementary information on the performance of teachers.

CONCLUSIONS

A number of preliminary conclusions can be drawn from the research conducted to date:

1. Gender and age. Although the majority of teachers in the countries studied were women, the percentage of male teachers is growing. The dominance of women in the field relates to many

of the profession's characteristics. For example, when compared with persons in other professions, a higher proportion of teachers are married and have domestic responsibilities (such as child rearing). Also, labor force participation rates for female teachers are higher than for other female professionals. This suggests that, to the extent that women are responsible for domestic obligations, teaching may be more compatible with a significant role in the administration of the household, the rearing of children, etc.

A relationship exists between social security coverage and the average age for teachers. Systems with historically high social security coverage (e.g., Argentina and Venezuela) are experiencing a relative aging of their teaching corps, while systems in the process of increasing coverage (e.g., Guatemala and Peru) have younger teachers.

2. Academic credentials and socioeconomic status. If measured in terms of years of study, the academic credentials of teachers in the countries studied are improving. With the exception of Chile, no significant differences exist between the academic credentials of teachers working in public and private schools. In Chile, private school teachers are, on average, more educated than their counterparts working in public and semipublic schools. The socioeconomic status of teachers varies less than the socioeconomic status of other professions. Compared to other professions with similar educational levels, teachers are more likely to be above the poverty line. However, younger teachers tend to be poorer than their older counterparts. Once again, Chile is the only country studied in which significant differences exist between the socioeconomic status of private and public sector teachers. Private school teachers in Chile belong to a higher socioeconomic status. The educational status of the parents of the teachers studied was lower than that of their offspring. This suggests that teaching is still a means of social ascent.

3. Motivations vary. Although vocation is the most important reason for selecting and remaining in the profession, teachers mentioned that stability and the potential for human and professional development were also important factors. Vocation seems to be slightly stronger among private school teachers. Younger teachers and mature teachers are, in general, more committed to their professions for vocational reasons. Middle-aged teachers are more interested in their compensation scheme and career prospects. According to the results of the study, female and male teachers disagreed about the profession's important characteristics. Women seem to focus more on the features that make teaching a more flexible occupation; men focus more on promotion and compensation.

4. The analytical perspective: teachers and incentives. From an analytical standpoint, the study has contributed substantially to an understanding of the effects of institutional incentives and compensation structures on who enters and stays in teaching in Latin America, as well as on various measures of teacher quality. Although there is no general consensus, most studies suggest that institutional incentives do matter. A striking finding, consistent in all countries, is the high value that teachers, especially public school teachers, place on job stability. That teachers value job stability is not particularly surprising, but that it is the most highly valued characteristic by public school teachers is worth highlighting because it is an incentive that is not directly linked to teacher performance. From a policy perspective, developing incentives that raise the quality and performance of teachers is important. Consistent with prior research (e.g., Ballou and Podgursky, 1997), the country studies found that salary does not play a large role in teacher job satisfaction, commitment, and self-reports of performance. Finally, the studies indicate that it may take time before one can observe the effect of education reforms that focus on changing institutional incentives that affect teacher quality.

COORDINATORS

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- CIEN – Centro de Investigaciones Económicas, Guatemala
- GRADE – Grupo de Análisis para el Desarrollo, Peru
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- IESA – Instituto de Estudios Superiores de Administración, Venezuela

COUNTRIES STUDIED

Argentina, Chile, Guatemala, Peru, Uruguay, Venezuela

STUDIES PUBLISHED

- "Los maestros en Chile: carreras e incentivos." By Alejandra Mizala, Pablo González, Pilar Romaguera, and Andrea Guzmán. Working Paper R-403.
- "La carrera de maestros: factores institucionales, incentivos económicos y desempeño." By Jaime Saavedra and Hugo Díaz. Working Paper R-410.
- "Los maestros en Venezuela: carreras e incentivos." By Josefina Bruni Celli, Olga Ramos, and Milko González. Working Paper R-430.

BOOK PUBLISHED

¿Quiénes son los maestros? Carreras e incentivos docentes en América Latina. Juan Carlos Navarro, editor. Washington, DC: Inter-American Development Bank. 2003.

Adolescents and Young Adults in Latin America: Critical Decisions at a Critical Age

Adolescence is a critical period of human development since many decisions made in the transitional years between childhood and adulthood have lifelong consequences on economic productivity and future well-being. Across Latin America, rates of school attendance, paid employment, childbearing, and violence for 10 to 19 year-olds vary widely. For example, employment rates for 15-year-old boys in urban areas range from an average of 4 percent in Chile to 24 percent in Costa Rica, and 51 percent in Paraguay. Rates of teenage childbearing (births per 1000 girls ages 15 to 19) range from lower than the U.S. rate of 64 in Peru, Argentina, and Chile to a rate of 153 in Nicaragua. With rates of violence and teenage pregnancy rising in many countries (UNFPA, 1998; Singh, 1997), understanding the forces shaping the behavior of adolescents is critical. Comprising on average 20 percent of the population in Latin America, the current generation is widely recognized as vital to the region's future.

START DATE: **August 1999**

OBJECTIVE

Within the context of their families and communities, adolescents and young adults make important decisions regarding work, school, union formation, and other activities. This book departs from the six-country case study approach of the IDB Research Network projects and instead examines six different topics ranging from early labor-market experience to teenage childbearing across countries. Household survey data from 18 countries are used to contrast the broad range of behavior among youth across Latin America. Specifically, the topics covered include:

- Teenage childbearing
- Youth emancipation paths (transitions to adulthood)
- Social mobility
- Young adult labor market experience
- School and work trade-offs
- Working and studying in rural Latin America

METHODOLOGY

All studies are based on microlevel household survey data for the late 1990s. Specific methodologies vary according to topic; for example, bivariate profits are used to estimate trade-offs in children's time use and multi-level modes are used to estimate teenage childbearing. Within each chapter, the same methodology is applied across the different countries with comparable data.

CONCLUSIONS

The studies document the range of experiences and conditions for youth in Latin America. Setting forward the stylized facts, such as increasing fertility rates among rural adolescents, is a critical first step in designing policies to improve the welfare of youth.

Large shares of youth, ages 10 to 16, are found to be combining school and work, with less time spent on school among children in lower socioeconomic environments. The importance of family background is demonstrated throughout the analysis. The highest social mobility is found in Chile, Argentina, Uruguay, and Peru, with social mobility positively correlated with GDP, urbanization, and educational attainment. Labor market activities among adolescent males are concentrated in agricultural activities, which decline with age as work shifts into production. Females are found to shift with age from services and agriculture to professional technical areas.

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COUNTRIES STUDIED:

Bolivia, Brazil, Colombia, Peru, Uruguay, Venezuela

STUDIES PUBLISHED

- "Critical Choices at a Critical Age: Youth Emancipation Paths and School Attainment in Latin America." By Carlos Filgueira, Fernando Filgueira, and Alvaro Fuentes. Working Paper R-432.
- ''Social Mobility in Latin America: Links with Adolescent Schooling." By Lykke E. Andersen. Working Paper R-433.
- "Teenage Childbearing in Latin American Countries." By Carmen Elisa Flórez and Jairo Núñez. Working Paper R-434.
- "Adolescents and Young Adults in Latin America, Critical Decisions at a Critical Age: Young Adult Labor Market Experience." By Josefina Bruni Celli and Richard Obuchi. Working Paper R-468.
- "Working and Studying in Rural Latin America: Critical Decisions of Adolescence." By Lorena Alcazar, Silvio Rendón, and Erik Wachtenheim. Working Paper R-469.
- "Adolescents in Latin America and the Caribbean: Examining Time Allocation Decisions with Cross-Country Data." By Naércio Menezes-Filho, Carlos Henrique Corseuil, Ricardo Paes de Barros, et. al. Working Paper R-470.

BOOK PUBLISHED:

Critical Decisions at a Critical Age: Adolescents and Young Adults in Latin America. Suzanne Duryea, Alejandra Cox Edwards, and Manuelita Ureta, editors. Washington, DC: Inter-American Development Bank, 2003.

The Impact of Training Policies in Latin America and the Caribbean

The economic liberalization policies of the region in the 1980s led to the development of a myriad of experimental training programs whose main innovations were (a) to introduce competition in the provision of training services; (b) to complement job training with wage subsidies and job search assistance; and (c) mechanisms for targeting services to particularly disadvantaged segments of the population. In these programs, such as Chile's *Programa Joven*, the Ministry of Labor acts as a promotional agency, compiling the training needs of client firms and bidding out the actual training services to private firms.

There is still little consensus, though, regarding either of these programs' impact on beneficiaries or the methods that should be used for their evaluation. This leads to two questions. First, do participants in these programs experience higher levels of employment and wages than they would have without participating in the program? Second, does the magnitude of the benefits received by participants justify the expenditures made by society?

START DATE: **August 1999**

OBJECTIVES

The purpose of this project is to adapt, test, and apply methodologies for evaluating government-financed job training, wage subsidy, and job search assistance programs in the particular institutional and labor market context of the region. In particular, this study will attempt to disentangle the effects that different mixes of services, different target groups, and different institutional arrangements for delivery have on the magnitude of participants' benefits. Some examples of the questions the research studies should try to answer are the following:

1. What is the best estimate of the magnitude of the program's impact on participants' wages and employment?
2. What is the best way to measure the magnitude of the program's impact on participants' wages and employment?
3. How do the characteristics of the target group change the magnitude of the impact of different services? (For instance, do low-income, unemployed youth receive higher benefits from job search assistance than from job training?)
4. What impact do different institutional arrangements for service delivery have on the magnitude of benefits received by participants? (For instance, does job training have a larger or smaller impact when delivered through the traditional, monopolistic National Training Institute than when delivered through multiple competitive bidders?)
5. How do the costs of the various services provided compare to their estimated benefits? This question can be addressed to the trainees, the government budget, and society as a whole.

METHODOLOGY

The studies in this project derive their methodology from the work of Heckman, LaLonde, and Smith (1999), who extensively survey both the methods developed in, and the findings of the literature on, evaluating the effects of training programs on earnings and employment. They consider a variety of cross-sectional, panel data, and repeated cross-section estimators in both parametric and nonparametric form.

Taking into account these authors' findings on both techniques and data quality, the studies in this project assess the impacts of programs on participants, with an emphasis on variables such as earnings, employment, and participation in government transfer programs.

Each study discusses the empirical findings in the literature and relates its own findings to the body of knowledge acquired in other studies.

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COUNTRIES STUDIED

Argentina, Barbados, Chile, Colombia, Mexico

STUDIES PUBLISHED

- "An Econometric Cost-Benefit Analysis of Argentina's Youth Training Program." By Victor Elías, Fernanda Ruiz Núñez, Ricardo Cossa, and David Bravo. Working Paper 482.
- "The Impact of Training Policies in Latin America and the Caribbean: The Case of Programa Joven." By Cristian Aedo and Sergio Núñez. Working Paper 483.
- "The Impact of Public and Private Job Training in Colombia." By Jairo Núñez and Carlos Medina. Working Paper 484.
- "Revisiting the Employability Effects of Training Programs for the Unemployed in Developing Countries." By Miguel Angel Calderón. Working Paper R-522.

Social Exclusion: Who Is In, Who Is Out, and Why Does It Matter?

It is now well established that income inequality is higher in Latin America than anywhere else in the world, and that this high inequality has fed absolute poverty rates much higher in this region than one would expect on the basis of average income. The extent to which inequality is driven by individual differences in ability and work ethic, rather than by differences in opportunities, is unknown, however. Thus, if some individuals prefer to work more hours or to invest more energy in their work than others, the income inequality that will occur as a result of these differences would not necessarily be a policy issue. In fact, reducing this type of inequality through policy interventions could well lead to reductions, rather than increases, in welfare.

But this type of efficient inequality probably does not explain the extent of inequalities in Latin America. Rather, inequality in Latin America likely originates substantially from the absence of opportunities for large segments of the population. The outright (or implicit) exclusion of some groups on the basis of their gender, ethnic origin, place of residence, or social status can in turn explain inequality of opportunity.

START DATE: **June 2000**

OBJECTIVES

The project had three specific objectives:

1. Measure exclusion and assess the consequences of social exclusion
2. Identify the mechanisms through which social exclusion affects individuals
3. Provide elements that policymakers can use to address the problem or, alternatively, to evaluate existing programs, if they exist

The first objective of the project is to measure the consequences of exclusion, especially as they concern the size and persistence of income inequalities and poverty. Of particular interest is the extent to which being identified with specific religious groups, being located in particular neighborhoods or areas, or having a certain ethnic origin, race, nationality, or socioeconomic status is associated with the following socioeconomic outcomes: income or consumption levels, schooling levels or other forms of education and training, health and nutrition status, type of employment (e.g., formal or informal sector), type of occupation, and sector of activity.

The second objective is to understand the main mechanisms of social exclusion in Latin America and the Caribbean. Of particular interest is identifying the main channels though which group membership affects social exclusion. These channels include access to credit, insurance, social protection, jobs, public services or subsidies (e.g., education, health, infrastructure), and private services or markets (e.g., universities, transportation).

The third specific objective is to identify policy interventions. The policy interventions that can be derived from this framework are usually complementary to the traditional prescriptions of increasing access to education, health services, and labor and capital markets. Policies in this realm usually aim to increase societal integration (i.e., to ameliorate the cleavages that allow social exclusion to take place). These policies can include charter schools, scholarship programs to private elite universities, improved employment information, and the like. The ultimate goal is to understand the scope and importance of such policies in Latin America and the Caribbean and their effectiveness in the region.

METHODOLOGY

The studies looked at five Latin American countries using methodology with the following emphasis:

1. Identifying groups affected by exclusion
2. Disentangling group effects from the aggregation of individual effects
3. Measuring the impact of group membership on the outcome(s) under consideration
4. Determining which types of group membership are most important empirically
5. Determining whether the impacts of group membership are similar across various socioeconomic indicators, as would be the case if there are general patterns of social exclusion for particular groups
6. Assessing the proportion of the variation in socioeconomic variables investigated and accounted for by group memberships
7. Evaluating whether group membership, and thus social exclusion, affects access to social services and other policy-related indicators

CONCLUSIONS

The studies suggest the following conclusions:

1. Among indigenous groups, first-generation migrants into urban areas can benefit from living in areas largely inhabited by members of their own ethnic group, which provide access to information and employment networks. Beyond the first generation, however, residential segregation is associated with lower educational attainment and earnings.
2. Age, racial identification, region, and educational level can, and largely do, determine whether individuals have access to private health care or lower-quality public health care. Subsidizing access to private health care, however, would not necessarily improve the access of excluded groups because of the high shadow costs that they face in accessing health care.
3. For migrants from one country to another, exclusion can result primarily from legal status rather than origin.
4. Geographic exclusion, the result of inadequate transportation infrastructure, can reduce labor force participation and restrict individuals to low-productivity jobs. Women's outcomes are especially affected by isolation.
5. Monolingual indigenous children experience lower schooling outcomes than bilingual indigenous children, though access to bilingual schools so far appears to provide a means for narrowing this gap and weakening this channel of transmission.

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COUNTRIES STUDIED

- Bolivia, Brazil, Costa Rica, El Salvador, Mexico

STUDIES PUBLISHED

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- "Schooling Inequality among the Indigenous: A Problem of Resources or Language Barriers?" By Luis N. Rubalcava, Susan Parker, and Graciela Teruel. Working Paper R-438.
- "Geographical Exclusion in Rural Areas of El Salvador: Its Impact on Labor Market Outcomes." By Ana Regina Vides de Andrade, Anabella Lardé de Palomo, and Lissette Calderón. Working Paper R-439.
- "Social Exclusion: Residential Segregation in Bolivian Cities." By George Gray-Molina, Ernesto Pérez de Rada, and Wilson Jiménez. Working Paper R-440.
- "Social Exclusion in Latin America: Introduction and Overview." By Jere R. Behrman, Alejandro Gaviria, and Miguel Székely. Working Paper R-445.

BOOK PUBLISHED

Who's In and Who's Out: Social Exclusion in Latin America. Jere R. Behrman, Alejandro Gaviria, and Miguel Székely, editors. Washington, DC: Inter-American Development Bank. 2003.

The Economic Effects of Unions in Latin America

Labor unions play a highly visible role in the economies and politics of many Latin American countries. Reflecting this visibility, much has been written on the political role of Latin American unions, and many descriptive studies of the evolution of the region's union movements have been produced. By contrast, relatively little research has been done on the economic effects of unions in the region. An understanding of the economic effects of unions in Latin America is particularly important today, given the rapid increase in exposure of many of the region's industries and economies to product market deregulation and international competition.

START DATE: **October 2000**

OBJECTIVE

The goal of this project is to spawn the development of an empirical analysis of the actual economic effects of unions in Latin America. Specifically, the studies address two main subjects involving unions in Latin America:

1. The effects of unions on the economic performance of firms, especially effects on profits, productivity, investment (including R&D), and productivity growth rates.
2. The effects of unions on the performance of the school system.

METHODOLOGY

Each case study analyzed the impact that unions have on the performance of the institutions being studied.

CONCLUSIONS

The studies presented in this volume show that affiliation with unions has been falling over the past decade, partly as a result of changes in the labor laws, but mostly in response to economic opening and restructuring. In spite of this reduction, unions have important, and not necessarily negative, effects on firms' performance. Unions can have a favorable effect on productivity and productivity growth when firms adopt progressive human resource policies.

The conclusions of the analysis are more negative when looking at how unions affect the performance of the school system, and particularly student learning. Using variations of the education production function approach, both studies included in this project suggest that unions tend to have a negative impact on students' performance, and that this impact is larger in politically contested markets for union influence.

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COUNTRIES STUDIED

Argentina, Brazil, Guatemala, Peru, Uruguay

STUDIES PUBLISHED

- "The Economic Effects of Unions in Latin America: Teachers' Unions and Education in Argentina." By María Victoria Murillo, Lucas Ronconi, Juan Sanguinetti, and Mariano Tommasi. Working Paper R-463.
- "Unions and the Economic Performance of Brazilian Establishments." By Naércio Menezes-Filho, Hélio Zylberstajn, José Paulo Chahad, and Elaine Pazello. Working Paper R-464.
- "Union Density Changes and Union Effects on Firm Performance in Peru." By Jaime Saavedra – Chanduví and Máximo Torero. Working Paper R-465.
- "The Economic Effects of Unions in Latin America: Their Impact on Wages and the Economic Performance of Firms in Uruguay." By Adriana Cassoni, Gaston J. Labadie, and Gabriela Fachola. Working Paper R-466.
- "The Effects of Unions on Productivity: Evidence from Large Coffee Producers in Guatemala." By Sigfrido Lee and Carmen Urizar H. Working Paper R-473.
- "Teacher Unionization and the Quality of Education in Peru: An Empirical Evaluation Using Survey Data." By Eduardo Zegarra and Renato Ravina. Working Paper R-474.

BOOK PUBLISHED

What Difference do Unions Make? Their Impact on Productivity and Wages in Latin America. Peter Kuhn and Gustavo Márquez, editors. Washington, DC: Inter-American Development Bank. 2005.

A Dynamic Analysis of Household Decision Making in Latin America

For some years now, Latin American countries have been undergoing an intensive demographic transformation. Whereas a large percentage of the population used to be under 15 years of age, larger shares of the population are now of working age. These changes can be transformed into an opportunity if the right policies are in place.

START DATE: 2001

OBJECTIVE

The objective of this project is twofold. First, the aim is to document these demographic changes along with other similar shifts, such as an increase in female participation in the labor force, the population's average years of schooling, fertility, family structure and family arrangements (with special focus on the elderly), and household saving behavior. The second objective is to try to uncover some of the causes that triggered the various transformations in an attempt to identify policies that can accelerate the transformation. Five country cases (Brazil, Colombia, Peru, Mexico, and Uruguay) were selected for this study.

The following set of hypotheses guided the research:

1. The later a country initializes its demographic transition, the faster the transition.
2. The demographic transition is accompanied by improvements in education that generate changes in female labor force participation rates and total fertility rates.
3. Families change through the life cycle. Most Latin American countries are already starting to age and will follow the secular worldwide trend in reducing the importance of extended families.
4. Countries in which the elderly are starting to become a considerable proportion of the population will face strong pressure on their pension systems. If this source of pressure is identified and dealt with early enough, the aging process will not become a burden to society.
5. The returns to higher schooling in Latin America have increased in comparison to the returns to lower levels. However, the shift differs by generation. The younger generations currently coming of working age experience the largest differentials in returns to education.

METHODOLOGY

The research used household survey data for several points in time to determine which aspects of the changes observed can be attributed to cohort effects and which are simply due to an age effect. Cohort effects have to do with changes that affect some generations in particular, while age effects affect all generations.

CONCLUSIONS

The following conclusions emerged from the analysis:

1. Latin America is starting to age. Even countries whose demographic transition began later in the twentieth century are observing a rapid increase in the proportion of individuals of retirement age.
2. The relative size reduction of the school age population from 0–14 years of age has translated into an opportunity to improve education in the region. Where the demographic transition resulted in easing pressures on the education system, schooling improved. Therefore, the demographic transformation may prove beneficial for education in Latin American countries in the twenty-first century.
3. The role of women in society is changing dramatically. Female labor force participation has increased for two reasons. First, there are more females in the highest participation age groups. More importantly, there is a strong generational effect regardless of age. Younger females have much higher participation rates than older females. Part of this increase is attributed to educational improvements. A percentage is also due to a secular decline in fertility.
4. Family structures in Latin America have remained surprisingly stable. The worldwide trend is toward declining numbers of extended households and increasing numbers of single person and nuclear households. However, in the five countries analyzed, this is not the case. The extended family remains a key institution in Latin America, acting as a safety net for its members. For some, like the elderly, they are a source of post-retirement support. For those of working age, the extended family is an information and support network that allows individuals to take advantage of opportunities in the labor market. For divorced parents (which are increasing in number), extended families act as a support network for raising children.
5. In contrast to female labor force participation, household saving follows a pattern more closely related to the life cycle age effects than generational changes. When households go from an initial stage of investment, where the number of children is large, they tend not to save. At the head of household's prime working age, household saving is maximized, and when the household becomes relatively old it draws on savings to maintain consumption.

The study also provided lessons for policymakers:

1. Due to changes in the age structure of the population, Latin America will face a great challenge in the twenty-first century. The majority of the population will shift from being 0–14 years of age to working age, and the relative size of the population over 65 will grow. If enough jobs are available to those of working age, the demographic shift will be an opportunity for economic growth, more savings, and improving education. If there aren't enough jobs available, labor markets will become a source of pressure. Unemployment rates will be high, and the new generations may feel frustrated due to the lack of opportunity and resources to finance investment.
2. The proportion of the population over 65 years of age is already starting to demand social security benefits. As long as the relative share of this group remains small, this might not become an overriding problem. However, as the group grows in size, the pressure on pension systems

can slow economic growth and create severe imbalances in public accounts. Latin America is currently well positioned to avoid this potentially devastating scenario by shifting from pay- as-you-go pension systems to fully funded pension plans.

3. Apart from the demographic shift, Latin American countries will be facing greater labor market opportunity demands by women. Changes in labor legislation in favor of women must create the flexibility that is needed to productively include them in the labor market. With the current legislation, it is likely that the informal sectors of the economy will have to absorb this additional supply of labor.
4. While domestic policies are still important, in the globalizing world other countries' actions matter more every day. A clear example is the evolution of the returns to education. Policymakers must be aware of the demographic and other social transformations taking place in the region, but they must also be aware that the shifts are taking place in other countries as well. The changes in other countries will also affect Latin America in the future. Perhaps the best example is the potential change in capital flows in the future. During the twenty-first century, the world will be divided into relatively old regions (including most OECD countries), middle-aged countries such as Latin America, and relatively young regions such as Africa and South Asia. In the OECD countries, the demand for saving to finance retirement will be one of the main needs. For this reason, the flow of capital to other developing regions may not be as intensive as it has been during the end of the twentieth century. Latin America will be in an ideal position to bridge this problem because the largest proportions of the population will be of high-saving age. However, adequate mechanisms must be in place to increase incentives and channel the additional savings productively and efficiently.

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- CIRD – Centre for Interdisciplinary Research and Development, University of West Indies, Trinidad and Tobago
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COUNTRIES STUDIED

Brazil, Colombia, Mexico, Peru, Trinidad and Tobago, Uruguay

STUDIES PUBLISHED

- "A Dynamic Analysis of Household Decision- Making: The Mexican Case." By F. Alejandro Villagómez and Andrés Zamudio. Working Paper R-415.
- "Un analisis dinámico de la toma de decisiones de los hogares en América Latina: el caso uruguayo." By Marisa Bucheli, Andrea Vigorito and Daniel Miles. Working Paper R-416.

- "A Dynamic Analysis of Household Decision-Making: The Brazilian Case." By Ricardo Paes de Barros. Working Paper R-417.
- "Household and Individual Decision-Making Over the Life Cycle: A First Look at the Evidence from Peruvian Cohorts." By Jaime Saavedra and Martin Valdivia. Working Paper R-425.
- "A Dynamic Analysis of Household Decision-Making in Urban Colombia, 1976–1998: Changes in Household Structure, Human Capital and its Returns, and Female Labor Force Participation." By Jairo Núñez and Fabio Sánchez Torres. Working Paper R-449.
- "A Dynamic Analysis of Household Decision- Making in Latin America: Changes in Household Structure, Female Labor Force Participation, Human Capital and Its Returns." By Orazio P. Attanasio and Miguel Székely. Working Paper R-452.

BOOK PUBLISHED:

The Family in Flux: Household Decision-Making in Latin America. Miguel Székely and Orazio P. Attanasio, editors. Washington, DC: Inter-American Development Bank, 2003.

Market Institutions, Labor Market Dynamics, Growth and Productivity: An Analysis of Latin America and the Caribbean

In recent years, studies of longitudinal firm level and worker-level databases from advanced economies have emerged with striking new facts. The pace of reallocation of outputs and inputs across businesses is very high, even within narrowly defined sectors, and is largely accounted for by the entry and exit of businesses. Moreover, this reallocation process contributes substantially to growth and productivity. That is, a large fraction of productivity growth reflects a reallocation of resources away from less productive businesses to more productive ones. These striking facts suggest that adopting new processes and products involves considerable trial and error and learning by doing, even in the most advanced economies. The implication is that in the most advanced economies, efficiency depends critically on being able to reallocate outputs and inputs at a rapid pace. For the labor market, the efficient churning of businesses implies a need to reallocate jobs at a high pace without long spells of unemployment. This churning is not without costs. The downside of churning is that workers must relocate and even in the most advanced economies such relocation is costly and the relocating workers bear a disproportionate share of such costs.

START DATE: October 2001

OBJECTIVE

The objective of this study was to:

1. Produce a series of labor market reallocation statistics common across countries
2. Gauge the connection between reallocation, growth and productivity in Latin American economies, where there are potentially a variety of barriers promoting efficient ongoing reallocation
3. Study the effects of structural reforms (including, labor, financial, and trade reforms) on reallocation and productivity growth
4. Assess whether the effect of reallocation has been costly for workers, that is, whether they have paid a price in terms of long unemployment spells and/or wage losses after dis- placement.

METHODOLOGY

The goal in this research project was to use longitudinal micro-level data to analyze firm and worker behavior in Latin American countries during the periods before and after structural reforms (e.g., trade, financial and labor liberalization). All projects had to have access to micro- level panel data of firms and/or workers. In order to allow for multi-country comparisons, a common set of statistics was required for all country studies.

CONCLUSIONS

Some main conclusions and policy recommendations of the study include:

1. As in developed countries, in Latin America, small net changes in employment hide a phenomenal amount of reallocation activity in the labor

market. In a given year, a large number of firms expand their labor force, while many others simultaneously reduce employment. Moreover, a large share of reallocation is driven by the entry and exit of firms. These large levels of reallocation occur independently of the business cycle and across all sectors, no matter how narrowly defined, and across firms of different ages and sizes. High levels of unregistered employment do not drive these large turnover rates since large levels of turnover are also found among registered firms and skilled workers.

2. Most of the reallocation is associated with firm-specific rather than aggregate shocks. Thus, despite the high macroeconomic volatility in Latin America, most of the jobs created and destroyed are the result of firm or sector shocks.
3. Younger firms experience higher job reallocation rates. This suggests that firms go through a learning process about their cost of production and their demand for final goods. As firms age and grow, the learning process declines and the levels of job reallocation decline as well. Firms' learning accounts for most of the growth in aggregate productivity, while the exit of less productive firms accounts for a smaller but still significant share of productivity growth.
4. High wage workers tend to experience lower levels of job reallocation than low-wage workers, even after controlling for firm characteristics. This suggests that higher skilled workers are more difficult to replace than lower skilled workers and therefore skills provide a buffer against employment variability.
5. Evidence from Uruguay, Brazil, and Argentina suggests that higher exposure to international trade was associated with higher rates of job reallocation and higher productivity in the manufacturing sector. Higher reallocation rates were driven by an increase in the rate of job destruction while the effects on job creation were very small or nil. Unions seemingly dampened the effects.
6. From the point of view of workers, the experience of displaced workers is quite heterogeneous across countries, regions, years, and skill levels. In Mexico, displaced workers experienced higher wage earnings than workers who remained in troubled firms. In most cases, displaced workers did not fare much worse than non-displaced workers. However, the state of the economy at the time of dismissal matters; workers dismissed in 1995, a year of deep recession, did worse than workers dismissed in 1996 or 1997 years of rapid recovery and growth. Instead, the evidence for Brazil suggests substantial long-term wage losses associated with displacement. Wage losses are significantly higher among high-skill, high-tenure workers and for workers in large firms who find jobs in small firms after displacement.

These findings have important implications for policy design. First, markets are extremely fluid and require constant reallocation of resources. Institutions and policies, such as restrictions on hiring and firing, that hold down reallocation may undermine productivity growth. Second, the high rates of turnover underscore the importance of instituting widespread social insurance to reduce the costs of economic instability. To minimize such costs, social insurance should be counter- cyclical, increase with a worker's tenure, and contain a mix of job search assistance, unemployment insurance, and retraining.

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- ITAM – Instituto Tecnológico Autónomo de Mexico, Mexico
- Universidad de la República, Universidad ORT & CINVE, Uruguay

COUNTRIES STUDIED

Argentina, Brazil, Chile, Colombia, Mexico, Uruguay

STUDIES PUBLISHED

- "Market Institutions, Labor Market Dynamics and Productivity in Argentina during the 1990s." Journal of Policy Reform, Volume 7, Number 4, pp. 249–278. December 2004. By Gabriel Sanchez and Inés Butler.
- "Trade Liberalization, the Exchange Rate and Job Flows in Brazil." Journal of Policy Reform, Volume 7, Number, pp. 209–223. December 2004. By Eduardo Pontual Ribeiro, Carlos H. Corseuil, Daniel Santos, Paulo Furtado, Brunu Amorim, Luciana Servo, and André Souza.
- "The Impact of Trade Liberalization on Employment, Capital, and Productivity Dynamics: Evidence from the Uruguayan Manufacturing Sector." Journal of Policy Reform, Volume 7, Number 4, pp. 225–248. December 2004. By Carlos Casacuberta, Gabriela Fachola, and Nestor Gandelman.
- "Effects of Tariffs and Real Exchange Rates on Job Reallocation: Evidence from Latin America." Journal of Policy Reform, Volume 7, Number 4, pp. 191–208. December 2004. By John Haltiwanger, Adriana Kugler, Maurice Kugler, Alejandro Micco, and Carmen Pagés-Serra.

Child Health, Poverty, and the Role of Social Policies

Greater investment in the human capital of children is not only likely to improve their current welfare but also to enhance their opportunities over their life cycles. There are many studies that are interpreted to be consistent with this claim for human capital investments in schooling. But there is also evidence that for malnourished populations, the gains from investments in better nutrition may be substantial—perhaps even greater than the gains from schooling investments. These effects may work through a number of channels including reduced mortality, reduced susceptibility to infectious diseases, better cognitive development, increased learning capacity, greater gains from education, and greater labor productivity.

Based on internationally comparable micro-based anthropometric measures, the percentage of children under five years of age suffering from moderate and severe underweight (8 percent), wasting (2 percent), or stunting (16 percent) is relatively low in Latin America in comparison with other developing country regions. Nevertheless, the fact that about one in six children under five years of age—or about 9 million children—in the region suffer from the longer-run undernourishment reflected in stunting suggests that under- nourishment is a significant problem that needs to be better understood. Among the project countries, the prevalence of moderate and sever stunting ranges from 11 percent in Brazil to 39 percent in Honduras. The countries studied cover more than three quarters of the population in the region. Therefore, what has been learned from these studies is likely to have broad implications for most of the region.

START DATE: **January 2003**

OBJECTIVE

The basic objective of this Research Network is to better understand the correlates and determinants of child anthropometrics in the Latin American and Caribbean region. More specifically, the aims of the Research Network are to attempt to identify:

1. The private and public determinants of child anthropometrics
2. The extent to which the private and public determinants interact, and whether interactions suggest gross substitution or complementarities
3. The extent to which the influence of the determinants of child anthropometrics varies by the age and gender of the child

METHODOLOGY

The studies use micro data sets from Argentina, Bolivia, Brazil, Colombia, Ecuador, Honduras, Mexico, Nicaragua, and Peru. All the studies include analysis of micro anthropometric data and how those data relate to family background characteristics, community characteristics including local health services, and the interaction between family background and community characteristics. Most studies include special data that permit advancement beyond cross-sectional correlations, such as longitudinal data, time series of cross-sections, linkages to administrative data on facilities, broader measures than just years of schooling for characterizing the human capital of the parents, and a natural experiment. The empirical approach includes a combination of:

1. Characterizing the extent of child malnutrition
2. Multivariate regression analysis of reduced-form relations with child anthropometrics as the dependent variables in order to investigate the three questions posed in the objective above
3. Special investigations of aspects of child nutrition that are possible given special data.

CONCLUSIONS

Consideration of the details of the individual papers of the project leads to three major themes:

1. The substantive findings imply the possibility of important roles for observed family background and community characteristics. The estimates suggest that family background variables, particularly those related to mother's education and overall household resources, are important correlates and probably determinants of child anthropometrics. They further suggest that public policies and other aspects of communities such as those that relate to water supplies and public health services are also important correlates and probably determinants of child anthropometrics. They do not, on the other hand, suggest pervasive and strong complementarities or substitution between family background and community characteristics and policies.
2. Context matters. Even if preferences and technologies were the same across samples from various parts of Latin America, estimation of reduced-form demand functions does not yield the underlying stable parameters, but combinations of them, that in general vary as market and policy contexts differ. For that reason, it is not surprising that estimates differ across samples. One striking example is the rural-urban difference in the estimated health infrastructure program impact in Peru.
3. The estimates in many cases are sensitive to the underlying assumptions and estimation strategies and suggest there are important family background and community factors that are not observed in the data used. Most of the studies in the symposium went beyond using cross-sectional data with standard variables to attempt to obtain estimates of causal effects and to investigate whether the estimates are sensitive to alternative controls for endogenous right-side variables such as household income expenditures or unobserved household or community characteristics. Examples include the land titling natural experiment for Argentina and controlling for maternal endowments using maternal anthropometric data for Bolivia.

Thus, the papers in the project improve our understanding of the correlates and determinants of child anthropometrics in a region with millions of undernourished children. This improved understanding can help inform better predictions of likely developments over the life cycle of these children and of changes that might be expected for future generations with changes in markets and policies.

COORDINATORS

- Jere R. Behrman, University of Pennsylvania
- Emmanuel Skoufias, World Bank (IDB at the time of initiation of the project)

PARTICIPATING INSTITUTIONS

- UTDT – Universidad Torcuato Di Tella, Departamento de Economía, Argentina
- CIESS – ECONOMETRICA SRL., Bolivia
- FIPE – USP – Fundacão Instituto de Pesquisas Econômicas, Universidade de São Paulo, Brazil
- Econometría S.A., Colombia
- FLACSO – Facultad Latinoamericana de Ciencias Sociales, Ecuador
- ESA Consultores – Economía, Sociedad, Ambiente, Co., Honduras
- UIA – Universidad Iberoamericana, Departamento de Economía & CIDE, Mexico
- GRADE – Grupo de Análisis para el Desarrollo, Peru

COUNTRIES STUDIED

Argentina, Bolivia, Brazil, Colombia, Ecuador, Honduras, Mexico, Peru

STUDIES PUBLISHED

- "Child Malnutrition, Social Development and Health Services in the Andean Region." By Carlos Larrea, Pedro Montalvo, and Ana María Ricaurte. Working Paper 495.

STUDIES PUBLISHED IN JOURNALS

- "Correlates and Determinants of Child Anthropometrics in Latin America: Background and Overview of the Symposium." Economics & Human Biology, Volume 2, Issue 3, December 2004, Pages 335–351. Jere R. Behrman and Emmanuel Skoufias.
- "Effects of Land Titling on Child Health." Economics & Human Biology, Volume 2, Issue 3, December 2004, Pages 353–372. Sebastian Galiani and Ernesto Schargrodsky.
- "Geography and Culture Matter for Malnutrition in Bolivia." Economics & Human Biology, Volume 2, Issue 3, December 2004, Pages 373–390. Rolando Morales, Ana María Aguilar, and Alvaro Calzadilla.
- "Infant Mortality and Child Health in Brazil." Economics & Human Biology, Volume 2, Issue 3, December 2004, Pages 391–410. Denisard Alves and Walter Belluzzo.
- "Child Health in Rural Colombia: Determinants and Policy Interventions." Economics & Human Biology, Volume 2, Issue 3, December 2004, Pages 411–438. Orazio P. Attanasio, Luis Carlos Gomez, Ana Gomez Rojas, and Marcos Vera - Hernández.
- "The Role of Maternal Cognitive Ability on Child Health." Economics & Human Biology, Volume 2, Issue 3, December 2004, Pages 439–455. Luis N. Rubalcava and Graciela M. Teruel.
- "Private and Public Determinants of Child Nutrition in Nicaragua and Western Honduras." Economics & Human Biology, Volume 2, Issue 3, December 2004, Pages 457–488. Vincent David, Marco Moncada, and Fidel Ordoñez.
- "Poverty, Health Infrastructure and the Nutrition of Peruvian Children." Economics & Human Biology, Volume 2, Issue 3, December 2004, Pages 489–510. Martín Valdivia.

Discrimination and Economic Outcomes

Latin America, one of the most unequal regions in the world, suffers from serious problems related to social exclusion. In particular, women, indigenous peoples, afro-descendants, people with disabilities, and people with HIV/AIDS have to face limited opportunities in their daily life. These limitations are reflected in many areas including restricted access to public services, lack of political representation, lack of power in society, deteriorated labor market opportunities, discrimination, and poverty. Most importantly, these disadvantages are cumulative.

In addition to posing a profound moral problem, social exclusion produces a tremendous inefficiency that is detrimental to the economy, democracy, and the whole of society. Discrimination leads to a very unequal distribution of opportunities, which in turn prevents society from benefiting from a greater human capital, independent of race, which could contribute to higher rates of production, productivity, and competitiveness. Therefore, discrimination impedes economic growth and poverty reduction.

START DATE: October 2005

OBJECTIVE

The objective of this research network project was to use a rigorous methodology to detect situations in which discrimination takes place. This project focused not only on the mechanisms through which discrimination occurs but also on the social cost of such discriminatory behavior. Specifically, it aims at providing empirical evidence on the impact of discrimination on economic outcomes. A broad range of issues was aimed to be explored, from the impact of discrimination on individual and household earnings, income inequality, and poverty to its potential links with banking and finance, property rights, and even social capital.

METHODOLOGY

Seven studies covering Argentina, Bolivia, Chile, Ecuador, Honduras, Nicaragua, Peru and Uruguay were selected. The research project encouraged the following: (i) approaches that cross-cut socially excluded groups as well as the different areas in which the discrimination happens; ii) approaches inspired by the experimental literature—this comprised the exploitation of natural experiments or some synthetic setups; (iii) approaches that took a close look at the empirical implications derived from theory in order to tackle unanswered questions such as: How can we, in a Mincerian regression, distinguish taste-based discrimination from unobserved differences in human capital? What is the role played by different types of discrimination (taste-based vs. statistical) in explaining inequality?; (iv) documentation and measurement of how policies, rules, and institutions (or changes in these factors) alter the economic and social impact of discrimination against certain groups.

Researchers were asked to include a descriptive component and a research component.

CONCLUSIONS

This project produced a set of studies on contemporary discrimination in Latin America that took advantage of new tools by focusing on social interactions that range from cooperation, group formation, and the impact of migration in poor families to specific markets such as housing and labor. The techniques applied included traditional regression analysis, experimental approaches, and audit studies, as well as structural methods. This wide range of analytical approaches led to findings that confirm some of the common perceptions regarding discrimination but challenge the conventional wisdom in other regards. In some instances, the long-held conventional wisdom may not hold at all. Latin Americans do not discriminate more or less than inhabitants of other regions, and the discrimination that does occur appears largely to stem from lack of information on individuals. Furthermore, this project's findings extend to the political arena, as they challenge standard policies that have been ineffective for decades.

COORDINATORS

- Alberto Chong, IDB
- Hugo Ñopo

With the support of:

- Claudia Piras, IDB
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PARTICIPATING INSTITUTIONS

- CEDE – Centro de Estudios sobre Desarrollo Económico, Universidad de los Andes, Colombia
- Fundación Sur, Ecuador & Departamento de Economía, Universidad de la República, Uruguay
- GRADE – Grupo de Análisis para el Desarrollo, Peru
- Universidad de Chile, Centro Microdatos, Chile
- Universidad de Chile, Departmento de Economia, Chile
- Universidad ORT, Uruguay
- UNT-INECAP – Universidad Nación de Tucuman, Facultad de Ciencias Economicas, Magister en Economia, Argentina

COUNTRIES STUDIED

Argentina, Bolivia, Chile, Ecuador, Honduras, Nicaragua, Peru, Uruguay

STUDIES PUBLISHED

- "The Role of Social Networks in the Economic Opportunities of Bolivian Women." By Dante Contreras, Diana Kruger, Marcelo Ochoa, and Daniela Zapata. Working Paper R-540.
- "An Experimental Study of Labor Market Discrimination: Gender, Social Class and Neighborhood in Chile." By David Bravo, Claudia Sanhueza, and Sergio Urzúa. Working Paper R-541.
- "What Emigration Leaves Behind: The Situation of Emigrants and their Families in Ecuador." By Ximena Soruco, Giorgina Piani and Máximo Rossi. Working Paper R-542.
- "Ethnic and Social Barriers to Cooperation: Experiments Studying the Extent and Nature of Discrimination in Urban Peru." By Marco Castillo, Ragan Petrie, and Máximo Torero. Working Paper R-543.
- "Discrimination in the Provision of Social Services to the Poor: A Field Experimental Study." By Juan Camilo Cárdenas, Natalia Candelo, Alejandro Gaviria, Sandra Polanía, and Rajiv Sethi. Working Paper R-544.

- "Is There Labor Market Discrimination among Professionals in Chile? Lawyers, Doctors and Businesspeople." By David Bravo, Claudio Sanhueza, and Sergio Urzúa. May 2008. Working Paper R-545.
- "Gender Differentials in Judicial Proceedings: Field Evidence from Housing-related Cases in Uruguay." By Eduardo Gandelman, Néster Gandelman, and Julie Rothschild. January 2008. Working Paper R-546.
- "Female-headed" Households and Homeownership in Latin America. By Néster Gandelman. Research January 2008. Working Paper R-547.
- "Ability, Schooling Choices and Gender Labor Market Discrimination: Evidence for Chile." By David Bravo, Claudia Sanhueza, and Sergio Urzua. May 2008. Working Paper R-558.

BOOK PUBLISHED

Discrimination in Latin America: An Economic Perspective. Hugo Ñopo, Alberto Chong, and Andrea Moro, editors. Washington, DC: Inter-American Development Bank and World Bank. 2010.

The Quality of Education in Latin America and the Caribbean

Research long has substantiated a positive link between education, human capital, and economic growth. More educated countries have higher levels of growth. Yet, to a large extent, education has failed to deliver on its promise to improve economic growth. Particularly in the developing world, more years of education have not produced commensurate gains in growth. Some of this short-coming reflects the limitation of traditional studies of human capital, and their focus on the quantity of education, particularly average years of schooling attained across the general population, without consideration of the quality of education received. By taking advantage of recent developments in the conceptualization of education quality and its links to GDP levels and inequality across the world, a lot can be learned in the context of this research project in terms of these two key components of welfare—and quality of life—as determined by education.

START DATE: May 2007

OBJECTIVE

The objective of this study was to deepen the understanding of the quality of education and its underlying factors in Latin America and the Caribbean. Education quality remains a critical challenge throughout Latin America and the Caribbean. International test data, including results from the Program for International Student Assessment (PISA), indicate that learning throughout the region lags behind countries in (e.g.) Eastern Europe and Asia and that shortfalls identified throughout the region are not confined to students from families at the lower end of the income scale. At the time this project was launched, however, such test results had not been fully synthesized or explored. Data from PISA had been analyzed by the OECD and the first round of the Laboratory data (LLECE) by UNESCO, the IDB and other institutions and researchers, but considerable room existed for further analyses, particularly at the country level. Moreover, the development of recent protocols for pooling and analyzing data from various sources offered an innovative means for critically examining the acquisition of cognitive skills at different points along the learning trajectory. Gaps in learning between and within countries (e.g., as discriminated by institutional, socioeconomic, geographic variables), and the factors giving rise to them, thus could be identified, and links between the quality of education and quality of life could be drawn. It is in these respects that the studies produced under this project display their greatest value added.

This research project aimed to further the knowledge of the determinants of low-quality education in Latin America. In doing so, it provided the basis for a deeper understanding of how and to what extent the quality of education impacts and interacts with the quality of life for the majority of people living in the region.

METHODOLOGY

Seven proposals covering Argentina, Bolivia, Brazil, Chile, Mexico, Paraguay and Peru were selected. Researchers were asked to: (i) propose a means to critically examine and decompose the factors contributing to education quality at the national level; (ii) capture differences in socioeconomics, location (urban/rural), gender, ethnicity or race, among others; (iii) compare and contrast results within the country, within the region, and internationally; and (iv) include—if the availability of reliable datasets allowed it additional sets of analyses for:

- **a.** The distribution of cognitive skills within the general population and the relationship of this distribution to the distribution of income, to growth and the overall quality of life, broadly defined to include a variety of outcomes (e.g., health, crime, social mobility).
- **b.** A critical examination of the determinants of inequality and equal opportunity, as affected by education quality.
- **c.** A careful analysis of indirect impacts of education quantity and quality on a limited series of issues, such as health outcomes (e.g., infant mortality, maternal mortality, fertility), migratory decisions, crime rates, and social mobility, among others.

CONCLUSIONS

Latin America and the Caribbean have made important advances in education over the past century. Still, such advances have not been able to compensate for the substandard quality of education in the region. In terms of policies, there are several things a country can do to improve their situation, and this is something the specialists know, but first the country has to convince itself that education is a priority.

Poor performance is in part explained by lack of resources allocated to education. For example, youth living in rural areas are clearly in disadvantaged situations and attend schools with very limited resources; however, the lack of resources allocated is not the only explanation. For example, Argentina, spends in a relatively similar way in terms of its GDP as countries with similar income levels, but has more students to educate since its population is relatively younger. Thus, per student, Argentina spends less than other similar income level countries.

We find that in addition to the lack of investment in this sector there are several factors showing that the educational systems are very inefficient. We find differences in both, how the school is working and how much effort is placed by parents, which helps explain the gap.

Student selection is positively related to achievement, eventually accentuating the social gap because selection is typically performed by schools receiving students from higher socioeconomic families. Preventing selection, at least during the first years of schooling, should have several positive consequences: (i) reducing the inequality in learning opportunities (poor children do even worse in poor classrooms than they would do in schools with a more mixed socioeconomic environment); (ii) controlling unfair market advantages for selective schools; and (iii) making less difficult the task for public schools.

Another relevant conclusion of this study concerns the role of teachers and teacher evaluation. Educational policies have often centered on other key aspects of the educational environment (improving educational infrastructure, providing schools with textbooks, libraries and computers, and reforming the curriculum); teachers became the main concern in the last few years. Among the policies, this study provides some favorable evidence in terms of: improving the qualification of teachers, making the teacher instruction process a university degree, creating incentive programs, improving the hourly wage so they do not need to work so many hours, increasing the ratio of teachers actually teaching, and spending resources in the less advantageous students in order to improve their performance.

Families need to be involved in the process and systems need to be developed that are specifically designed to deal with less disadvantageous students, allocating enough resources and effort to educate their future labor forces properly. As schooling increases, the initial skill level grows and its use in work also increases throughout the work cycle.

COORDINATORS

- Suzanne Duryea
- Juan Carlos Navarro

PARTICIPATING INSTITUTIONS

- ABT Asociados Inc., Peru
- FIEL — Fundación de Investigaciones Económicas Latinoamericanas, Argentina
- Fundación ARU, Bolivia
- Instituto Desarrollo, Paraguay
- Instituto Futuro & Escola de Economia de São Paulo-FGV, Brazil
- MIDE-UC-Centro de Medición, PUC-Chile, Chile
- Spectron Desarrollo, Mexico

COUNTRIES STUDIED

Argentina, Bolivia, Brazil, Chile, Mexico, Paraguay, Peru

SELECTED PROPOSALS

- "The Quality of Education in Chile." MIDE-UC-Centro de Medición, PUC-Chile
- "Schools, Teachers, and Academic Achievement in Bolivia." Fundación ARU
- "The Quality of Education in Argentina." FIEL – Fundación de Investigaciones Económicas Latinoamericanas
- "The Quality of Education in Brazil." Instituto Futuro Understanding & Escola de Economia de São Paulo-FGV
- "The Quality of Education in LAC: The Case of Peru." ABT Asociados Inc.
- "The Quality of Education in the Latin American and Caribbean Region: The Mexican Case." Spectron Desarrollo
- "The Quality of Education: The Case of Paraguay." Instituto Desarrollo

TECHNICAL NOTES:

- "The Quality of Education in Argentina." By Sebastian Auguste, Maria Echart, and Francisco Franchetti. January 2008. Technical Note: IDB-TN-696.
- "The Quality of Education in Brazil." By Naercio Aquino Menezes-Filho, Creso Franco, and Fabio Waltenberg. January 2008. Technical Note IDB-TN-697.
- "Quality of Education in Chile." By Jorge Manzi, Katherine Strasser, Ernesto San Martin, and Dante Contreras. February 2008. Technical Note IDB-TN-698.
- "The Quality of Education in Latin America and the Caribbean Region: The Mexican Case." By Susan W. Parker, Jere R. Behrman, and Luis Rubalcava. February 2008. Technical Note IDB-TN-699.
- "The Quality of Education in Paraguay." By Katherine Baird, Rodolfo Elias, Víctor Vázquez Aranda, Néstor Peralta, and Mirna Vera. February 2009. Technical Note IDB-TN-700.
- "The Quality of Education in Latin America and the Caribbean: The Case of Peru." February 2008. Technical Note IDB-TN-701.

BOOK PUBLISHED

The studies produced under this project were used in the production of the chapter "Learning about Education Quality and Perceptions" of the book *Beyond Facts: Understanding Quality of Life*, coordinated by Eduardo Lora, Inter-American Development Bank. 2008.

Understanding Quality of Life in Latin America and the Caribbean: A Multidimensional Approach

Traditionally, the concept of quality of life has been viewed through objective indicators. This project and the accompanying book, *Beyond Facts*, look at quality of life through a new lens: namely, the perceptions of millions of Latin Americans. Using an enhanced version of the recently created Gallup World Poll that incorporates questions specific to Latin America, the Inter-American Development Bank surveyed people from throughout the region and found that perceptions of quality of life are often very different from the reality. These surprising findings have enormous significance for the political economy of the region and provide a wealth of information for policymakers and development practitioners.

START DATE: June 2007

OBJECTIVE

The data and analyses that grew out of this project offer a new perspective for governments that want to identify the true needs of their citizens, for politicians who want to detect problems and controversial issues as the basis for their campaigns and decisions, and for companies and economic agents that need to better understand the behaviors of their markets and customers.

Specifically, the purpose of this Research Network project was to take advantage of the growing set of statistical indicators on quality of life to shed light on questions such as:

- What is quality of life and how should be measured? If quality of life is multidimensional, are those dimensions comparable and suitable for aggregation across LAC countries?
- What is the relation between quality of life (and/or its dimensions) and the traditional measures of production, income, consumption, health and education, and access to basic services?
- Since quality of life is relative and subjective in nature, can it be compared across individuals and across societies?
- How are perceptions on quality of life formed?
- What aspects of quality of life should be the object of public policies?

METHODOLOGY

This study focused on the opinions that Latin Americans have of their own lives and of the situations in their countries. This approach stands in stark contrast to the traditional approach of economists, who have avoided the use of subjective data both for theoretical reasons and because of the practical difficulties of measuring and interpreting opinions.

This study made ample use of opinion surveys, not only to find out how individuals perceive their own well-being, but also to explore how they value the different aspects of their lives, how satisfied they are with their health, with their education and that of their children, with their work, and with various public goods—from urban infrastructure to safety.

The prime source of information on quality of life perceptions used were the system of surveys on the quality of life established on a worldwide level by the Gallup Organization. These surveys facilitate international comparisons. However, as the samples were representative only at a national level and the coverage of certain topics is limited, other multinational opinion polls are also used, such as the Latinobarometer and Vanderbilt University's Latin American Public Opinion Project (LAPOP), as well as surveys carried out by national institutes of statistics in certain countries.

To illustrate the parallel between subjective opinions and objective indicators, this study introduced a Subjective Human Development Index, comparable to the well-known United Nations Human Development Index.

Seven proposals were selected. Research Centers were asked to cover between one and three of the following quality of life related subjects:

- Measurement of quality of life
- Income and deprivation measures
- Housing and urban infrastructure conditions
- Working conditions
- Health perceptions
- Educational quality perceptions
- Inequality and the formation of perceptions and expectations

CONCLUSIONS

Quality of life goes beyond the observable facts. Quality of life is not simply the result of "objective" conditions that are externally observable. The way individuals perceive these conditions and the evaluations they make of their own lives are also central aspects of quality of life. Since the valuation that individuals implicitly give to many of the things that count in their satisfaction differs openly from the valuation that the market gives them, a higher income or consumption level does not necessarily mean a higher level of individual well-being.

What counts in life. In the opinion of Latin Americans, some of the things that count most in their life satisfaction are, in order, being able to buy food, having friends to turn to, enjoying good health, and having religious beliefs.

Relative levels of satisfaction. Costa Ricans are the most satisfied people in the region, followed closely by Panamanians, Mexicans, and Venezuelans. The peoples of Haiti, Dominican Republic, and Nicaragua appear among the least satisfied with their lives. Relatively rich countries in the region, such as Chile and Trinidad and Tobago, have low satisfaction levels for their income levels. Guatemala and Venezuela have very favorable opinions considering their objective conditions of human development, while people in Argentina, Chile, Peru, and Trinidad and Tobago do not give sufficient recognition to their own achievements.

Growth paradox. Satisfaction with life in general is greater in countries with higher levels of income per capita. But in countries that have enjoyed high growth rates in recent years, people tend to feel less satisfied with various aspects of their lives than people in other countries with similar income levels that have grown less. The unhappy growth paradox is a threat to policies that promote efficiency. A strategy focused exclusively on growth has few possibilities of being politically sustainable.

Aspiration paradox. The poorest and least educated have a better opinion of social policies than richer or better educated individuals in the same countries. Lack of aspirations weakens the demands of the poor for better education, health services, and social protection compared with middle- or high-income groups that have more information and political influence.

Education paradox. Although the scores that Latin Americans achieve on international academic tests are very low, the population has a predominantly favorable opinion of their education systems. More educated individuals, whose aspirations and expectations are higher, have more critical opinions about the education systems of their countries.

Employment paradox. Latin Americans are surprisingly satisfied with their jobs, despite a very high level of informality, which has increased in the last decade, along with the percentage of workers who are not covered by the social security system, who have temporary jobs, or who receive wages below the minimum needed to escape poverty. People place a greater value on flexibility, personal skill development and recognition than on the conditions that conventionally define a job as good quality. Under these circumstances, policymakers must rethink labor policies because their current objectives run contrary to the opinions and needs of many people.

Urban quality of life. More than bricks and mortar. Although four out of five people say they are satisfied with their homes and their cities, most are aware that their satisfaction would improve if other problems were solved. The most common and urgent problem is crime. Almost 60 percent of Latin American and Caribbean people feel unsafe walking alone at night in their neighborhoods. No other region in the world suffers such a climate of insecurity.

The role of perceptions in the political process. The usefulness of the many quality of life indicators for public policies depends on an understanding of how perceptions are formed and what factors influence them, as well as on recognizing the incongruities between perceptions and the economic and social indicators that society has chosen as its objectives.

COORDINATORS

- Eduardo Lora, IDB
- Juan Carlos Navarro
- Hugo Ñopo
- Carmen Pagés-Serra, IDB
- Jere R. Behrman, Unviersity of Pennsylvania
- Carol Graham
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PARTICIPATING INSTITUTIONS

- FEDESARROLLO – Fundación para la Educación Superior y el Desarrollo, Colombia
- FGV/CPS Fundação Getúlio Vargas/Centro de Politicas Sociais, Brazil
- FLACSO Mexico
- IFC – Instituto Futuro Brasil, Brazil
- PUC-Chile, Instituto de Sociología, Chile
- Spectron Desarrollo, Mexico
- UNLP – Universidad Nacional de la Plata, CEDLAS, Uruguay

COUNTRIES STUDIED

Region-wide, Mexico

SELECTED PROPOSALS

- "A Perceived Human Development Index." FGV/CPS (Fundação Gertulio Vargas/Centro de Politicas Sociais)

- "Income, Deprivation and Perceptions in LAC: New Evidence from the Gallup World Poll." UNLP (Universidad Nacional de la Plata, CEDLAS)
- "The Measurement of Quality of Life: Conceptualization Comes First." FLACSO-Mexico
- "Understanding Quality of Life in LAC: Satisfaction, Quality of Education and Income Equality." PUC-Chile, Instituto de Sociología
- "Vulnerabilities and Quality of Life: An Analysis Based on Different Types of Insecurity." FEDESARROLLO (Fundación para la Educación Superior y el Desarrollo)
- "Working Conditions and Mental Health in Mexico. Evidence from the MxFLS." Spectron Desarrollo.
- "Working Conditions and Quality of Life in Latin America." IFB-Instituto Futuro Brasil.

BOOK PUBLISHED

Beyond Facts: Understanding Quality of Life. Development in the Americas. Eduardo Lora, editor. Washington, DC: Inter-American Development Bank. November 2008.

Quality of Life in Urban Neighborhoods in Latin America and the Caribbean

Which housing characteristics, neighborhood amenities, and urban public goods are important in determining individuals' levels of well-being or quality of life (QoL)? That is a basic but critically important question for citywide planning authorities, subcity units of government, and neighborhood organizations that must constantly make decisions about the provision of public services as they try to improve living standards for urban populations. Making such decisions is a particularly challenging task because many such services and amenities are not traded in direct markets, and there is little reason for individuals to disclose their true demands or valuations. Without appropriate valuations, how can policy makers decide where to focus their limited resources?

This project suggests how to put into practice an urban quality of life monitoring system that has a solid conceptual basis and is both easy to operate and reasonable in cost. Long the ideal of many scholars and observers of urban problems, such a system may now be close to realization.

START DATE: June 2007

OBJECTIVE

The general purpose of this study is to provide updated estimates of QoL indicators for urban neighborhoods in a sample of Latin American cities. More specifically, there are two objectives. First, to provide a diagnosis regarding the behavior of these QoL indicators in order to address questions such as the following: Do we find important disparities in the QoL of urban neighborhoods both across and within cities? Are within-city disparities associated with a strong spatial pattern (low and high QoL neighborhoods are mainly concentrated in certain areas: central districts vs periphery)? What are the main driving forces pushing down QoL in different neighborhoods? Are the differences in QoL closely correlated with differences in income?

The second objective of the study is to provide inputs for policy action. In this respect, at the very least, the information presented in the various studies should influence the public debate and place on the policy agenda issues associated with QoL in city neighborhoods. A more ambitious aim is for the analysis to help determine the priorities and actions of urban infrastructure and other intervention policies. To facilitate both objectives the studies will provide a methodology/model to perform a survey/monitoring system on QoL indicators to be implemented on a regular basis by municipalities.

METHODOLOGY

The method combines objective and subjective information in a coherent manner to focus on the most relevant dimensions of the QoL in a city or neighborhood. The analysis uses two conceptually basic criteria: the market price of housing (a hedonic measure) and individuals' life satisfaction (LS) measures.

Using hedonic and LS approaches, quantitative measures are obtained regarding the values that people and markets implicitly assign to specific characteristics of housing quality, access to different goods and services, and neighborhood amenities (such as parks) and disamenities (such as crime).

A key aspect that differentiates this analysis from recent academic and policy work is the level of disaggregation. The objective of this project is to consider a within-city analysis. Thus, many of the QoL indicators that are analyzed are computed at the neighborhood level.

This project uses a diverse range of LAC cities for the case studies, including Buenos Aires (Argentina), Bogotá and Medellín (Colombia), San José (Costa Rica), Lima (Peru), and Montevideo (Uruguay).

CONCLUSIONS

Many aspects of cities—such as transportation and the quality of public spaces or recreation services—fall outside of generalizations because the essence of urban life is diversity: different people look for different things in the same city, and cities and neighborhoods can respond differently to the diversity of their inhabitants' interests and needs. This fact calls for an approach that takes into account both objective and subjective variables—an approach that focuses on specific cities or even neighborhoods, and one that considers variations in tastes, needs, and interests.

The power of a monitoring system resides not in trying to cover every type of topic, but in covering key issues on the basis of a careful exploration of the determinants of housing prices and of individuals' satisfaction with life or with the city.

The main information-gathering effort involved in establishing a sound QoL monitoring system should take place during the system's preparatory phase rather than during its regular functioning.

Apart from housing quality and access to public services, safety stands out as the aspect that most significantly affects urban areas' QoL. It is interesting that objective measures of crime do not always correlate with perceptions of safety. Creative policy thinking is required not only to reduce the actual incidence of crime, but also to ensure that urban populations feel safe. All the cities and countries analyzed appear not to have been able to provide the perception of a safe environment for their urban populations. At a more local level, municipal governments should establish information systems for monitoring the variables affecting QoL in urban neighborhoods.

Investigators should use secondary sources (censuses and household surveys) to gather quantitative information at a highly disaggregated, census-tract level of basic socioeconomic and housing indicators.

These secondary sources should be complemented by surveys (with subcity representation). In addition to covering some quantitative socioeconomic and housing variables, those surveys should include subjective questions about satisfaction with several dwelling and neighborhood characteristics (beyond overall life satisfaction).

One key objective of such subjective questions is to gauge the consistency between objective QoL indicators and people's perceptions of those variables. A second purpose of subjective survey questions is to extract an implicit value for certain public goods (or bads). And it is very important to develop and monitor a data set comprising house prices and rents.

Efforts are needed to link the valuable information already available at the national level with other information sources (including subjective surveys) and to provide results that are useful at different levels of government (including regions, cities, and subcity jurisdictions).

COORDINATORS

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PARTICIPATING INSTITUTIONS

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- Fundación ARU, Bolivia
- GRADE – Grupo de Analisis para el Desarrollo, Peru
- UDELAR – Universidad de la Republica, Departamento de Economia, Uruguay
- UNLP – Universidad Nacional de la Plata, CEDLAS, Uruguay

COUNTRIES STUDIED

Argentina, Bolivia, Colombia, Costa Rica, Peru, Uruguay

STUDIES PUBLISHED

- "Quality of Life in Montevideo." By Zuleika Ferre, Néstor Gandelman, and Giorgina Piani. September 2008. Working Paper R-561.
- "Quality of Life in Urban Neighborhoods in Costa Rica." By Luis J. Hall, Róger Madrigal, and Juan Robalino. October 2008. Working Paper R-563.
- "The Importance of Public Resources in the Quality of Local Life: The Case of Manizales, Colombia." By Liliana Velásquez. June 2011. Working Paper IDB-255.

BOOK PUBLISHED

The Quality of Life in Latin American Cities: Markets and Perception. Eduardo Lora, Andres Powell, Bernard M.S. van Praag, and Pablo Sanquinetti, editors. Washington, DC: Inter-American Development Bank. May 2010.

Understanding Productivity Levels, Dispersion, and Growth in Latin American and Caribbean Industries

On average, Latin American and Caribbean countries are underperforming other developing countries in terms of productivity growth. This differential productivity helps explain why the region has shown very modest economic growth in the past 15 years and why, despite unusually favorable international conditions over the last half decade, the region has lagged behind other regions in economic growth. For a region starved for growth, diagnosing the causes of this poor productivity and attacking their roots is a high development priority.

START DATE: **April 2008**

OBJECTIVE

This Research Network project has two objectives. The first is to document the level, dispersion, and growth of productivity across firms and industries in Latin America and the Caribbean. The second is identifying the possible role of public policies in this outcome. Specifically, the project will attempt to address issues such as the following:

- Differences in productivity level and growth within and across industries, firm sizes, and formal vs. informal firms.
- How the level and dispersion in productivity levels and growth in Latin American and Caribbean industries compare to those of reference countries, such as the United States, Europe, Japan, Korea, or other fast-growing East Asian countries.
- How much of the growth in average productivity is due to the growth of productivity of incumbent firms? How much is due to net exit of firms? How much is due to the reallocation of labor across incumbent firms?
- The extent and causes of heterogeneity in labor and total factor productivity across production units within given sectors.
- What are the productivity differences between formal and informal establishments in the sectors studied?
- How does productivity growth in the sector(s) studied compare with other sectors?
- What policies, government programs, and/or market failures may contribute to impeding the expansion of more productive firms and/or preserving the market share of less productive firms?

METHODOLOGY

Six proposals were selected. Researchers were asked to:

a. Document differences in productivity level and growth within and across industries, firm size, and formality status. Specifically, document labor and total factor productivity differences within and across narrowly defined economic sectors and across small and larger scale establishments within a country, using firm or establishment-level data.

b. Undertake industry studies analyzing possible obstacles to product substitution within narrowly defined sectors. In other words, to analyze how policy frictions relate to productivity distribution and productivity growth in a given sector.

CONCLUSIONS

Latin America's productivity is about half its potential and it is not catching up with the frontier. Closing the productivity gap with the frontier would actually close most of the income per capita gap with developed countries. Viewed in a comparative global context, slow productivity growth is responsible for slower growth in Latin America.

The picture that emerges of the studies is of a region populated by a few very productive firms and many other firms of extremely low productivity; the region's challenge is to raise the proportion of medium-level productivity firms. Simply increasing the ranks of such firms—without actually changing the productivity of individual firms in the region—could double aggregate productivity, a boost large enough to close the gap with the productivity frontier.

On another front, the studies point to the service sector—particularly the extensive retail subsector—as the major culprit in the region's productivity problems. Agricultural productivity has actually grown at a healthy rate but a relatively small percentage of the labor force is still engaged in farming. And while productivity in industry has languished, the number of workers in this sector has declined as well. That leaves services, the most unproductive sector where the lion's share of the workforce is employed, with devastating consequences for aggregate productivity. The implication is that a growth strategy focused on boosting exports may be at best incomplete, and at worst misguided; a better approach with higher returns might be to prime the large, nontradable services sector.

The causes of the low productivity that plagues the region are many and varied. High rates of informality screen small, inefficient firms from the competition of better, more productive businesses. Some social policies conceived with the best intentions end up having unintended results on productivity because they actually push more and more people into low-productivity activities. High transport costs, innovation, and insufficient or poorly designed productive development policies have all played a role in retarding productivity growth throughout the region. The challenge resides in designing and implementing a coherent set of policies to unleash a country's productive potential.

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PARTICIPATING INSTITUTIONS

- FEDESARROLLO – Fundación para la Educación Superior y el Desarrollo, Colombia
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- INESAD – Instituto de Estudios Avanzados en Desarrollo, Bolivia
- UFRJ – Universidade Federal do Rio de Janeiro, Instituto de Economia & IPEA, Brazil
- Universidad ORT Uruguay, Montevideo, Departamento de Economía, Uruguay
- UTDT – Universidad Torcuato Di Tella, Departamento de Economía, Argentina

COUNTRIES STUDIED

Argentina, Bolivia, Brazil, Colombia, Uruguay

SELECTED PROPOSALS

- "Misallocation and Manufacturing TFP in the Market Liberalization Period of Bolivia." INESAD (Instituto de Estudios Avanzados en Desarrollo)
- "Obstacles for Productivity Growth in the Brazilian Informatics Sector." UFRJ (Universidade Federal do Rio de Janeiro, Instituto de Economia & IPEA)
- "Productivity Growth and Dispersion in Uruguay: Beyond the Manufacturing Sector." Universidad ORT Uruguay, Montevideo, Departamento de Economía
- "Understanding Productivity in Argentine Industries: A Case Study Approach." IERAL, Fundación Mediterranea
- "Understanding Productivity Levels, Dispersion and Growth in Argentina." UTDT (Universidad Torcuato Di Tella, Departamento de Economía)
- "Understanding Productivity Levels, Dispersion and Growth in Three Colombian Industries." FEDESARROLLO (Fundación para la Educación Superior y el Desarrollo)

BOOK PUBLISHED

The Age of Productivity: Transforming Economies from the Bottom Up. Development in the Americas. Carmen Pajes, editor. Washington, DC: Inter-American Development Bank. 2010.

Innovation, R&D Investment, and Productivity in Latin American and Caribbean Firms

Latin American and Caribbean countries are underperforming other developing countries in terms of productivity growth, on average. This differential productivity can explain why economic growth has been modest in the region in the last 15 years and why, despite unusually favorable international conditions over the last half decade, the region has lagged behind other regions in economic growth.

Innovation, broadly defined as the introduction of new products or processes by firms—a definition that includes research and development investments, but is not confined to technology-based innovation activities—has been credited as the ultimate engine of productivity growth by a long tradition in the economic literature. However, this causal relationship had not yet been well established in the region.

This project aims to explore the innovation behavior of firms in the region, with the overall goal of providing useful directions in policy design to support the innovation process.

START DATE: September 2008

OBJECTIVE

The country studies in this project have three main objectives:

1. To establish whether private investment in research and development plus innovation (R&D+I) has an impact on productivity growth in the region, the extent and characteristics of that impact (by type of firm, by sector, by type of investment), and how and why such impacts are taking place.
2. To produce a thorough characterization of the innovative behavior of firms in selected Latin American countries, as portrayed in the national innovation surveys available, or other relevant sources.
3. To establish the main determinants of innovation behavior at the firm level, following a consistent methodology and a comparable analytical framework.

METHODOLOGY

Individual country studies have two parts. The first and most important section is devoted to developing econometric studies of the determinants of innovation and their effects on productivity at the firm level. The second examines a detailed case study to substantiate the relationships uncovered by the econometric models.

CONCLUSIONS

The capacity of a society and its firms to generate and assimilate technological change is a key component of prosperity and growth. Many Latin American firms invest in innovation. Nonetheless, their financial commitment amounts to a mere 0.5 percent of gross revenue compared to 2 percent, or four times higher, for countries in the Organization for Economic Cooperation and Development (OECD). Firms in the region spend most of their innovation dollars on assimilating technology in new equipment and machinery, while developed countries invest primarily in research and development.

The public sector is the biggest spender on research and development, but its focus is on basic research in universities and public research centers which, with valuable exceptions, have little influence on productive innovation and low scientific performance by international standards.

The main obstacles to innovation in the region are lack of finance, long return periods, small domestic markets, and a shortage of trained personnel. Consequently, deepening credit markets, lowering transportation costs, and improving education and worker training can boost the incentives for firms to innovate. Governments must solve failures in communication among the various actors in innovation systems in order to have positive outcomes in the productive system.

Argentina (WP 187). A study of different types of firms from 1998 to 2004 found that all types of innovative activities—including in-house activities and the incorporation of external technologies—are relevant to explain success in product and process innovation, and both are important factors to explain labor productivity. Moreover, investing systematically in research and development implies an extra payoff in labor productivity. These results suggest that investing in different types of innovative activities—and not only in R&D—and doing in-house activities systematically contribute to firms' innovative and economic performance.

Costa Rica (WP 189). A study of domestic ICT firms in Costa Rica found that rather than being driven to increase productivity, most firms appear to be driven to retain or increase market share in their innovative activities. Impediments include problems protecting intellectual property, lack of knowledge about financial resources available, and scarcity of human resources. Worker mobility from multinationals operating in Costa Rica may be providing knowledge spillovers to domestic firms.

Chile (WP 190). The study centered on the Chilean manufacturing industry during the past decade and found a very slow process of learning by doing on the part of Chilean firms with regard to mastering new technologies. These slow and frequently uncertain gains in productivity could help to explain the low levels of investment in R&D activities by Chilean firms.

Uruguay (WP 191). Uruguay's low investment in knowledge capital stands as a most likely explanation for Uruguay's inability to sustain high levels of economic growth. In particular, the degree of novelty of process innovation is significantly less than that of product innovation. The research points to inadequate choices of input mixes as the underlying cause. Policy recommendations center on finding adequate channels to generate and disseminate information on the optimal input mixes, depending on the type of innovation output sought.

Peru (WP 249). This study centers on two chains in low and medium-technology industries (the pisco chain and shoe chain) that are served by the network of Technological Innovation Centers (CITEs), the most important technology policy instrument available in Peru. The role of technical standards has played an important means of technological diffusion, and is stressed in the work of the CITEs. For the pisco chain, that role involves the definition of the product itself, for which Peru is seeking a World Intellectual Property Organization (WIPO) designation. In the shoe chain, the technical standard should act as a coordination mechanism that will help increase efficiency throughout the chain, which is often fractured.

Colombia (WP 251). This paper attempts to establish a formal relationship between innovation and productivity using Colombian firm-level data. The production of goods and services new to the firm and to the domestic market enhances firms' sales per worker, and innovation that results in introducing new goods and services to the international market boosts both sales and total factor productivity (TFP). Innovation in processes also improves firms' productivity and sales. Finally, innovation in marketing and management increases sales per worker and enhances TFP when investments are made in R&D.

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- Fundacion CAATEC, Costa Rica
- GEOPS – Grupo de Estudios en Económia Organización y Politicas Sociales, Uruguay
- GRADE – Grupo de Analisis para el Desarrollo, Peru
- Universidad de los Andes, Facultad de Administración, Colombia

COUNTRIES STUDIED

Argentina, Chile, Colombia, Costa Rica, Peru, Nicaragua, Uruguay

STUDIES PUBLISHED

- "Innovation and Productivity in the Argentine Manufacturing Sector." By Valeria Arza and Andres Lopez. August 2010. Working Paper IDB-187.
- "Innovation, Research and Development, and Productivity in the Costa Rican ICT Sector: A Case Study." By John Hewitt and Ricardo Monge-Gonzalez. June 2010. Working Paper IDB-189.
- "Innovation, R and D Investment, and Productivity in Chile." By Roberto Alvarez, Claudio Bravo-Ortega, and Lucas Navarro. Working Paper IDB-190.
- "Innovation, R and D Investment, and Productivity: Uruguayan Manufacturing Firms." By Adriana Cassoni and Magdalena Ramada-Sarasola. August 2010. Working Paper IDB-191.
- "Innovation, Research and Development, and Productivity Case Studies from Peru." By Juana Kuramoto. June 2011. Working Paper IDB-249.
- "Innovation, Research and Development Investment, and Productivity in Colombian Firms." By Maria Angelica Arbelaez and Monica Parra Torrado. May 2011. Working Paper IDB-251.

BOOK PUBLISHED

The studies of this project were used as inputs for the following publication:

The Age of Productivity: Transforming Economies from the Bottom Up. Development in the Americas. Carmen Pajes, editor. Washington, DC: Inter-American Development Bank. 2010.

Information and Communication Technologies (ICT) and Societal Empowerment

Policymakers and academics agree that computers, the Internet, mobile telephones, and other information and communication technologies can be beneficial for economic and social development. But how strong is the impact? What conditions influence their effectiveness on development? The IDB took a bold step to apply strict statistical tools in a systematic way to evaluate how these technologies have contributed to the success of several development projects in the region. The impact evaluations in this project cover the use of ICT in finance, institutions, education, health, the environment, and labor.

START DATE: January 2009

OBJECTIVE

This project explores how information and communication technologies can empower groups and individuals in Latin America and the Caribbean. Of particular interest are individual empowerment with respect to government; individual empowerment with respect to business; and business empowerment with respect to government.

METHODOLOGY

In all three cases, this project identifies structures in which one group may benefit from the added access and ease of information that ICT tools can provide, as well as the potential impact of new relationships resulting from the use of ICT. The preferred (but not exclusive) methodological framework is randomized experimental trials.

Areas investigated are sectors where policy impact is particularly relevant, such as health (telemedicine), education (computers in the classroom), labor (job search systems), and finance (mobile banking), as well as issues with particular policy relevance such as gender, social mobility, political participation, and corruption.

CONCLUSIONS

Greater access to ICTs alone cannot bring about economic development in the region. The quality of institutions and regulations, people's skills, and physical infrastructure are crucial for ICTs to have a positive impact on development. Before investing in acquiring and expanding access to ICTs, governments must evaluate and strengthen their countries' capacity to use them. Among the main conclusions:

- Be sensible and recognize that ICTs are not an end.
- Be aware that complementarities are essential. ICTs do not arise and spread in a vacuum. The quality of institutions and regulations, the skills of the population, and the physical infrastructure are all crucial to the success of ICT applications.
- Define policy goals in terms of use, not access.
- Foster cooperation to develop public goods. There are important ways in which countries can cooperate to increase their chances of success. To do so, they should channel resources to activities that generate benefits for all (public goods), either through their own domestic spending or by pooling resources internationally.
- Explore private-public partnerships.

- Encourage large-scale projects to increase relative returns on investments.
- Not be satisfied with limited ICT evaluations. Longer-term randomized trials repeated across varying contexts and scales should be used to decide what works and what does not.

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- Fundacion CAATEC, Costa Rica
- GRADE – Grupo de Analisis para el Desarrollo, Peru
- MBC & MORI Consultores, Argentina
- Research Group AYMURAY, Bolivia
- SASE – Sequimiento, Análisis y Evaluación para el Desarrollo, Peru
- Stratega BDS, Ecuador
- Universidad de Chile, Centro Microdatos, Chile
- Universidad del Rosario, Facultad de Economia
- Universidad ORT, Uruguay

COUNTRIES STUDIED

Argentina, Bolivia, Chile, Colombia, Costa Rica, Ecaudor, Honduras, Peru, Uruguay

SELECTED PROPOSALS

- "Benefits of ICTs in Colombia's Agricultural Markets," CEDE – Centro de Estudios sobre Desarrollo Economico, Universidad de los Andes
- "Can ICTs Prevent Malaria? Evidence from a Randomized Experiment in the Border Between Ecuador and Peru." SASE – Seguimiento, Análisis y Evaluación Para el Desarrollo
- "Empowering Internally Displaced People in Colombia through the use of ICTs." Universidad del Rosario, Facultad de Economia
- "Evaluating the Effectiveness of Online Sexual Health Education for Risk Reduction among Public School Students in Metropolitan Colombia." GRADE – Grupo de Analisis para el Desarrollo
- "ICTs and Small and Medium Enterprises (SMEs) Performance in Costa Rica: A Randomized Controlled Experiment." Fundacion CAATEC
- "ICTs and Student Absenteeism in Argentina." MBC & MORI Consultores
- "ICTs and Student's Achievement: Evidence from a Radomized Experiment in Ecuador." Stratega BDS
- "ICTs, Job-Search, and Informality: A Randomized Social Experiment for Disadvantaged Youth in Peru." SASE – Seguimiento, Análisis y Evaluación Para el Desarrollo
- "Impacts of ICTs on Productivity and Corruption in the Allocation of National Identity Cards within the Bolivian Police." Research Group AYMURAY
- "Investing in learning at secondary school in Chile." Universidad de Chile, Centro Microdatos
- "Modern ICTs Can Empower Honduran Farmers by Providing Access to Current Market Price Information." ALPRESA S.A. de C.V.
- "The Impact of ICTs in Health Promotion: A Randomized Experiment with Diabetes Patients." Universidad ORT Uruguay

STUDIES PUBLISHED

- "The Impact of ICT on Adolescents' Perceptions and Consumption of Substances." By Ana Balsa, Nester Gandelman, and Rafael Porecanski. November 2010. Working Paper IDB-219.
- "The Impact of ICT on Health Promotion: A Randomized Experiment with Diabetic Patients."

By Ana Balse and Nestor Gandelman. December 2010. Working Paper IDB-221.

- "The Impact of ICT on Vegetable Farmers in Honduras." By Marco Aquero, Sandra Espinoza, and Allan Pineda. March 2011. Working Paper IDB-243.

BOOK PUBLISHED

Development Connections: Unveiling the Impact of New Information Technologies (Development in the Americas). Alberto Chong, editor. Washington, DC: Inter-American Development Bank. 2011.

Protecting Workers against Unemployment in Latin America and the Caribbean

Over 60 years ago, Latin American and Caribbean countries began to enact a series of labor laws designed to protect workers from arbitrary dismissal and provide severance compensation for dismissal. In most countries in the region, governments used hiring and firing regulations to protect workers against the risk of unemployment by making dismissal more difficult or by mandating high financial compensation in case of dismissal. However, protecting jobs rather than workers can have important adverse social and productivity effects.

This project seeks to evaluate the system of institutions, laws, and regulations designed to protect workers from unemployment risks. These risks are related to the probability of involuntary job loss, the duration and nature of unemployment (such as the effects of reemployment prospects), and the possible loss of income associated with obtaining a job with a lower wage than the job before unemployment. The studies offer country-specific recommendations.

START DATE: **November 2009**

OBJECTIVE

This project explores the design characteristics of unemployment programs in the region—such as sources of financing and eligibility conditions—to understand how well they protect workers against risk, as well as whether they generate unintended problems in the labor market. This project also offers policy recommendations.

METHODOLOGY

The studies are country-specific and are divided into three parts. The first part is a comprehensive diagnosis of both the labor market and its unemployment characteristics and current policy coverage. The second part is an impact evaluation of selected policies or programs of the unemployment support system. The third part explores policy recommendations to address the problems identified in the first two parts of the study.

CONCLUSIONS

1. Government policies aimed at protecting workers against unemployment usually have several objectives and face multiple trade-offs. For example, unemployment insurance allows individuals and households to smooth consumption in the presence of imperfect financial markets, but it can also reduce the search effort for a new job and increase the length of unemployment spells. Severance payments increase the cost of firing and thus reduce layoffs, which can be particularly advantageous during an economic crisis, but they can also reduce labor demand. In countries with weak enforcement, these regulations can contribute to noncompliance and a segmented labor market. In the absence of solid empirical evidence, it is unclear how policymakers should design their unemployment programs.

2. The design of unemployment insurance, and specifically its duration, affects beneficiaries' decisions about the intensity of their search for a new job or their willingness to accept a new labor position.
3. The studies revealed different job search behavior between workers who use unemployment benefits and those who do not. Search efforts were found to decrease as long as unemployment benefits were in place. In some countries, such as Colombia, beneficiaries live on the benefit and work less (lowering their earnings) once they become beneficiaries; some do not even search for a job. Others search for employment but reject offers because they have a higher threshold ("reservation wage") due to the benefit, and do not have to accept any specific offer because they are guaranteed receipt of the benefit. As the expiration date of the benefit approaches, beneficiaries rush to get a job, but they are willing to accept a lower wage than the wage they received before becoming a beneficiary. In at least one country (Chile), there is strong evidence that workers who decide not to take unemployment insurance despite having the right to do so have a higher probability of finding a new job.
4. The lack of effect on earnings at reemployment in several countries indicates that the unemployment insurance program can act mainly as temporary income insurance and not as a subsidy for a more productive job search.
5. When a labor market has a high degree of informality, benefits should be provided for a relatively short period. Lengthy periods of unemployment insurance distort workers' decisions, causing them to accept hidden jobs (of lower quality) to keep benefits, while complementing their earnings with some labor income. This type of moral hazard is particularly damaging if the preference for informal jobs has a persistent effect on the quality of workers' participation in the labor market.
6. In countries with large informal markets, such as Bolivia, protection policies such as social transfers, unemployment insurance schemes, severance payments, and regulations regarding involuntary dismissal, are second best to active policies specifically designed to increase the productivity and employability of vulnerable populations.

COORDINATORS

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- Universidad de Chile, Chile
- Economia Urbana, Colombia
- Instituto de Economia, Universidad de la Republica, Uruguay

COUNTRIES STUDIED

Argentina, Bolivia, Chile, Colombia, Uruguay

SELECTED PROPOSALS

- "Labor Market Transitions and Active Policies in Bolivia: A Case of Study of Bolivian PLANE"
- "Protecting Workers Against Unemployment in Uruguay"
- "Protecting Workers Against Unemployment: Evidence from Argentina"

- "Study of Unemployment Insurance System in Chile"
- "Unemployment Subsidy Program in Colombia: An Assessment and Future Policies"

STUDIES PUBLISHED

- "Protecting Workers against Unemployment in Uruguay." By Veronica Amarante, Rodrigo Arim, and Andrés Dean. October 2011. Working Paper IDB-267.
- "Protecting Workers against Unemployment in Latin America and the Caribbean: Evidence from Argentina." Martín González Rozada, Lucas Ronconi, and Hernán Ruffo. December 2011. Working Paper IDB-268.
- "Unemployment in Bolivia: Risks and Labor Market Policies." By Werner Harnani, Maria Villegas, and Ernesto Yáñez. December 2011. Working Paper IDB-271.
- "Unemployment Insurance and Search Effort in Chile." By Cristobal Huneeus, Silvia Leiva, and Alejandro Micco. June 2012. Working Paper IDB-313.
- "The Unemployment Subsidy Program in Colombia: An Assessment." By Carlos Medina, Jairo Núñez, and Jorge Andrés Tamayo. May 2013. Working Paper IDB-369.

BOOK PUBLISHED

Law and Employment: Lessons from Latin America and the Caribbean. James J. Heckman and Carmen Pagés. Chicago: U of Chicago. 2004.

The Cost of Crime and Violence in Latin America and the Caribbean

Crime and violence are major concerns in Latin America and the Caribbean. The region suffers from the highest homicide rate in the world, triple the global average, and common crime is widespread, victimizing more than 10 percent of the population and 30 percent of firms. As a major policy challenge, crime and violence take up a substantial amount of governments' resources and efforts. However, there is much to be done to understand the root causes, as well as the negative consequences of these phenomena.

This project is part of a rigorous research agenda that aims to quantify the different dimensions of the cost of crime and violence. "Costing" crime is a first step to inform the public policy debate and provide tools for systematic analysis of the cost-effectiveness of citizen security policies promoted by governments. The preliminary results are both disheartening—the costs of crime are extremely high—and encouraging – homegrown policy innovations in the region are starting to show promise in reducing the crime epidemic.

START DATE: July 2012

OBJECTIVES

This project aims to increase knowledge about the tangible and intangible costs of crime and violence in Latin America and the Caribbean, and contribute to the development of standardized methodologies for a systematic, robust, and comprehensive analysis.

METHODOLOGY

Estimating the cost of crime and violence is a complex exercise that usually requires the use of sophisticated methodologies. The studies use a variety of techniques. For instance:

- The study on the cost of crime in Uruguay uses cost accounting to estimate some of the costs associated with criminal activity and violence in Uruguay, including those related to security and crime prevention; justice; incarceration and rehabilitation of prisoners; stolen goods; health care and loss of life resulting from violence; and costs associated with prisoners' loss of productive time while in prison.
- The study of adolescents in Colombia uses a natural policy experiment to estimate how changes in the costs of engaging in criminal activity may influence adolescents' decisions in crime participation and school attendance.
- The study on domestic violence estimates the costs of violence against women in terms of intangible outcomes, such as women's reproductive health, labor supply, and the welfare of their children. The study uses a sample of nearly 83,000 women between the ages of 15 and 49 in seven countries from all income groups and all subregions in Latin American and the Caribbean.
- The study on property values in Brazilian cities uses a hedonic residential rent model for Brazil's metropolitan areas calibrated with microdata from Brazil's annual household survey.

CONCLUSIONS

The cost estimates generated by the project shed light on the direct and indirect impact of crime and violence in the region:

1. The cost of crime in Uruguay amounts to at least 3 percent of GDP. These estimates include both the tangible public and private expenditures to prevent crime (such as spending on private security) and as a consequence of crime (such as the costs of the legal and prison system, and the intangible costs from being a victim). These costs, particularly the intangible ones, may be grossly underestimated because the impact of crime has potentially many complex ramifications.
2. Domestic violence, which is widespread in the region, has negative consequences beyond the direct impact on women who are victims. It also affects the health of children in violent households. Peruvian children whose mothers suffered from domestic violence weigh less, are less likely to receive vaccines, and are more likely to suffer from disease. This suggests that violence against women has a worrisome intergenerational cost. Given that almost 40 percent of women in Peru report having been victim of abuse, these results are not negligible.
3. As for the effect of crime and violence on property values, the study of Brazil finds that increasing the sense of security in the home by one standard deviation increases average home values in that country by more than $750. If this number were applied to all 18 million households in the study area, the total would rise to more than $13 billion.

The project also points the way to promising approaches to crime prevention.

4. In Colombia, a new law that decreased penalties for Colombian youths who commit crimes may have reduced perceived costs for young adolescents who engage in criminal activities and may have reduced their schooling achievement. This result is particularly relevant for children of relatively less educated parents.
5. The roll out of CEMs (Centros de Emergencia Mujer) seems to be a helpful mechanism to reach women who suffer domestic violence; conditional cash transfers appear to be resulting in positive spillovers on crime in Brazil; restricting alcohol sales seems to reduce property crime; using electronic monitoring systems instead of prison may be a cost-effective way to reduce crime recidivism; and local community policing models may have significant payoffs in crime prevention.

Overall, while the crime and violence situation in the region is dire, there are some promising initiatives, including policy innovations, coupled with impact evaluation.

A better future for Latin American and Caribbean citizens requires two things: learning what works and what does not work so that every dollar or peso invested has a high return; and political systems that allow and favor the implementation of these policies. Citizens and policymakers must find the way to support and refine these approaches.

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COUNTRIES STUDIED

- Brazil, Colombia, Mexico, Uruguay, Trinidad and Tobago, Region-wide

SELECTED PROPOSALS

- "A Hedonic Price Analysis of the Impact of Crime on the Willingness to Pay Rent: An Analysis Using Brazil's Annual Household Sample Survey"
- "Causal Estimates of the Intangible Costs of Violence Against Women in Latin America and the Caribbean"
- "Economic Implications of Drug Trafficking Homicides"
- "Effects of Punishment on Crime in Colombia: Deterrence and Human Capital Formation"
- "Life and Death in the Favelas: Measuring the Effect of Violence on Birth Outcomes in Urban Brazil"
- "The Costs of Crime and Violence in Colombia: Juvenile Crime and Education"
- "The Costs of Crime and Violence in Uruguay: Evidence and Some Theory"
- "The Economic Consequences of Violence and Crime in Mexico"
- "Towards a Comprehensive Framework for Assessing the Costs of Youth Crime and Violence in Trinidad and Tobago"

STUDIES PUBLISHED

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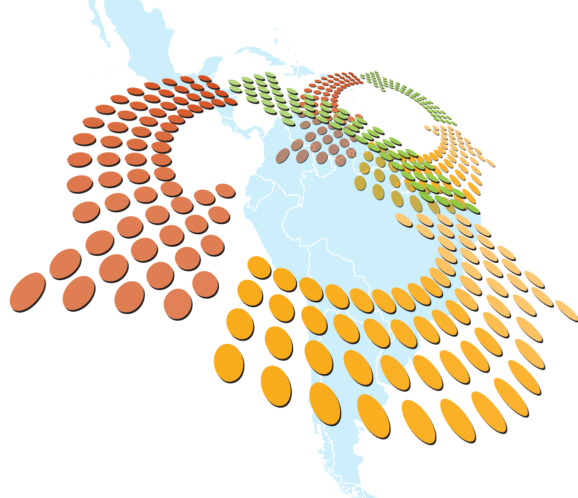
- "Crime, Punishment, and Schooling Decisions: Evidence from Colombian Adolescents." By Ana Maria Ibanez, Catherine Rodriquez, and David Zarruk. June 2013. Working Paper IDB-413.
- "Causal Estimates of the Intangible Costs of Violence against Women in Latin America and the Caribbean." By Jorge Aquero. August 2013. IDB Working Paper IDB-414.
- "The Impact of the Sense of Security from Crime on Residential Property Values in Brazilian Metropolitan Area." By David M. Vetter, Kaizô I. Beltrão, and Rosa M. R. Massena. June 2013. Working Paper IDB-415.
- "The Effect of Violence on Birth Outcomes: Evidence from Homicides in Rural Brazil." By Martin Foureaux Koppensteiner and Marco Manacorda, Marco. June 2013. Working Paper IDB-416.
- "The Effects of Punishment of Crime in Colombia on Deterrence, Incapacitation, and Human Capital Formation." By Arlen Guarin, Carlos Medina, and Jorge Andres Tamayo. July 2013. Working Paper IDB-420.
- "Economic Consequences of Drug-Trafficking Violence in Mexico." By Gabriela Calderon, Beatriz Magaloni, and Gustavo Robles. November 2013. Working Paper IDB-426.



Politics and Institutions

- Industrial Organization of Social Services Delivery
- Administrative Autonomy of Governmental Institutions in Latin America
- Violence in Latin America and the Caribbean: Magnitude and Control Policies
- Regulation, Organization, and Incentives: The Political Economy of Potable Water Services
- Private Participation in Infrastructure Projects: Determinants of the Observed Contractual Arrangements
- The Political Economy of Institutional Reforms in Latin America
- Transparency and Accountability: The Case of Public Hospitals in Latin America
- Decentralization and Fiscal Discipline in Subnational Governments: The Bailout Problem
- Costs and Benefits of Privatization in Latin America
- Political Institutions, Policymaking Processes, and Policy Outcomes
- Does Society Win or Lose as a Result of Privatization? Provision of Public Services and Welfare of the Poor
- The Next Step in Evaluating Productive Development Policies: Spillovers, Program Complementarities, and Heterogeneous Impacts
- Building Institutional Capabilities for Productive Development Policies

Industrial Organization of Social Services Delivery

After a decade of reforms, economic growth and social well-being remain disappointing in Latin America. One of the principal factors hindering progress is the poor performance of social service systems throughout the region. And without rapid progress in education, training, health, and social security, Latin America is likely to continue to lag behind other regions in both growth and equity. The key to better social service delivery lies in improving the organization of the institutions that provide those services.

START DATE: 1996

OBJECTIVE

This project was undertaken to understand why health and education outcomes in Latin America are relatively poor despite the large amount of resources spent on social services.

METHODOLOGY

Research centers were asked to analyze at least two different "systems" for the provision of social services; for example, a Health Ministry and Social Security Institute, or two different provincial school systems. By comparing the organization of these systems, considering such factors as ownership, incentives, and budget processes, the studies aimed to test the hypothesis that social services are more effective in systems that are organized to respond to demands and be accountable. Three studies analyzed education systems (Chile, Brazil, Venezuela) and three analyzed health systems (Chile, Dominican Republic, Uruguay).

CONCLUSIONS

The studies showed that the critical differences in performance of social service systems are related to the way responsibilities are delegated to different agents, and the ways in which these agents are held accountable. The studies showed that the relationships and rules followed by governments, service providers, and consumers can mean the difference between success and failure. The studies described specific approaches to better organizing social services with the aim of improving health and education in the region.

Some of the specific conclusions are:

1. Student performance was generally higher in school systems that granted greater autonomy to schools in managing personnel and finance.
2. Student performance also appeared to be better in schools that were accountable to local school boards.
3. Teachers were more motivated and happier with their working conditions in the nongovernmental schools, despite having fewer job guarantees and sometimes even lower pay.

4. Doctors respond to payment incentives by providing more services under fee-for-service arrangements.
5. Health providing agencies that have to justify their budgets, or request payments based on services provided, are more efficient and perhaps even provide higher quality care than those with historic budget support unrelated to output.

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- IESA – Instituto de Estudios Superiores de Administración, Venezuela

COUNTRIES STUDIED

Brazil, Chile, Dominican Republic, Uruguay, Venezuela

STUDIES PUBLISHED

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- "Organización industrial de la prestación de servicios sociales en Chile." By Cristián Aedo. Working Paper R-302.
- "La organización industrial de servicios de educación en Venezuela." By Juan Carlos Navarro and Rafael de la Cruz. Working Paper R-303.
- "La escuela básica de la zona marginal de Santo Domingo." By Ramón Flores. Working Paper R-304.
- "Las igualas médicas frente al seguro social." By Isidoro Santana. Working Paper R-305.
- "Competencia, integración vertical y rendimiento de los servicios de salud públicos y privados en Chile." By Ernesto Miranda and Ricardo Paredes Molina. Working Paper R-306.
- "Regulación y desempeño comparado de dos subsistemas privados de salud en el Uruguay." By Gaston J. Labadie. Working Paper R-307.
- "Social Services Viewed through New Lenses: Agency Problems in Education and Health in Latin America." By William Savedoff. Working Paper R-318.

BOOK PUBLISHED

Organization Matters: Agency Problems in Health and Education in Latin America. William D. Savedoff, editor. Washington, DC: Inter-American Development Bank. 1998. Also available in Spanish as *La organización marca la diferencia*.

Administrative Autonomy of Governmental Institutions in Latin America

During the past decade there has been a surge of "autonomous" government organizations in Latin America. State reform has fostered the creation of new institutions or the modification of old government agencies that now have new mandates and functions, new structures, and new accountability mechanisms.

Public agencies with administrative autonomy are supposed to promote the credibility of public decisions by granting decision-making power to relatively apolitical institutions. Institutional autonomy is a means of resolving both political opportunism and time inconsistencies that arise from executive, legislative, and political party pressures.

START DATE: July 1996

OBJECTIVE

This project aims to answer the following questions: What does autonomy achieve? Which design elements of these institutions, declared autonomous, have allowed them to effectively demonstrate their independence? Which factors have worked against their autonomy? What obstacles have hindered independent decision-making? What interest group conflicts have surfaced during the decision-making process?

METHODOLOGY

To answer these questions, the experiences of 18 theoretically autonomous government institutions in Latin America have been analyzed. The institutions studied include four central banks, seven public service regulation agencies, three antitrust/antidumping agencies, and four banking superintendences.

With the goal of exploring the different dimensions of autonomy, 14 variables of institutional design were sorted into the following three groups: a) those that define the institution's legal base; b) those concerned with authorities' independence; and c) those dealing with budgetary autonomy. The analysis of each variable allows for a hypothesis regarding the autonomy of agencies' behavior, identifying the arrangements that spawn autonomous activity as well as those that suffocate it. By way of example, the following are three of a total of 14 hypotheses related to institutional design:

1. A central bank whose directors are members of the economic cabinet would be less autonomous than one whose directors are not cabinet members.
2. A banking superintendence that is financed solely through banks' revenues would be at greater risk of being captured by the banking sector than one whose budget is a part of the national budget.
3. The greater its requirements to publish and distribute information about its activities and decisions, the more autonomous a regulating agency would be from the electrical sector.

In addition, the following general hypotheses were made:

1. Without effective control mechanisms, autonomous institutions may be captured by their authorities' personal preferences, the result of a combination of private political values, personal career objectives, and an aversion to work.
2. Organizations run by a board demand fewer accountability mechanisms than those managed by a single person.
3. The historical, sectoral, and institutional variables of a country have more influence on the actual autonomy of governmental agencies than institutional design variables.

To evaluate the distinct dimensions of autonomy and autonomy's relationship with political responsibility, two indexes have been designed: the Index of Legal Autonomy (IAL) and the Accountability Index (IRC).

CONCLUSIONS

Sector and case analyses support the following conclusions:

1. In the four sectors studied, autonomy based on budget independence and law is greater than that based on authoritative rule. This would indicate that there is a greater propensity to create institutions that are financially independent and have a sound judiciary base that supports autonomous bodies.
2. The concurrence of the term of office of an autonomous institution's authorities with the political cycle, the length of the term of office, and the existence of technical requirements for executive positions are the conditions that have received less attention.
3. There is a strong correlation between the degree of autonomy and the accountability of institutions. This relationship suggests an effort to achieve an equilibrium between the benefits of autonomy and the creation of instruments that compensate for the lack of social control.
4. As for individual countries, Chile and Colombia display a significant balance between autonomy and social control in all institutions studied. However, considerable imbalances and a bias toward the concession of autonomy without adequate levels of accountability are observed in Peru.
5. No relationship was found between the existence of a board of directors and the level of social control over the agencies' operations.
6. In the cases of Peru, Venezuela, and Argentina, the historical and sectoral variables can potentially be more important for achieving real autonomy than design variables.
7. Previous history plays a major role in the start-up of public service regulation, bank superintendences, and antitrust and antidumping commissions. In particular, several cases show how difficult it is for these agencies to maintain uniform criteria when regulated companies are a part of the public sector.

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COUNTRIES STUDIED

Argentina, Chile, Colombia, Peru, Venezuela

STUDIES PUBLISHED

- "Oil, Coffee, and the Dynamic Commons Problem in Colombia." By Mauricio Cárdenas and Zeinab Partow. Working Paper R-335.
- "La autonomía de los entes reguladores argentinos: agua y cloacas, gas natural, energía eléctrica y telecomunicaciones." By Santiago Urbiztondo, Daniel Artana, and Fernando Navajas. Working Paper R-340.
- "Does Independence Matter? Case Studies from Colombia." By Mauricio Cárdenas and Zeinab Partow. Working Paper R-341.
- "Autonomía de tres instituciones públicas del Peru: La autonomía del Banco Central de Reserva, de la Comisión de Fiscalización de Dumping y subsidios de Indecopi en Perú y de la Superintendencia de Banca y Seguros." By Julio Velarde and Martha Rodríguez. Working Paper R-342.
- "Autonomía de las instituciones gubernamentales de Chile." By Ricardo D. Paredes Molina, José Miguel Sánchez, Ricardo Sanhueza, and Leonardo Letelier. Working Paper R-344.
- "Un estudio sobre la autonomía administrativa del Banco Central de Venezuela." By Armando Barrios Ross and Abelardo Daza. Working Paper R-414.
- "La autonomía administrativa de las instituciones gubernamentales en Venezuela: El caso de la Superintendencia de Bancos y Otras Instituciones Financieras (SUDEBAN)." By Pável Gómez and Rosa Amelia González de Pacheco. Working Paper R-435.

Violence in Latin America and the Caribbean: Magnitude and Control Policies

Violence is perhaps the greatest socioeconomic problem in Latin America. As a whole, homicide rates have almost doubled during the last two decades, reaching endemic proportions in some countries. In a typical year, more than one third of all families in the region are victims of some type of crime, from street robberies to burglaries and assaults. In many places, levels of crime and violence are so high that law enforcement institutions cannot punish criminals, and there is an overriding feeling of defenselessness among people—regardless of social background.

START DATE: **July 1996**

OBJECTIVE

The magnitude of violence in Latin America notwithstanding, scholarly research dealing with the costs and causes of violent crime has mostly been confined to developed countries. Likewise, research aimed at improved policies for coping with increasing violence has not often targeted Latin American countries. This project is an attempt to remedy the aforementioned problems by shedding light on both the costs and causes of criminal violence in Latin America, as well as possible policies for controlling violence.

METHODOLOGY

This project includes seven comprehensive case studies in six countries: Brazil, Colombia (two studies), Mexico, Peru, El Salvador, and Venezuela. A combination of methods and concepts from economics, psychology, public health, and sociology are used to provide a multifaceted view of this complex problem.

Each study consists of four sections. The first section attempts to measure the prevalence of property and violent crime in the country under scrutiny. The second section attempts to quantify the economic costs of violent crime, including material, medical, and psychological costs. The third section identifies the main risk factors associated with criminal and violent behavior, and the last section attempts to formulate some policy interventions aimed at attenuating the risk factors and reducing violent crime.

CONCLUSIONS

The main conclusions can be summarized as follows:

1. The levels of criminal violence in Latin America are astonishing. Violent and property crimes are at least six times as prevalent in Latin America as they are in the rest of world.
2. Violent crime exacts huge economic costs on Latin America. The costs of property and violent crime, including property transfers, amount to approximately 14 percent of the region's combined GDP. The main costs include losses in human capital and private investment.

3. A large percentage of all violent crimes involve alcohol consumption and firearms. Youths are more likely to be victims of violent crime, as are individuals with low education levels.
4. Differences in interpersonal trust (and other forms of social capital) are strongly associated with the incidence of violent crime.
5. Violent crime in Latin America can be explained, to some degree, by income inequality. Thus, the heightened inequality and increased poverty in the aftermath of the debt crisis can be blamed for approximately 30,000 homicides.

This project also provides some general lessons for policymakers, which can be divided into two groups: relatively simple policy interventions and more complex interventions. Simple policy interventions include gun control and restrictions to the consumption of alcohol, as well as efforts to increase emergency room and urgent care unit efficacy. Complex policy interventions include measures aimed at increasing the effectiveness of law enforcement institutions, increasing social cohesion, and police cooperation. Perhaps the main lesson is that a multifaceted approach is necessary. No single policy intervention will be able to restore rule of law and recover the sense of security that many Latin Americans have lost in recent years.

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- Instituto Apoyo, Peru
- UCV – Universidad Central de Venezuela and IESA – Instituto de Estudios Superiores de Administración, Venezuela

COUNTRIES STUDIED

Brazil, Colombia, El Salvador, Mexico, Peru, Venezuela

STUDIES PUBLISHED

- "Analisis de la magnitud y costos de la violencia en la ciudad de México." By Fundación Mexicana para la Salud. Working Paper R-331.
- "La violencia intencional de Lima Metropolitana: magnitud, impacto económico y evaluación de políticas de control, 1985–1995." By Instituto APOYO. Working Paper R-332.
- "La violencia en El Salvador en los años noventa: magnitud, costos y factores posibilitadores." By Instituto Universitario de Opinión Pública and Universidad Centroamericana José Simeón Cañas. Working Paper R-338.
- "Dimensionamiento de la violencia en Colombia." By CISALVA – Facultad de Salud, Universidad del Valle. Working Paper R-339.
- "La violencia en Colombia: dimensionamiento y políticas de control." By CEDE, Universidad de los Andes. Working Paper R-345.
- "Magnitude, custos econômicos e políticas de controle de violência no Rio de Janeiro." By ISER – Institutos de Estudios de Religión. Working Paper R-347.

- "La violencia en Venezuela: dimensionamiento y políticas de control." By IESA/LACSO. Working Paper R-373.
- "Violencia en América Latina: epidemiología y costos." By Juan Luis Londoño and Rodrigo Guerrero. Working Paper R-375.

BOOK PUBLISHED

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Regulation, Organization, and Incentives: The Political Economy of Potable Water Services

Latin America loses about nine trillion cubic meters of water each year, or some 30 percent of the water collected and treated for public consumption. While it is impossible for water systems to deliver 100 percent of their water to the household tap, Latin America could cut losses by more than three quarters by applying international standards to the management and operation of water systems. However, despite efforts throughout the region to modernize and restructure the sector, potable water services remain substandard from the point of view of users and governments alike.

START DATE: 1997

OBJECTIVE

This study looks for lessons to apply to the design and implementation of water sector reforms that:

1. Assure equitable access to water services
2. Promote efficiency
3. Respond to externalities such as coordination with sewage treatment and natural resource management

METHODOLOGY

Each case study analyzed four major aspects: the institutions involved in the potable water sector; the behavior of interest groups; the organization of the sector; and the system's performance. Five countries were studied: Argentina, Chile, Honduras, Mexico, and Peru.

CONCLUSIONS

The water sector suffers from the implications of three main characteristics: large sunk costs, economies of scale and density, and massive consumption. Because of these features, the sector is prone to governmental opportunism that triggers a downward spiral of low prices, low investment, low quality, low coverage, and high levels of corruption. To avoid such a downward spiral, escape a low-level equilibrium, and maintain high quality levels, several basic design features can be introduced:

1. Countries can establish enterprises that are financially and managerially autonomous.
2. Industries can be fragmented, i.e., divided among a variety of producers or distributors, and exclusive rights of supply can be eliminated whenever possible so as to promote competition.
3. A regulatory framework can be created with procedures for determining prices that drastically limit governmental discretion.
4. Utilities can be privatized, with an emphasis on achieving widespread domestic participation in ownership of assets.

These strategies can lead to equitable and efficient water service provision by creating a credible framework for public policy that is consistent with institutional capacity and decision-making structures in each country.

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COUNTRIES STUDIED

Argentina, Chile, Honduras, Mexico, Peru

STUDIES PUBLISHED

- "Los servicios de agua potable en Chile: condicionantes, institucionalidad y aspectos de economía política." By Felipe Morandé and Juan E. Doña. Working Paper R-308.
- "Retos de la economía política en los servicios de agua potable: el proceso de reforma en Perú." By Gonzalo Tamayo, Roxana Barrantes, Elena Conterno, and Alberto Bustamante. Working Paper R-311.
- "Argentina: la regulación económica en las concesiones de agua potable y desagues cloacales en Buenos Aires y Corrientes." By Daniel Artana, Fernando Navajas, and Santiago Urbiztondo. Working Paper R-312.
- "Regulation, Organization, and Incentives: The Political Economy of Potable Water Services in Honduras." By Ian Walker, Max Velásquez, Fidel Ordóñez, and Florencia Rodríguez. Working Paper R-314.
- "Regulation, Organization, and Incentives: The Political Economy of Potable Water Services in Mexico." By Teofilo Ozuna, Jr. and Irma Adriana Gómez. Working Paper R-326.

BOOK PUBLISHED

Spilled Water: Institutional Commitment in the Provision of Water Services. William Savedoff and Pablo Spiller, editors. Washington, DC: Inter-American Development Bank. 1999. Also available in Spanish as *Agua Perdida*.

Private Participation in Infrastructure Projects: Determinants of the Observed Contractual Arrangements

In recent years large funding requirements and inefficiencies associated with public ownership have forced governments to turn to private capital as a way to alleviate the growing demand for infrastructure services. Given the wide array of contractual arrangements implemented in different countries, the main challenge remaining for policymakers is to select the "optimal" contractual arrangements for each specific case.

START DATE: **September 1997**

OBJECTIVE

This project had two main objectives. The first, using an economic/institutional approach, was to explain the contractual arrangements used in different Latin American countries to promote private participation in infrastructure projects. The second objective, based on previous analysis and on (possibly limited) experience, was to assess the adequacy of the contractual form chosen in each specific project and institutional setting and draw policy implications specifying their applicability to other cases.

METHODOLOGY

Four country cases (Brazil, Chile, Colombia, and Peru), each offering examples of contractual arrangements in different sectors, were selected for this study. There were seven examples in the power sector, five in the telecommunications sector, four in the road construction sector, four in the airports and ports sector, two in the water sector, two in the rail sector, one in the public transport sector, one in the gas sector, and one in the waste management sector.

Based on a given set of economic and institutional explanatory variables identified in the theoretical literature, each case addressed the following issues:

1. Establishing a "mapping" between the set of explanatory variables (i.e., the institutional and economic variables) and the specific contractual form selected.
2. Assessing the adequacy of the contractual form chosen in each case. This assessment was based on variables such as price of service (or cost of asset), quality of the asset and/or service, and time of completion. Moreover, whenever applicable, a discussion on possible (or actual) renegotiations and the role of the government was also included.
3. Finally, based on the previous analysis, drawing policy lessons from each case concerning contractual arrangements that may be applicable to other sectors and/or countries with similar institutional settings.

CONCLUSIONS

The following preliminary conclusions emerged from their analysis:

1. Institutions matter.
2. The importance of the government's objectives. Different governments have pursued different objectives in their infrastructure privatization contracts, which substantially affect the outcomes.
3. If the institutional framework is the right one, private participation in infrastructure projects may work in a wide array of industries.
4. Credibility has a price. When governments lack a reputation for honoring contracts, they are forced to pay a high price (in terms of social welfare) in order to attract private investment in infrastructure.

The study provided some preliminary conclusions and lessons for policymakers:

1. Regulatory agencies must be in place before privatization takes place.
2. It is important to separate the (efficiency) reasons for privatization from the country's budgetary needs.

COORDINATORS

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- MACROCONSULT, Peru

COUNTRIES STUDIED

Brazil, Chile, Colombia, Peru

STUDIES PUBLISHED

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- "Participación privada en proyectos de infraestructura y determinantes de los esquemas contractuales adoptados: el caso Colombiano." By Julio César Alonso, Juan Benavides, Israel Fainboim Yaker, and Carlos Jorge Rodríguez R. Working Paper R-412.
- "Private Participation in Infrastructure Projects and Determinants of Observed Contractual Arrangements: The Case of Brazil." By Fundação Getulio Vargas. Working Paper R-413.

BOOK PUBLISHED

Medios privados para fines públicos: participación privada en infraestructura en América Latina. Alberto Chong and José Miguel Sánchez, editors. Washington, DC: Inter-American Development Bank. September 2003.

The Political Economy of Institutional Reforms in Latin America

Having overcome the challenges of macroeconomic stabilization and market liberalization in Latin America, the need for a second generation of reforms aimed at institution-building has become apparent. Institutional reforms are needed to improve basic health and education systems, to enhance regulatory systems, and to provide public services more efficiently.

START DATE: **September 1997**

OBJECTIVE

The objective of this project was to discover the best strategies for achieving institutional reform within a given institutional, economic, and political context.

METHODOLOGY

Four country cases (Argentina, Bolivia, Peru, and Uruguay), each undergoing multiple reforms, were selected for this study. There were four cases of social security reform, two of health reform, and one case each of labor reform, privatization, and decentralization of social services.

The following set of hypotheses guided research:

1. Reforms are more likely when the leaders work within existing structures and procedural norms, such as a ministry or a legislature, rather than trying to circumvent opposition groups by ignoring or subverting them.
2. Leaders can ease the administrative implementation of reforms, change political perceptions, and affect reformers' abilities to offer compensation to potential losers by linking reforms to other policies in the negotiation process.
3. Compensation for politically relevant losers can increase a reform's probability of success.
4. The creation of new stakeholders, or mobilization of latent interest groups, can improve a reform's chance of success.
5. Strategies that redraw the battle lines to avoid repeating past conflicts will be more successful in overcoming opposition.

The researchers studied written documentation and performed numerous interviews to test the validity and applicability of these hypotheses.

CONCLUSIONS

The following conclusions emerged from their analysis:

1. *Circumstances matter.* The timing of reform and the strength of a government's coalition were among the most important factors contributing to the success or failure of almost all reforms studied.
2. *Importance of leadership.* Executive leaders and their reform teams played crucial roles in guiding institutional reforms. The executive

leader's understanding of the institutional infrastructure, as well as his/her ability to manage legislative relationships, adjust the power of organized interests, and consider the strengths and weaknesses of implementing ministries and agencies were crucial to each reform's success.

3. *Working within institutions.* The only way to work "outside" institutions to plan and pass reforms seemed to be dismantling the institutions. In the implementation phase, however, the strategy of creating new institutions that paralleled those in existence was more successful.
4. *The role of bundling.* Bundling proved to be a two-edged sword. It was a powerful instrument for both reformers and the opposition. For a bundling strategy to be successful, it required a well-planned communication campaign. However, bundling had a negative effect if reforms were perceived to be linked to unpopular programs or a negative turn of political events.
5. *Compensation.* Offering compensation to "losers" generally helped reforms pass, but leaders' use of this strategy was often constrained by fiscal realities.
6. *Stakeholders are key.* The balance between the organizational capacity and political relevance of losers in a particular reform and that of new stakeholders created by reform was often key in determining the political viability of institutional reforms. The long-term sustainability of reforms depended heavily on the capacity of new stakeholders to organize and express their interests.
7. *Avoiding old battle lines.* The interaction between the positive political momentum of reforms and the legacy of past conflicts was important in determining the outcome, particularly in the case of more complex reforms.
8. *Communication strategies matter.* How effective each government was in presenting its side of the debate seemed to be crucial to successful reform.

The study provided some conclusions and lessons for policymakers:

1. Reformers need to be sensitive to the opportunities for promoting reform when the "timing is right." The beginning of government terms and instances of widespread public opinion that "something is wrong" with the institution in question have proven to be the best opportunities for reform.
2. Reformers can be relatively bold in moving toward change when there is general agreement that the institutions in place are "broken" or discredited.
3. Reformers need to assess sources of opposition and support. Broad political coalitions are equally as important as sector-specific groups in search of support for institutional reform.
4. Reformers need to assess the nature of existing institutional structures as they generate strategies for promoting institutional change. The rules and composition of the legislature (or the relative strength and hierarchy of the institutions) need to be considered in the negotiation strategy.
5. Reformers must pay particular attention to reform initiatives that are historically controversial and likely to generate political debates.
6. Reformers need to select their reform teams carefully. They must pay particular attention to the extent to which team members share a common point of view and work together effectively.
7. Reform leadership is essential. It involves a core of set actions, namely setting reform priorities, defining strategies, selecting and managing the reform team, making critical choices, and influencing the political process.

8. In the face of difficulty, reformers can promote reform in two basic ways. They can attempt to alter the content of the reform initiative to make it more acceptable, or they can attempt to alter the balance of forces supporting and opposing change.

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COUNTRIES STUDIED

Argentina, Bolivia, Peru, Uruguay

STUDIES PUBLISHED

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- "La economía política de las reformas institucionales en Argentina: los casos de la política de privatización de Entel, la reforma de la seguridad social y la reforma laboral." By Juan Carlos Torre and Pablo Gerchunoff. Working Paper R-349.
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BOOK PUBLISHED

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Transparency and Accountability: The Case of Public Hospitals in Latin America

In recent years, politicians have begun to address corruption through international agreements and domestic initiatives. Emphasis has been given to publicizing corruption and subjecting it to greater public scrutiny and moral pressure. However, two dimensions of corruption have been poorly studied: its costs and its causes. Furthermore, research on corruption has rarely addressed problems in the health sector and public hospitals, which respectively consume large shares of public expenditures.

START DATE: **May 1998**

OBJECTIVE

The objective of this study was to understand the institutional factors that contribute to and sustain corruption.

METHODOLOGY

Corruption was defined as the "use of public office for private gain, where an official (the agent) entrusted with carrying out a task by the public (the principal) engages in some sort of malfeasance for private enrichment...." Each research center was asked to estimate the scope and variety of corruption that occur in public hospitals and related services within their country. The researchers evaluated the impact of the structure of incentives, accountability, and transparency on the scope and types of corruption in public hospitals after controlling for and considering other factors such as social and economic conditions. Six research centers were chosen to participate from Argentina, Bolivia, Colombia, Costa Rica, Peru, and Venezuela, with an additional study financed by the Norwegian Fund in Nicaragua.

The key hypothesis that guided this research was that differences in organization of hospitals affect the scope and costs of corruption. More specifically, corruption will occur more frequently and in larger magnitudes when:

1. Potential gains from corrupt acts are larger relative to gains from being honest
2. The probability of capture and punishment is higher
3. The value of the sanction is larger
4. Private hospitals will be more vigilant at introducing corruption constraints than social security or public hospitals due to the direct interest of owners and their wider scope of control in management
5. Hospitals with closer oversight (by Boards, community groups, or government agencies) will be less corrupt than those with less direct supervision
6. Medical personnel will be more productive and less frequently absent in hospitals that have greater autonomy and are under contracts that give the employer the possibility of disciplining employees

The researchers conducted interviews and surveys in a range of hospitals in their countries and collected data. Surveys were utilized to determine subjective measures of relative degrees of corruption, the most common types of corruption, and the effectiveness of controls. Data on purchases made by hospitals were analyzed to determine whether kickbacks or fraud accounted for different prices paid across hospitals.

CONCLUSIONS

1. The health sector and public hospitals are generally viewed as less corrupt than other sectors of society and government.
2. Public hospitals are viewed as corrupt by significant shares of people. Nurses are more likely to view public hospitals as corrupt as doctors, and doctors more than patients.
3. The most widely identified kinds of corruption are theft of materials and inputs, absenteeism by doctors who offer services in private practices, and overpricing.
4. Subjective measures of corruption derived from surveys appear to be correlated with more objective measures derived from purchase data.
5. Hospitals in which patients and the community have greater "voice" appear to be less corrupt than others.
6. Private hospitals tend to experience less corruption than social security hospitals, which in turn experience less corruption than public ministry hospitals. However, there are many exceptions and the differences are sometimes not significant.

The studies also provide some lessons for policymaking. In particular, it is difficult to control corruption:

1. In institutions that are not accountable for generating their own revenues through service provision.
2. In institutions that do not have the ability to sanction employees through penalties and dismissal.
3. In institutions that do not have oversight by independent boards or that lack supervisors with incentives to be honest.
4. When information regarding expenditures and service provision are not made public.

Dissemination of the case studies has helped publicize fraud and abuse in hospitals and generate interest in applied research on this topic in the region by showing that it is feasible and possible to objectively measure fraud.

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- IESA – Instituto de Estudios Superiores de Administración, Venezuela

COUNTRIES STUDIED

Argentina, Bolivia, Colombia, Costa Rica, Nicaragua, Peru, Venezuela

STUDIES PUBLISHED

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Decentralization and Fiscal Discipline in Subnational Governments: The Bailout Problem

With the widespread return of democracy during the past decade, several Latin American countries have been undergoing significant fiscal and political decentralization. The proportion of total government expenditures given to subnational governments has increased from 15 percent in 1985 to 19 percent in 1995. The increase in subnational governments' political autonomy is even more striking. The number of Latin American countries where local populations—rather than the central government—elect mayors has increased from three in 1980 to 17 in 1995. As a result, subnational governments not only spend a larger portion of the general government budget, but they also have greater autonomy in spending, taxing, and borrowing decisions.

While decentralization offers important potential benefits, it also can give rise to important pitfalls. In particular, certain institutional arrangements of intergovernmental fiscal relations may weaken subnational governments' fiscal discipline. Specifically, knowing that the central government may bail out lower level governments in financial distress undermines subnational governments' incentives to behave in a fiscally responsible way.

START DATE: **August 1998**

OBJECTIVE

The main objective of this project is to study the determinants of bailouts; the principal focus is on bailout occurrence in general, irrespective of form. However, the determinants of bailout forms are also important. To accomplish this objective, it is necessary to identify subnational government bailout episodes and carefully analyze the circumstances under which they occurred. Special emphasis is placed on factors that are amenable to economic policy action, such as those related to the institutional design of intergovernmental relations. These factors include the degree of subnational government control over their revenues, the degree of expenditure flexibility, the degree of borrowing autonomy (including ownership of state banks), and the degree of discretion in the transfer system.

METHODOLOGY

The project studies the determinants of bailouts in seven Latin American countries: Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, and Uruguay. The countries chosen range from the most decentralized in Latin America (Argentina, Brazil, and Colombia) to the most centralized (Costa Rica). Some are unitary, while others are federal. Some have subnational governments, ranging from the highest degree of borrowing autonomy in Latin America (in Argentina and Brazil) to the lowest (in Chile). In addition, studies of the determinants of bailouts in four OECD countries (Australia, Germany, Italy, and Sweden) are included.

An important part of each study is the identification and description of the relevant bailouts and bailout opportunities that were not acted upon. While bailouts are obvious in some cases (such as the 1997 debt renegotiation in Brazil, or in Mexico after the Tequila crisis), in other cases they are hidden, and identification requires careful detective work.

Once the relevant episodes or classes of episodes have been identified, the determinants of bailouts are analyzed. Of key importance in the analyses is the episode's institutional context, including the nature of intergovernmental fiscal relations. Of additional interest are the determinants of the form the bailouts take (i.e., a grant or a loan, which may involve conditionality and may impose costs on the recipient government, such as political intervention in the jurisdiction or other autonomy losses).

CONCLUSIONS

In light of the analyses of bailout episodes, the authors discuss the main strengths and weaknesses of the current institutional framework concerning the bailout problem, as well as the type of policy actions that could ameliorate the problem. The studies revealed a wide range of experiences, although some generalizations emerge. Some preliminary findings include:

1. In the case of countries with a high degree of borrowing autonomy, bailouts have generally been large, and taken the form of debt restructuring. In some cases (i.e., Brazil and Colombia), several jurisdictions were subject to repeated bailouts by the central government because debt restructuring per se did not eliminate the incentives to behave in an undisciplined way. In fact, in some cases bailouts increased the incentives to misbehave.
2. Limited borrowing autonomy for the subnational governments does not completely eliminate the occurrence of bailouts. Subnational governments can and do find loopholes to stray from discipline once the more traditional avenues for incurring debt are closed. Examples of this are the accumulation of arrears with public utilities by the regional governments in Uruguay, and some Chilean municipalities' failure to comply with teacher pension contributions. However, when borrowing autonomy is limited, the aggregate macro consequences of undisciplined fiscal policy is greater in countries whose subnational governments have a high degree of borrowing autonomy (i.e., Argentina and Brazil).
3. While a high degree of decentralization can make bailouts more serious from a macro perspective, bailouts can also be associated with a high degree of centralization. For example, in Costa Rica, local governments are responsible for less than 5 percent of total government expenditures. As a result, people expect the central government to solve all their problems whether or not they are the local governments' responsibility. Local governments in Costa Rica are responsible for three basic areas: solid waste disposal, potable water and sewerage, and the construction and maintenance of local roads. There have been central government bailouts associated with all three local activities.
4. Bailouts have been regressive in several countries. Bailouts per capita in rich jurisdictions were higher than in poor jurisdictions, even though rich jurisdictions tend to have more robust tax bases. These higher revenues are able to incur higher debt per capita. The 1997 Brazilian bailout was related to the amount of bonded debt of the states; and the Tequila bailouts in Mexico are good examples of regressive bailouts. In these cases, addressing the bailout problem is not only good for efficiency considerations, but for equity considerations as well.
5. Discretionary transfers are often (but not always) a bailout mechanism. In several cases, the allocation of these discretionary transfers tends to

follow deficits, generating incentives for undisciplined fiscal policy.

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- CIESU – Centro de Informaciones y Estudios del Uruguay

COUNTRIES STUDIED

Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Uruguay

STUDIES PUBLISHED

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Costs and Benefits of Privatization in Latin America

Across Latin America, public opinion has swung in opposition to privatization. A 2001 poll conducted in 17 countries revealed that 63 percent of the people surveyed believed that privatization had not been beneficial for their countries. Although this level of public disapproval may be due in part to a particularly difficult year economically for the region, the important question remains: What has been the impact of privatization, not only on the profitability of the privatized entities, but on the welfare of society as a whole?

There are two broad arguments related to the impact of privatization on welfare: the social view and the agency view. The first sees state-owned enterprises as helping to reduce market failures so that social marginal costs may be taken into consideration. The agency view emphasizes the conflicting interests between principal and agent as a source of inefficiency in state-owned enterprises, and thus takes a less flattering view of state firms. Understanding which view more accurately represents reality should help guide policy-makers involved in privatization and other types of free market reforms in the region.

START DATE: **November 2000**

OBJECTIVE

What have the actual costs and benefits of privatization in Latin America been? Has privatizing entities made them more profitable? Has the welfare of society as a whole improved, or has the average citizen been left at the mercy of private monopolies? What has been the overall effect on employment?

In order to address these questions, this research:

1. Analyzes the social and agency views and their applicability in the context of the countries selected. For example, are proponents of the agency view correct when arguing that managers of state-owned enterprises lack robust and well- defined incentives and are not properly monitored? Does political interference in public entities result in excess employment, poor choices of product and location, and lack of investment?
2. Provides empirical evidence of the impact of privatization on the following indicators: Profitability Operating Efficiency Employment; Wages; Capital Investment; and Taxes Output Prices.

METHODOLOGY

Seven country cases were selected for this study (Argentina, Bolivia, Brazil, Chile, Colombia, Mexico, and Peru). The empirical approach includes a combination of:

1. Detailed case studies of privatized industries in the countries under consideration

2. Statistical analysis that compares pre- and post-privatization changes for the full sample, as well as adjusting for possible differences in sectors
3. Regression analysis

CONCLUSIONS

In general, privatization has had a positive effect on profitability, operating efficiency and output, and a negative effect on employment. More specifically, this ongoing study has yielded the following conclusions thus far:

1. Privatization improves profitability by removing the crutch of government support and imposing market discipline. With the exception of Colombia and, to a lesser extent, Brazil, state-owned enterprises prior to privatization were operating at significant losses. These shortfalls were subsidized by governments at the expense of growing fiscal deficits. After privatization, profitability improved markedly across the board.
2. After privatization, formerly state-owned entities also enjoyed substantial increases in operating efficiency and levels of output. Most notably, in Mexico and Peru sales per worker doubled after privatization.
3. The low public approval rate of privatization may seem surprising in light of its obvious success in economic terms. This may be due to the impact of privatization on employment, a sensitive issue.
4. Privatization affects employment, but in more than one way. While at first it may appear that privatization leads to the loss of stable employment, its net effect is more difficult to ascertain. One must recognize that privatization indirectly creates new jobs in the private sector. For example, after telecommunications were privatized in Peru, the number of jobs in that sector jumped from 13,000 in 1993 to 34,000 in 1998.
5. To what extent were post-privatization boosts in operating efficiency and profitability due to layoffs? While the connection with respect to efficiency is fairly straightforward, the picture is cloudier in terms of the impact on profitability. This study estimates that layoffs have accounted for approximately 40 percent of profitability gains in Mexico and 20 percent in Argentina.

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- Universidad del Rosario, Colombia
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COUNTRIES STUDIED

Argentina, Bolivia, Brazil, Chile, Colombia, Peru

STUDIES PUBLISHED

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- "The Truth about Privatization in Latin America." By Alberto Chong and Florencio López de Silanes. Working Paper R-486.

Political Institutions, Policymaking Processes, and Policy Outcomes

Why does the quality of public policies differ so much across countries? What determines a society's capacity to adjust its policies in the face of changed circumstances or failed policies? What determines the ability to sustain policies long enough to create an environment of credibility and hence to elicit the adequate responses from economic agents? More generally, what determines the capacity to decide upon and implement effective policies? And why are some reforms successful in some countries, but not in others?

This project attempts to address these important questions, starting from a simple premise: public policies, or reforms, do not occur in a vacuum. The capacity to sustain intertemporal commitments, the quality of policy implementation, and the stability and credibility of policies, are all profoundly influenced by the characteristics of the policymaking process (PMP). This is the process by which policies are designed, approved, and implemented. The policymaking process, which involves a variety of political actors—each with their own incentives—interacting in particular ways, is shaped in turn by the country's political institutions, that is, by the rules of its political game. This is the reason for this project's emphasis on understanding the way political institutions shape political incentives and behavior, how political behavior influences policymaking processes, and how policymaking processes determine the properties of public policies.

START DATE: June 2003

OBJECTIVES

The aim of the study is to identify the key institutional factors affecting the qualities of public policies in Latin American countries. In addition, this comparative project will allow us to verify the validity, in the specific context of several Latin American countries, of some relationships between political structure, policymaking processes, and policy outcomes which have been postulated in the extant literature. The study will facilitate building a stock of knowledge about the workings of the political system and of the policymaking process in a number of Latin American countries, which should be an essential investment for future efforts at policy reform and/or institutional reform. More broadly, these country diagnostics as well as the underlying methodology should help the Bank and others:

1. Promote and instrument policy reforms that are more likely to achieve the desired development objectives, given political institutions and practices of each country;
2. Inform the debate on political reforms so as to improve the PMP's qualities in each particular country;
3. Foster the development of interdisciplinary research capabilities in the region, in order to improve understanding of the determinants effective public policies.

METHODOLOGY

The subject matter requires considerable knowledge of the institutional detail in each country. Thus, the ideal way to look at these issues is in the context of individual country studies. However, we are maximizing the opportunities for interaction among the country teams, in order to bring out comparisons across countries, and to make sure that the stories that emerge are not inconsistent across countries. In addition to the country studies, there will be a comparative study written by the coordinators of the project.

Each of the country studies will discuss in detail the role played by each of the key actors in the policymaking process, such as the executive (and the president), the legislative (and the individual legislators), political parties (and their leaders), the judiciary, regional leaders, interest groups, the bureaucracy, etc. It is important to understand the role they play, what incentives they bring to the table, how they interact, etc. What should emerge from the analysis in each country is a good description of the policymaking process. In addition, the country teams must trace back the characteristics of the policymaking process to the political institutions, as well as establish links between the characteristics of the PMP and certain qualities of public policies, such as their adaptability in response to socioeconomic shocks, their volatility in response to political shocks, the degree to which they produce benefits that are concentrated in certain narrow groups or are available to all, the extent to which they are well coordinated when diverse actors are involved in their delivery, etc.

One key aspect of the methodology is its general equilibrium nature. Thus, what matters is not single aspects of the PMP and the political institutions that are behind it (for example, the nature of electoral rules), but rather, the interaction among many different dimensions. It also emphasizes the intertemporal nature of the interactions among the different actors involved in the PMP.

CONCLUSIONS:

The quality of public policies is not independent of the characteristics of the PMP within which these policies are designed, approved, and implemented.

Certain political institutions, or rather certain combinations of political institutions, are more likely to generate cooperative PMPs and lead to public policies that do not shift every time there is a change in the government in office, but at the same time can respond to shocks.

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- CIUP – Centro de Investigación, Universidad del Pacifico, Peru
- Universidad de la República, Departamento de Economia, Uruguay

- UCAB – Universidad Catolica Andres Bello and IESA – Instituto de Estudios Superiores de Administración

COUNTRY STUDIED

Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela

STUDIES PUBLISHED

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- "Political Institutions, Policymaking Processes, and Policy Outcomes: The Case of Uruguay." By Juan Andrés Moraes, Mario Bergara, Andrés Pereyra, Rubén Tansini, Adolfo Garcé, Daniel Chasquetti, and Daniel Buquet. Working Paper R-510.
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- "Political Institutions, Policymaking Processes, and Policy Outcomes in Venezuela." By Francisco Monaldi, Rosa González de Pacheco, Richard Obuchi, and Michael Penfold. Working Paper R-507.
- "Political Institutions, Policymaking Processes, and Policy Outcomes in Mexico." By Fabrice Lehoucq, Gabriel Negretto, Francisco Aparicio, Benito Nacif, and Allyson Benton. Working Paper R-512.
- "Veto Players, Fickle Institutions, and Low- Quality Policies: The Policymaking Process in Ecuador." By Andrés Mejía Acosta, María Caridad Araujo, Anibal Pérez-Liñan, and Sebastian Saiegh. Working Paper R-523.

Does Society Win or Lose as a Result of Privatization? Provision of Public Services and Welfare of the Poor

Privatization has a bad reputation in Latin America. However, nothing guarantees that the nationalization of the main economic sectors bring the promised benefits to the lower and middle classes. The question that summarizes this project can be posed in the following way: Is it possible to measure the benefits of privatization in Latin America, and if so, what are they? While early empirical research shows mixed evidence when comparing state owned enterprises in some sectors, more recent research finds private ownership to be more efficient than public ownership. Why then is privatization so often criticized? A clear understanding of the impact of privatization depends on a good analysis of the possibility that any observed higher profitability of a privatized company might come at the expense of the rest of society, typically through the exploitation of market power.

START DATE: June 2005

OBJECTIVE

The aim of this research project was to understand the impact of privatization in Latin America by taking into account possible costs and benefits of privatization in the context of the basic methodology of La Porta and López de Silanes. In other words, the idea was to use their empirical approach as a basic blueprint in order to test whether the results for Mexico can be generalized to other Latin American and Caribbean countries, but covering both financial and non-financial firms. In essence, two key features were required: (i) a discussion of the social and agency views and their applicability in the context of the countries selected; (ii) empirical evidence of the impact of privatization on some or all of the following areas: profitability, operating efficiency, employment and wages, capital investment, taxes, output, and prices. The research paid particular attention to the possible mechanisms by which gains in privatized firms could come at the expense of the rest of society, for example, through any possible increase in monopoly power, or any possible expropriation from workers to firms. The empirical approach took into account the fact that deregulation frequently accompanies privatization, which, as mentioned above, may produce a confounding effect on privatization outcomes.

METHODOLOGY

The empirical approach included a combination of: (i) detailed case studies (exact number and sectors to be decided) of relevant privatizations in the country under consideration; (ii) statistical analysis that compared pre and post privatization changes for the full sample, as well as when adjusting for possible differences in sectors; and (iii) regressions.

Researchers were asked to take into account several considerations and to include the following: (i) a discussion on econometric problems and other limitations with respect to sample size, potential endogeneity, and additional appropriate controls (e.g., macro variables), among other issues; (ii) attention to the time frame. In particular, a clear reasoning on the choice of the years prior to and following privatization should be included; and (iii) explanation of whether the necessary data is already available or, if not, how difficult it will be to obtain and process.

The case studies were expected to complement the cross-section study by providing insights on the institutional, legal, and regulatory framework of the privatizations under study. Caveats such as the great heterogeneity among sectors and the fact that the effects on competition are expected to be seen in the longer run were meant to be adequately captured in the case studies. Thus, the insights provided by them both on the particularities of specific sectors and the transition process were very valuable.

CONCLUSIONS

This project thoroughly assembled empirical data designed to evaluate a number of criticisms of privatization. A broad range of evidence, collected from a variety of countries, pointed to increased productivity and profitability, accelerating restructuring and output growth, mounting tax revenues, and improving product quality following privatization. In the cases where privatization failed, the problems appeared to be linked to continued state involvement and regulations, as well as a weak corporate governance framework. Indeed, the studies provided substantial evidence that improved corporate governance and regulatory environment are complementary to privatization. In general, private ownership delivers the same significant benefits in Latin America as it does in other parts of the world.

But do the increased shareholder profits of privatized firms come at the expense of other stakeholders? The evidence provided no support for the view that increased profitability comes from monopoly pricing, exploitation of workers, or reductions in tax payments. To the contrary, increased profitability comes from productivity growth rather than redistribution.

The studies also showed that the manner in which privatization is carried out matters. Transparency and homogeneity of procedures and speed and moderation in preprivatization restructuring lead to better outcomes and allow less room for corruption.

The evidence gathered amounted to a compelling case that privatization in Latin America has been a success. To the extent that they pay attention to the evidence, critics of privatization in Latin America must recognize the basic fact that benefits have been substantial.

COORDINATORS

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PARTICIPATING INSTITUTIONS

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- GRADE – Grupo de Análisis para el Desarrollo, Peru
- Grupo FARO (Fundación para el Avance de las Reformas y las Oportunidades), Ecuador
- UDESA – Universidad de San Andrés, Departmento de Economia, Argentina
- UTDT – Universidad Torcuato Di Tella, Departmento de Economia, Argentina

COUNTRIES STUDIED

Argentina, Bolivia, Colombia, Ecuador, Peru, Region-wide

STUDIES PUBLISHED

- "The Impact of Electricity Sector Privatization on Public Health." By Martín Gonzalez-Eiras and Martín A. Rossi. Working Paper R-524.
- "Does Society Win or Lose as a Result of Privatization? The Case of Water Sector Privatization in Colombia." By Felipe Barrera-Osorio and Mauricio Olivera. Working Paper R-525.
- "Provision of Public Services and Welfare of the Poor: Learning from an Incomplete Electricity Privatization Process in Rural Peru." By Lorena Alcázar, Eduardo Nakasone, and Máximo Torero. Working Paper R-526.
- "Water Expansions in Shantytowns. Health and Savings." By Sebastian Galiani, Martin González-Rozada, and Ernesto Schargrodsky. Working Paper R-527.
- "Stay Public or Go Private? A Comparative Analysis of Water Services between Quito and Guayaquil." By Orazio Bellettini, Paul Carrillo, and Elizabeth Coombs. Working Paper R-538.

BOOK PUBLISHED

Privatization in Latin America: Myths and Reality. Alberto Chong and Florencio López de Silanes, editors.The World Bank and Stanford University Press. 2005.

The Next Step in Evaluating Productive Development Policies: Spillovers, Program Complementarities, and Heterogeneous Impacts

Countries in Latin America and the Caribbean have been actively engaging in productive development policies (PDP), which encompass a wide range of policies and interventions aimed at enhancing the private sector's productivity. Policies in this area include support of innovation, export promotion, cluster development programs, tax incentives for investment, adoption of quality standards, and supplier development programs. Even though extensive resources are allocated to these programs, little is known about what does and does not work. There have been few rigorous impact evaluations of PDPs in Latin America, and the majority of these have focused on average treatment effects (on the treated). Since most of those programs have been justified on the basis of externalities, however, evidence of impact on direct beneficiaries does not necessarily validate them. In addition, some programs may have important complementarities or heterogeneous impacts on different beneficiaries.

This research proposal builds on the program evaluation literature, in which the net impact of interventions is measured by comparing outcomes of a treatment group to those of a control group of nonbeneficiaries. In contrast, few policy interventions targeting firms have been rigorously evaluated—and mostly in high-income economies. This research project will add to the existing knowledge base about such interventions targeting firms.

START DATE: March 2012

OBJECTIVE

The objective of this research project is to investigate the impacts of PDPs in ways that go beyond average treatment effects on the treated. In particular, the project focuses on the identification of (in order of priority): spillover effects; multiple treatments and complementarities among programs; heterogeneity of impacts on different subpopulations; treatment intensity (dosage effects); and timing (or dynamic effects). In this way, the project will provide additional evidence that is crucial to the design of new policy tools and the revision of existing ones.

METHODOLOGY

This research network project focuses on the evaluation of a subset of PDPs that make up the core of the majority of the PDP programs in the region. They are, in order of priority: entrepreneurship development programs; business linkage programs; business development programs; business innovation programs; exports and investment promotion; and programs to facilitate long-term financing.

Studies focus on the following research questions:

1. How can we measure spillover effects?
2. What about complementarities or substitution effects among programs?

3. Are additional doses of treatment necessary?
4. How long should we wait to see results?

COORDINATORS

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PARTICIPATING INSTITUTIONS

- Universidad de Concepcion de Chile, Chile
- Fundacion CAATEC, Costa Rica
- FUNDACE – Foundation for Research and Development of Business, Accounting and Economics, Brazil
- El Colegio de Mexico, A.C., Mexico

COUNTRIES STUDIED

Brazil, Costa Rica, Mexico

SELECTED PROPOSALS

- "Estimation of the Direct and Indirect Effects of a Cluster Development"
- "Impact Evaluations in Innovation and Linkage Development Programs in Costa Rica"
- "Productive Development Policies and Innovation Spillovers through Labor Force Mobility: The Case of Brazilian Sectoral Funds"
- "The Impact of Mexican Programs to Support Private R&D and Innovation Expenditures in Firms Performance"

STUDIES PUBLISHED

- "Productive Development Policies and Innovation Spillovers through Labor Force Mobility: The Case of the Brazilian Innovation Support System." November 2013. Working Paper IDB- 459
- "The Impact of ICT Cluster Support in the Argentine City of Córdoba." By Victoria Castillo, David Giuliodori, Alessandro Maffioli, Alejandro Rodríguez, Sofía Rojo, and Rodolfo Stucchi. March 2014. Working Paper IDB- 460
- "Impact Evaluation of Innovation and Linkage Development Programs in Costa Rica: The Cases of PROPYME and CR Provee." By Ricardo Monge-Gonzalez and Juan Antonio Rodriguez-Alvarez. December 2013. Working Paper IDB- 461

BOOK PUBLISHED

Rethinking Productive Development: Sound Policies and Institutions for Economic Transformation. Gustavo Crespi, Eduardo Fernandez-Arias, and Ernesto Stein, editors. New York, NY: Palgrave Macmillan. 2014.

Building Institutional Capabilities for Productive Development Policies

In recent years, countries in the region have shown renewed interest in implementing productive development policies (PDPs), which aim to stimulate productivity and promote changes in production structures. Significant efforts have been made to evaluate the impact of different types of PDPs that—among other things—promote innovation, exports, access to finance, cluster development, job training, and improvement of management practices. Thanks to a number of studies, much progress has been made in trying to understand the role that public interventions can play in promoting productive development and analyzing the type of interventions that generate results. However, while much attention has been paid to "what" works, very little attention has been paid to "how" these policies work. The latter set of considerations would probably provide a better explanation of why the region's interventions in productive development have been less successful than those of other areas, such as Southeast Asia. In particular, there has been no systematic effort to analyze the government failures that led to the frequently poor results of industrial policy in the region, particularly in terms of missing capacities and how to build them up.

This project consists of country studies conducted by local research teams, each focused on a number of Productive Development Agencies (PDAs). For each PDA, researchers analyze how its institutional capabilities condition its performance, and study the nature of the capabilities that would be required to expand the scope of its participation to include more demanding PDPs, in order to better achieve the objectives of the PDA. Furthermore, the researchers discuss the dynamic process through which these capabilities have accumulated, as well as the contextual factors that have contributed to their development (or hindered it), in order to learn how capabilities are built. Studies concentrate on a few episodes that show these agencies engaging in the public policymaking process or deploying their capabilities in specific tasks. These episodes have been selected carefully to allow the research teams to infer or validate their analysis of the capabilities in play in each PDA.

START DATE: October 2013

OBJECTIVE

The research is aimed at the following objectives:

1. Understanding the nature of the capabilities critical for the work of PDAs
2. Understanding how the capabilities interrelate and what factors make them relevant in any given context or for a given policy intervention

3. Understanding the link between capability building and the evolution of successful interventions by PDAs
4. Understanding how to create and expand these capabilities

METHODOLOGY

The focus of the research will be on PDAs, whether public, private, or mixed. For each PDA to be analyzed, the following issues are studied:

1. The nature of the critical capabilities
2. The relationship between capabilities
3. The development of capabilities and interventions
4. Management and capability building

Studies follow the following structure:

1. A brief review of the evolution of the country's PDPs and institutions, which puts the action of the PDAs to be studied in context. Identification of the policy objectives and the main actors that implement them.
2. A brief analysis of the evolution of the institutional and political context in which the selected PDA(s) operate(s), including a general assessment of the functioning of the state, the quality of public policies, and administrative regime.
3. For each case of PDA to be studied:
   - **a.** A description of the entity, and its evolution, achievements, and limitations
   - **b.** A description of the relevant episodes to be analyzed in order to study the PDA's capabilities
   - **c.** An analysis of the relationship between the level/development of its capabilities and its performance
   - **d.** A counterfactual analysis using comparable PDAs, if relevant
   - **e.** A statement of conclusions concerning the four objectives of the project.
4. General conclusions
   - **a.** Policy lessons concerning utilizing and building institutional capabilities for PDPs
   - **b.** Conditions that may enable or prevent expanding "best practices" of institutional governance in the same country and to other countries
   - **c.** Analysis of the implications of the studies with respect to the conceptual framework used to study the relationship between PDAs' capabilities and their performance.

COORDINATORS

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- Juan Carlos Cortázar, IDB
- Juan Carlos Navarro, IDB
- Ernesto Dal Bó, University of California at Berkeley
- Gonzalo Rivas, INAP Consultores and CIEPLAN

COUNTRIES STUDIED

Argentina, Brazil, Ecuador

SELECTED PROPOSALS

- "¿Qué capacidades para nuevas políticas de innovación y cambio estructural?"
- "Building Institutional Capabilities for Proeductive Development Policies"
- "Construyendo capacidades institucionales de programas de desarrollo productivo. Evidencia de estudios de caso de la Argentina"
- "Construyendo capacidades para las politicas de desarrollo productivo. El caso argentino"

- "Learning from Productive Development Agencies in Brazil: Policies for Technological Innovation"
- "PDAs in Ecuador: what works? Public vs Private; Local vs National; SMEs and social inclusive?"

BOOK PUBLISHED

Rethinking Productive Development: Sound Policies and Institutions for Economic Transformation. Gustavo Crespi, Eduardo Fernandez-Arias, and Ernesto Stein, editors. New York, NY: Palgrave Macmillan. 2014.

The Latin American and Caribbean Research Network Institutions

- Argentina
- Barbados
- Bolivia
- Brazil
- Chile
- Colombia
- Costa Rica
- Dominican Republic
- Ecuador
- El Salvador
- Guatemala
- Honduras
- Mexico
- Nicaragua
- Panamá
- Paraguay
- Peru
- Trinidad and Tobago
- Uruguay
- Venezuela

THE LATIN AMERICAN AND CARIBBEAN RESEARCH NETWORK

Argentina

- CEDES – Centro de Estudios de Estado y Sociedad
- CEF – Centro para la Estabilidad Financiera
- CENIT – Centro de Investigaciones para la Transformacion
- CESNI – Centro de Estudios de la Nutrición Infantil
- CIAS – Fundación Centro de Investigación y Acción Social
- CIECE – Centro de Investigación para la Equidad y la Calidad Educativa
- CIPPEC – Centro de Implementación de Políticas Públicas para la Equidad y el Crecimiento
- CPCE – Consejo Profesional de Ciencias Económicas
- Economía y Regiones S.A.
- Estudios Hermida
- FB – Fundación Bariloche
- FGYS – Fundación Gobierno y Sociedad
  - CEDI – Centro de Estudios para el Desarrollo Institucional
- FIDEFUND – Fundación de Investigaciones para el Desarrollo
- FIEL – Fundación de Investigaciones Económicas Latinoamericanas
- FLACSO – Facultad Latinoamericana de Ciencias Sociales
- Fundación CIEC – Centro de Investigaciones Económicas de Córdoba
- FNM – Fundación Novum Millenium
  - Instituto de Economía
- Fundación del Tucumán
- Fundación CENIT – Centro de Investigaciones para la Transformación
- Fundación Libertador
- Fundación PENT
- IERAL – Fundación Mediterránea
- ITDT – Instituto Torcuato di Tella
  - CIE – Centro de Investigaciones Económicas
- LPP – Laboratorio de Políticas Públicas
- MBC & MORI Consultores
- M&S Consultores

- REDES – Centro de Estudios sobre Ciencia, Desarrollo y Educación Superior
- UA – Universidad Austral
  - IAE – Escuela de Dirección y Negocios Centro de Investigación y Docencia
  - GESE – Gobierno, Empresa, Sociedad y Economía
- UADE – Universidad Argentina de la Empresa
  - IE – Instituto de Economía
- UBA – Universidad de Buenos Aires
  - Facultad de Ciencias Sociales
  - IIGG – Instituto de Investigaciones Gino Germani
  - SIMEL – Sistema de Información del Mercado de Trabajo
- Facultad de Ciencias Económicas
  - CENES – Centro de Estudios de la Estructura Económica
- UB – Universidad de Belgrano
  - Facultad de Economía
- Universidad Empresarial Siglo 21
  - FUNDEMP – Fundación de Empresas para la Excelencia
  - Departamento de Economía
- UNGS – Universidad Nacional General Sarmiento
  - ICI – Instituto de Ciencias
- Universidad Católica de Argentina, Santa María de los Buenos Aires
- Universidad de Palermo
  - CEDEX – Centro de Estudios para el Desarrollo Exportador
- UDESA – Universidad de San Andrés Departamento de Economía Rectoría
- Universidad del CEMA
  - CEA – Centro de Economía Aplicada
  - CEIF – Centro de Estudios en Ingeniería Financiera
  - MBA – Maestría en Dirección de Empresas
- Universidad Nacional de Córdoba
  - Instituto de Economía y Finanzas
- UNLP – Universidad Nacional de La Plata
  - Facultad de Ciencias Económicas
  - Departamento de Economía
  - Departamento de Sociología
  - CEIL-PIETTE/CONICET
- UNT – Universidad Nacional de Tucumán
- Facultad de Ciencias Económicas
- Magister en Economía
- IIE – Instituto de Investigaciones Económicas
- Universidad Nacional del Rosario
  - CEUR – Centro de Estudios Urbanos y Regionales
- UTDT – Universidad Torcuato Di Tella
  - CESyP – Centro de Evaluación y Estudios en Economía Social para el Alivio de la Pobreza
  - CIF – Centro de Investigaciones en Finanzas
  - Departamento de Economía
  - EEE – Escuela de Economía Empresarial Rectorado

Barbados

- UWI – University of West Indies
  - ISER – Institute of Social and Economic Studies Sir Arthur Lewis

Bolivia

- CEBEM – Centro Boliviano de Estudios Multidisciplinarios
- CERES – Centro de Estudios de la Realidad Económica y Social
- CIESS – ECONOMETRICA SRL.
- DIALOGO – Fundación Dialogo
- Fundación ARU
- Grupo Integral SRL
- INASET – Instituto de Asistencia Social, Económica y Tecnológica
- INESAD – Instituto de Estudios Avanzados en Desarrollo
- Research Group AYMURAY

- Ruiz Mier Consulting & Research
- UDAPE – Unidad de Análisis de Políticas Económicas
  - Subdirección de Política Social
- UCAB – Universidad Católica Boliviana "San Pablo"
  - IISE – Instituto de Investigaciones Económicas y Sociales
  - MPD – Maestría para el Desarrollo
- Universidad Cordillera
- UMSA – Universidad Mayor de San Andrés
  - IIE – Instituto de Investigaciones Económicas
  - CIDES – Postgrado de Ciencias del Desarrollo
- UMSS – Universidad Mayor de San Simón
  - FACES – Facultad de Economía
  - CEPLAG – Centro de Planificación y Gestión

Brazil

- CEBRAP – Centro Brasileiro de Análise e Planejamento
- David Vetter Consultoria Economica Ltda.
- FGV – Fundação Getulio Vargas
  - CEAE – Centro de Estatísticas e Análises Econômicas
  - Centro de Políticas Sociais
  - EPGE – Escola de Pós-Graduação em Economia
  - Escola de Administracão de Empresas
  - Instituto Futuro & Escola de Economia de São Paulo
- FJP – Fundacão João Pinheiro
- FUNCEX – Fundacão Centro de Estudos do Comércio Exteriores
- FUNDACE – Foundation for Research and Development of Business, Accounting and Economics
- IBGE – Instituto Brasileiro de Geografia e Estatísticas
  - Estatística e Indicadores Sociais
- IBMEC Educacional
  - Instituto Brasileiro de Mercado de Capitais
- IETS – Instituto de Estudos do Trabalho e Sociedade
- INSPER – Institute of Education and Research
- Instituto Brasileiro de Análises Sociais e Econômicas
- IPEA – Instituto de Pesquisas Econômicas Brasilia
- IPEA – Instituto de Pesquisas Econômicas Rio de Janeiro
  - DIMAC – Directoria de Estudos Macroeconômicos
- ISER – Instituto de Estudos de Religião
- IUPE – Rio de Janeiro – Instituto Universitário de Pesquisas
- POLIS – Instituto de Estudos, Formacão, Assesoria em Politicas Sociais
- PUC – RIO – Pontíficia Universidade Católica do Rio de Janeiro
  - Departamento de Economia
- PUC – SP – Pontíficia Universidade Católica de São Paulo
  - Programa Pós-Graduacão Administracão
- Secretaria de Estado de Saúde
  - Instituto de Pesquisa
- UB – Universidade de Brasilia
  - DE – Departamento de Economia
- UENF – Universidade Estadual do Norte Fluminense
  - Centro de Ciências do Homen
  - Laboratório de Estudos da Sociedade Civis e do Estado
- UFB – Universidade Federal de Bahía
  - Instituto de Saúde Coletiva
  - FCE – Faculdade de Ciências Econômicas
- UFF – Universidade Federal Fluminense
  - Faculdade de Economia e Administração
- UFMG – Universidade Federal de Minas Gerais
  - CRISP – Centro de Estudos em Criminalidade e Segurança Pública
  - CEDEPLAR – Centro de Desenvolvimento e Planejamento Regional
  - Departamento de Economia
  - Departamento de Geografia, Instituto de Geociencia
- UFPE – Universidade Federal de Pernambuco
  - Centro de Ciências Sociais
  - Departamento de Economia
- UFRJ – Universidade Federal Do Rio de Janeiro
  - IEI- Instituto de Economia

    - Instituto Coppead
    - NUPIN – Núcleo de Pesquisas em
    - Internacionalização de Empresas
- UFRRJ – Universidade Federal Rural do Rio de Janeiro
    - DDAS- Programa de Pós-Graduação em Políticas de Desenvolvimento, Instituições e Estratégias
- UNICAMP – Universidade Estadual de Campinas
    - Instituto de Economia-Centro de Estudos e Desenvolvimento Econômico
- UNIVAP – Universidade do Vale do Paraíba
    - Nested-Núcleo de Estudos Educacionais
- Universidade Cândido Mendes
    - Instituto DataBrasil
    - CEAs – Centro de Estudos das Américas
        - PIAM – Programa de Estudos Interamericanos
- Universidade Santa Ursula
    - ICEG – Instituto de Ciências Econômicas e Gestão
- USP – Universidade de São Paulo
    - FEA – Faculdade de Economia e Administração
    - ECON – Departamento de Economia
    - FIPE – Fundação Instituto de Pesquisas Econômicas

Chile

- APD – Asesorías para el Desarrollo
- CED – Centro de Estudios Socio-Económicos para el Desarrollo
- FLACSO – Facultad Latinoamericana de Ciencias Sociales
- ILD – Instituto Libertad y Desarrollo
- Pablo Trivelli y Compañía Limitada
- PET – Programa de Economía del Trabajo
- PIIE – Programa Interdisciplinario de Investigaciones en Educación
- PUC – Pontificia Universidad Católica de Chile
    - Escuela de Administración
    - Facultad de Ciencias Económicas y Administrativas
    - Instituto de Sociología
    - Departamento de Economía
    - Centro de Gobierno Corporativo
    - MIDE-UC Centro de Medición
- Universidad Academia de Humanismo Cristiano
    - CERC – Centro de Estudios de la Realidad Contemporánea
    - Facultad de Ciencias Sociales
- Universidad Adolfo Hurtado
    - ILADES – Instituto Latinoamericano de
    - Doctrina y Estudios Sociales
- Universidad Adolfo Ibañez
    - Escuela de Gobierno
    - Rectoría
- UCN – Universidad Católica del Norte
    - Facultad de Economía y Administración
    - IDEAR – Instituto de Economía Aplicada Regional
- UD – Universidad del Desarrollo
    - IEPSP – Instituto de Epidemiología y Políticas de Salud Pública
- Universidad de Chile
    - CEA – Centro de Economía Aplicada Centro Microdatos
    - Centro Intelis
    - Departamento de Ingeniería Industrial
    - DECON – Departamento de Economía
- Universidad de Concepción de Chile
    - Facultad de Ciencias
- Universidad de Santiago de Chile
    - Facultad de Administración y Economía

Colombia

- ANIF – Asociación Nacional de Instituciones Financieras
- CINEP – Centro de Investigaciones y Educación Popular

- CEGA – Centro de Estudios Ganaderos y Agrícolas
- Colegio Mayor Nuestra Señora del Rosario
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- Econometría Consultores S.A.
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- UNAL – Universidad Nacional de Colombia
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- Universidad de Antioquia
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  - CIE – Centro de Investigaciones Económicas
    - Facultad Nacional de Salud
- Universidad de Los Andes
  - CEDE – Centro de Estudios sobre Desarrollo Económico
  - CIDER – Centro Interdisciplinario de Estudios Regionales
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  - Facultad de Economía
  - Instituto SER de Investigación
- Universidad de Valle
  - Facultad de Ciencias Sociales y Económicas
  - CIDSE – Centro de Investigaciones y Documentación Socio-Económica
  - Departamento de Economía
  - Facultad de Salud
    - Instituto CISALVA
- Universidad del Rosario
  - Facultad de Economía
- Universidad EAFIT
  - Centro Nacional de Consultoría
- Universidad Externado de Colombia
  - CIPE – Centro de Investigaciones y Proyectos Especiales

Costa Rica

- Asociación La Academia de Centroamérica
- ASEPROLA – Asociación Servicios de Promoción Laboral
- CATIE – Centro Agrónomo Tropical de Investigación y Enseñanza
- CEFSA – Consejeros Económicos y Financieros, S.A.
- ECOANALISIS, S.A.
- FLACSO – Facultad Latinoamericana de Ciencias Sociales
- Fundación CAATEC
- ILAPP – Instituto Latinoamericano de Políticas Públicas
- PROCESOS – Programa Centroamericano para la Sostenibilidad
- PRODESARROLLO – Centro para la Promoción de la Ciencia y el Desarrollo Socioeconómico
- UCR – Universidad de Costa Rica
  - Escuela de Economía
  - Facultad de Ciencias Económicas
  - MAP – Maestría en Administración Pública
  - Fundación UNA – Fundación Pro Ciencia, Arte y Cultura
  - IICE – Instituto de Investigaciones en Ciencias Económicas
  - IIP – Instituto de Investigaciones Psicológicas
  - Vicerrectoría de Investigación
- UNA – Universidad Nacional
  - CINPE – Centro Internacional en Política Económica
  - Escuela de Economía
  - IDESPO – Instituto de Estudios Sociales en Población

Dominican Republic

- CIECA – Centro de Investigación Económica para el Caribe
- ECOCARIBE, S.A, Consultores Económicos
- FLACSO – Facultad Latinoamericana de Ciencias Sociales
- FED-Fundación Economía y Desarrollo
- Grupo de Consultoría Pareto
- INTEC – Instituto Tecnológico de Santo Domingo
  - Oficina de Desarrollo
- Pontificia Universidad Madre y Maestra de Santo Domingo
  - CENANTILLAS – Centro de Investigación Económica de las Antillas

Ecuador

- AEPO – Asociación Ecuatoriana de Población
- CEA – Centro de Estudios y Análisis
- CEDATOS – Centro de Estudios y Datos
- Centro de Estudios SPECTRUM, Opinión y Mercado
- CORDES – Corporación de Estudios para el Desarrollo
- Corpifuturo Cia. Ltda.
- EPN – Escuela Politécnica Nacional
  - Departamento de Matemática
  - CIE – Centro de Investigaciones Económicas
- ESPAE-ESPOL – Escuela de Postgrado en Administración de Empresas y Escuela Politécnica de Guayaquil
  - CIE – Centro de Investigaciones Económicas
- FLACSO – Facultad Latinoamericana de Ciencias Sociales
  - Sede Académica Ecuador
- Fundación Edúcate
- Grupo FARO – Fundación para el Avance de las Reformas y las Oportunidades
- IEE – Instituto de Estudios Ecuatorianos
- INSOTEC – Instituto de Investigación Socio-económica y Tecnológica
- MULTIENLACE – Consultora en Macroeconomía y Finanzas
  - Departamento de Análisis Económico
- PUC – Pontificia Universidad Católica del Ecuador
  - IIE – Instituto de Investigación
- SIISE- Sistema Integrado de Indicadores Sociales
- Stratega BDS
- USFQ – Universidad San Francisco de Quito
  - Decano de Colegios de Postgrado
  - SUR – Centro de Investigaciones Económicas y Sociales

El Salvador

- FLACSO – Fundación para el Desarrollo de las Ciencias Sociales
- Fundación Siglo XXI
- FUNDAUNGO – Fundación Dr. Guillermo Manuel Ungo
- FUSADES – Fundación Salvadoreña para el Desarrollo Económico y Social
  - Departamento de Estudios Económicos y Sociales
- UFG – Universidad Francisco Gavidia
- UCA – Universidad Centroamericana José Simeón Cañas
  - IUDOP – Instituto Universitario de Opinión Pública

Guatemala

- ASIES – Asociación de Investigación y Estudios Sociales
- CIEN – Centro de Investigaciones Económicas
- Emergente & Fronterizo S.A.
- Estrategias de Inversión, S.A.

- ICEFI-IARNA – Instituto Centroamericano de Estudios Fiscales e Instituto de Agricultura, Recursos Naturales y Ambiente

Honduras

- ALPRESA, S.A. de C.V.
- ESA Consultores – Economía, Sociedad, Ambiente, Co.
  - Fundación Centroamericana para el Desarrollo Humano
- IISE – Instituto de Investigaciones Económicas
- UNITEC – Universidad Tecnológica Centroamericana

Mexico

- AFEIEAL – Asociación de Facultades, Escuelas e Institutos de Economía de América Latina
- CIDE – Centro de Investigación y Docencia Económica
  - OVD – Oficina de Vinculación
  - DEI – Desarrollo División de Estudios Internacionales
- CIDAC – Centro de Investigaciones para el Desarrollo, A.C.
- CILASE – Centro Internacional Lucas Alemán para el Crecimiento Económico
- CISS – Conferencia Interamericana de Seguridad Social
- El Colegio de México, A.C.
  - CEE – Centro de Estudios Económicos
- Estrategias de Acompañamiento y Servicios Educativos Sociedad de Responsabilidad Limitada de Capital Variable
- CEES – Centro de Estudios Educativos y Sociales
- FLACSO México
- FUNSALUD – Fundación Mexicana para la Salud, A.C
- IMCO – Instituto Mexicano para la Competitividad, A.C.
- INSP – Instituto Nacional de Salud Pública
  - CINS – Centro de Investigación sobre la Nutrición y la Salud
- IPN – Instituto Politécnico Nacional
- ITAM – Instituto Tecnológico Autónomo de México
- ITESM – Instituto Tecnológico de Estudios Superiores de Monterrey
  - CEDGE – Centro de Estudios sobre Globalización y Desarrollo
  - Departamento de Economía
- Spectron Desarrollo, S.C.
- UDLAP – Universidad de la Américas, Puebla
  - CIEPP – Centro de Investigación en Economía y Políticas Públicas
- UNAM – Universidad Nacional Autónoma de México
  - Departamento Economía
  - Facultad de Economía
  - IIEC-Instituto de Investigaciones Económicas
- Universidad Autónoma Metropolitana Azcapotzalco
- Universidad Iberoamericana
  - Departamento de Economía
  - Dirección de Cooperación Académica
  - IDSES – Instituto para el Desarrollo Sustentable y la Equidad
- Universidad Panamericana
  - Dirección de Desarrollo Institucional Historia de Pensamiento

Nicaragua

- FIDEG – Fundación Internacional para el Desafío Económico Global
- INCAE – Centro Latinoamericano para la Competitividad y el Desarrollo Sostenible
- NITLAPAN – Instituto de Investigación y Desarrollo
- UCA – Universidad Centroamericana
  - Dirección de Investigación y Proyección Social
- UNA – Universidad Nacional Agraria
- UNAN – León – Universidad Nacional Autónoma de Nicaragua

- UNAN – Managua – Universidad Nacional Autónoma de Nicaragua

Panama

- UDELAS – Universidad Especializada de las Américas
  - Departamento de Investigación
- ULACIT – CIDE – Universidad Latinoamericana de Ciencia y Tecnología
  - Research & Development Center
- ULP – Universidad Latina de Panamá
- Universidad Tecnológica de Panamá
  - Dirección Relaciones Externas

Paraguay

- CADEP – Centro de Análisis y Difusión de Economía
- CEPAG – Centro de Estudios Paraguayos Antonio Guasch
- CEPPRO – Centro Paraguayo para la Promoción de la Libertad Económica y de la Justicia Social
- CERI – Centro de Estudios Rurales Interdisciplinarios
- CICA – Centro de Investigación y Capacitación Agroecológica
- DESARROLLO-Instituto Desarrollo de Capacitación y Estudios
- Fundación en Alianza
- FUPACODE – Fundación Paraguaya de Cooperación y Desarrollo
- GCS – Grupo de Ciencias Sociales
- Instituto Desarrollo
- SEFEM – Servicios de Formación y Estudios de la Mujer
- SER – Sociedad de Estudios Rurales y Cultura Popular
- Investigaciones Socioeconómicas
- Universidad Católica "Nuestra Señora de la Asunción"
  - CIDSEP – Centro Interdisciplinario Social y de Economía Política
- Universidad Nacional de Asunción
  - Facultad de Ciencias Agrarias

Peru

- ABT Asociados
- APOYO Consultoría, S.A.C.
- CBC – Centro de Estudios Regionales Andinos
- Bartolomé de las Casas
- CEDEP – Centro de Estudios para el Desarrollo y la Participación
- CEPEI – Centro Peruano de Estudios Internacionales
- CEPRODER – Centro de Estudios y Promoción del Desarrollo Regional
- CIES- Consorcio de Investigaciones Económicas y Sociales del Perú
- ESAN- Escuela de Administración de Negocios Para Graduados
- Foro Educativo
- GRADE – Grupo de Análisis para el Desarrollo
- IEP – Instituto de Estudios Peruanos
- INDE Consultores
- Instituto APOYO, S.A
- IPE – Instituto Peruano de Economía
- Macroconsult, S.A.
- PUC-PERU – Pontificia Universidad Católica del Perú
  - Departamento de Economía
  - Instituto para la Calidad
- SASE – Seguimiento, Analisis y Evaluacion para el Desarrollo
- Universidad Católica de Santa María
  - PROSUR – Instituto para el Desarrollo del Sur del Perú
- Universidad de Lima
  - Facultad de Economía
  - Escuela Universitaria de Negocios Instituto de Investigación Científica

    - CIPI – Centro de Investigación de la Producción Industrial
- Universidad del Pacífico
    - CIUP – Centro de Investigación
- Universidad Nacional Agraria La Molina
    - Rectorado
- USMP – Universidad San Martín de Porres
    - CCD – Centro para la Competitividad y el Desarrollo
    - Facultad de Ciencias Económicas Instituto de Investigación

Trinidad and Tobago

- UWI – University of the West Indies
    - Caribbean Centre for Monetary Studies
    - Department of Behavioural Sciences
    - IOB-Institute of Business
    - ISER – Institute of Social and Economic Research
- SALISES – Sir Arthur Lewis Institute of Social and Economic Studies
- Scientific Information Services (SIS) Limited
- SEDU – Sustainable Economic Development Unit
    - Department of Economics

Uruguay

- CERES – Centro de Estudios de la Realidad Económica y Social
- CIESU – Centro de Informaciones y Estudios del Uruguay
- CINVE – Centro de Investigaciones Económicas
- CLAEH – Centro Latinoamericano de Economía Humana
- GEOPS – Grupo de Estudios en Economía, Organización y Políticas Sociales
- UCU – Universidad Católica del Uruguay
    - Licenciatura en Economía de la Empresa
- UDELAR – Universidad de la República
    - Departamento de Economía, Facultad de Ciencias Sociales
    - Facultad de Ciencias Económicas y de Administración, Instituto de Economía
- Universidad de Montevideo
    - Facultad de Ciencias Empresariales y Economía
- UNLP – Universidad Nacional de la Plata
    - CEDLAS
- Universidad ORT Uruguay
    - Instituto de Economía, Facultad de Ciencias Económicas

Venezuela

- CEDICE – Centro de Divulgación del Conocimiento Económico, A.C.
- CICE – Centro de Investigaciones Culturales y Educativas
- CONAPRI – Corporación Nacional de Promoción de Inversiones
    - Departamento de Promoción y Asuntos Regulatorios
- ECOANALITICA
- IESA – Instituto de Estudios Superiores de Administración
    - Centro de Políticas Públicas
- ILDIS – Instituto Latinoamericano de Ciencias Sociales
- Maxim Ross y Asociados, S.A
- PSCR – Prime Sociedad Calificadora de Riesgo C.A.
- UCAB – Universidad Católica Andrés Bello
    - Escuela de Economía
    - Facultad de Ciencias Económicas y Sociales
    - Instituto de Investigaciones Económicas y Sociales
- UCV – Universidad Central de Venezuela
    - CENDES – Centro de Estudios del Desarrollo
        - Escuela de Economía
    - IIES – Instituto de Investigaciones Económicas y Sociales

    - Facultad de Arquitectura y Urbanismo
        - Instituto de Urbanismo
- Universidad del Zulia
    - Facultad de Ciencias Económicas Sociales
    - Instituto de Investigaciones Económicas y Sociales
- USM – Universidad Santa María
    - IIEAPP – Instituto de Investigaciones Económicas, Administrativas y de Políticas Públicas

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