

## TECHNICAL COOPERATION (TC ABSTRACT)

### I. BASIC PROJECT DATA

<b>Country/Region:</b>	Regional
<b>TC Name:</b>	Enhancing the quality and efficiency of public spending in LAC
<b>TC Number:</b>	RG-T2508 and RG-T2509
<b>Team Members:</b>	Gustavo García, Team Leader (IFD/FMM); Rafael Rodríguez-Balza, Alternate Team Leader (SCL/SCL); Edna Armendariz (IFD/FMM); Martín Ardanaz (IFD/FMM); Mariano Lafuente (IFD/ICS); Alejandro Morduchowicz (EDU/CGU); Marco Stampini (SCL/SPH); Diana Pinto (SCL/SPH); Angel Muñoz (SCL/SCL); Alejandro Izquierdo (RES/RES); and Marina Massini (IFD/FMM).
<b>Operation type:</b>	Research & Dissemination
<b>Beneficiary:</b>	Latin America and Caribbean Countries
<b>Executing entity:</b>	Bank executed
<b>IDB Funding Requested:</b>	US\$800,000 Target funds: ICSF (US\$600,000) SOF (US\$200,000)
<b>Terms:</b>	Executed period: 24 months Disbursement period: 24 months
<b>Required start date:</b>	May 2014
<b>Types of consultants:</b>	Individual, Firms
<b>Prepared by Unit:</b>	IFD/FMM and SCL/SCL
<b>UDR:</b>	IFD/FMM
<b>TC included in CS/CPD:</b>	No
<b>GCI-9 Sector Priority:</b>	Institutions for Growth and Social Welfare

### II. OBJECTIVE AND JUSTIFICATION

- 2.1 The Latin America and the Caribbean (LAC) region is expected to grow around 3% in 2014, rising only slightly in subsequent years. The fiscal implications of this baseline scenario include a higher reliance on expenditure policy and efficiency in order to rebuild fiscal buffers and space. Yet, how much public savings can be generated by improving the efficiency of government expenditures?. Expenditure policy in LAC faces medium and long term challenges that if remain unaddressed, may trump the search for fiscal buffers and space.
- 2.2 In the medium term, there is a need to improve the efficiency of government expenditures without compromising service coverage and quality. Recent evidence suggests that important public programs in diverse areas such as the energy sector or social assistance suffer from high levels of “leakages” suggesting ample room to improve targeting coverage of these programs (Izquierdo et al. 2013). Moreover, the composition of public spending appears to be strongly tilted toward non-flexible items (such as wages), implying the necessity of identifying a series of civil service reforms to enhance efficiency in labor intensive sectors (such as education, and health) over the medium term. Finally, it is important to understand the expenditure consequences of long term demographic trends. Even though today the region has a relatively young population, projections suggest that the population above 65 years will triple by 2050. In the absence of

institutional reforms aimed at strengthening social security systems, between 50% and 60% of the 140 million elderly adults in 2050 will reach retirement without having generated enough savings to fund an adequate pension in their old age.

- 2.3 The goal of this TC is to assist regional authorities in the design of policies aimed at enhancing the quality and efficiency of public expenditures in the medium and long term, and thus, contribute towards rebuilding fiscal buffers and space. It will do so by: (i) supporting a number of regional studies aimed at assessing *expenditure efficiency* by collecting information on both inputs (budget allocation, personnel numbers, etc.) and on outputs and outcomes in key public spending sectors; (ii) proposing a range of policy options and actions with the aim of generating efficiency savings in the reviewed spending sectors, tailored to country specific needs; and (iii) supporting dissemination activities such as workshops where the main findings and policy reform proposals are shared with key stakeholders.
- 2.4 In particular, the TC will focus on the following expenditure sectors: (i) energy, transport, and social assistance programs; (ii) health and education, with particular (though not exclusive) emphasis on the wage bill; and (iii) public pensions. The choice of these expenditures items is driven by three main factors: (a) their contribution to aggregate public spending, and hence, their potential in terms of generating large fiscal savings; (b) their impact on the sustainability or solvency of public finances (such as pensions); and (c) the different time horizons that are required to implement policy reforms in these key areas of public spending.<sup>1</sup>
- 2.5 Given its concern with the identification of areas where efficiency of government spending can be improved, this TC is directly in line with the priorities of the Institutional Capacity Strengthening Fund (ICSF), and the IDB's institutional priorities of enhancing fiscal efficiency and sustainability across the region (GCI-9). In addition, by focusing specifically on measures to enhance the quality of public spending in education, health, and social protection, this TC contributes to the general objective of the Social Fund (SOF): increasing the relevance, quality, and volume of Bank lending in support of *social sector* priorities.

### III. DESCRIPTION OF ACTIVITIES AND OUTPUTS

- 3.1 **Component 1. Public spending on energy and transportation subsidies and social assistance transfers.** This component will assist countries in taking policy actions aimed at improving targeting accuracy and coverage of: (i) major subsidies in the areas of energy and transport; and (ii) social assistance transfers. The component will finance regional studies focusing on leakages in energy subsidies (mainly gas and electricity) and social assistance programs to assure that these subsidies and transfers reach only the vulnerable groups of the population.

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<sup>1</sup> While efficiency oriented measures in energy subsidies may be resolved through executive decree, civil service reforms that affect the wage bill or public employment can only be implemented gradually and may require institutional adjustments of a longer time span.

- 3.2 **Component 2. Public spending on education and health.** This component will assist countries in taking policy actions aimed at improving the efficiency (and equity) of expenditure in education and health sectors. To accomplish this, the component will finance regional studies that develop national diagnoses and shed light on how the efficiency of health and education spending can be improved.
- 3.3 **Component 3. Pension regimes.** This component will assist countries in taking policy actions aimed at ensuring the long-term financial viability of country’s pension systems. It will finance regional studies aimed at: (i) calculating the actuarial deficit/surplus of major pension regimes in a broad sample of countries; (ii) analyzing the extent to which pension funds are exposed to government interference for deficit financing; and (iii) propose parametric reforms in social security systems that will enhance or restore actuarial solvency.
- 3.4 **Component 4. Dissemination.** This component will assist the organization of closed workshops with key policymakers and scholars in which results and policy proposals from the regional studies are shared and discussed.

**BUDGET**

Component	Description	IDB (US\$)	Total (US\$)
1. Energy, Social Assistance, and Transport	Hiring of consultancy services and travel (as needed)	240,000	240,000
2. Education and Health	Hiring of consultancy services and travel (as needed)	400,000	400,000
3. Pension regimes	Hiring of consultancy services and travel (as needed)	100,000	100,000
4. Dissemination	Meetings and Workshops	60,000	60,000
<b>Total</b>		<b>800,000</b>	<b>800,000</b>

**IV. EXECUTING AGENCY AND EXECUTION STRUCTURE**

- 4.1 The Bank is the proposed executing agency for this regional TC. The project team is led by IFD/FMM and SCL/SCL. The activities contemplated under this TC are expected to augment the Bank’s expertise and strengthen its capability to provide future support to borrowing member countries.

**V. PROJECT RISKS AND ISSUES**

- 5.1 The main risk would be that no government is willing to implement reforms in the spending sectors under analysis. In order to mitigate this risk, reform proposals will be tailored to country specific needs and include gradual reform initiatives with action plans spanning different time horizons to avoid abrupt changes in expenditure patterns that could create social and political resistance.

**VI. ENVIRONMENTAL AND SOCIAL CLASSIFICATION**

- 6.1 There are no environmental or social risks associated with the activities outlined in this TC, therefore its environmental classification is "C".