DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

REGIONAL

SUBSIDIES, LABOR COSTS, AND FISCAL SUSTAINABILITY: EVIDENCE FOR BETTER SOCIAL PROTECTION AND LABOR POLICIES

(RG-T4980)

PROJECT DOCUMENT

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REGIONAL **SUBSIDIES, LABOR COSTS, AND FISCAL SUSTAINABILITY: EVIDENCE FOR BETTER SOCIAL PROTECTION AND LABOR POLICIES** **RG-T4980**	
PROJECT SUMMARY	
Operation Type:	Technical Cooperation
Sector:	SOCIAL INVESTMENT
Subsector:	LABOR POLICY
TC Taxonomy:	Research and Dissemination
Project Number under the Operational Support Taxonomy:	N/A
Technical Responsible Unit:	SCL/SPL-Social Protection and Labor Markets Division
Unit with Disbursement Responsibility (UDR):	SCL/SPL-Social Protection and Labor Markets Division
Executing Agency:	Inter-American Development Bank
PROJECT OBJECTIVE	
The general objective of this Technical Cooperation is to strengthen the analytical and operational capacity of the Social Protection and Labor Division (SPL) by developing different tools, including harmonized analytical frameworks, data, and operational guidance, that support evidence-based country dialogue, the preparation of Country Development Initiatives (CDIs), and the design of social protection and labor operations. The specific objectives are: To produce harmonized estimates of social subsidies, non-wage labor costs, and their fiscal sustainability, using data from the Labor Market Observatory and other administrative sources, to inform country dialogue, the design of operations, and the formulation of country strategies. To design, pilot, and institutionalize a strategic and selective methodology to improve the quality, prioritization, and cross-sectoral coordination of SPL inputs in CDI preparation. The principal expected outcome is the incorporation of a prioritized and evidence-based SPL reform agenda into at least one CDI, and the use of the analytical framework or methodology in at least two SPL analytical or operational products, using the tools developed under the project	

FINANCIAL INFORMATION		
Financing Type	**Fund**	**Amount in US$**
TCN - Nonreimbursable	P3E - OC SDP Pillar 3 - Social Protection and Human Capital Development	350,000
	Total IDB Financing	**350,000**
	Counterpart Financing	**0**
	Total Project Budget	**350,000**

Donors:	N/A
Disbursement Period:	36 months
Execution Period:	36 months
ADDITIONAL FINANCIAL INFORMATION	
N/A	

I. JUSTIFICATION AND OBJECTIVE

1.1 **Diagnostic.** Countries in Latin America and the Caribbean (LAC) face the dual challenge of expanding social protection while preserving fiscal sustainability and fostering dynamic labor markets. Over the past two decades, governments have significantly increased investments in social protection through cash transfers, non-contributory pensions, employment programs, childcare services, and other social assistance initiatives. These policies have contributed to reducing poverty and improving resilience among vulnerable households. However, they have also increased fiscal commitments at a time when many countries are experiencing slower economic growth, rising public debt, and accelerating demographic change[1]. In parallel, labor market regulations and labor-related fiscal policies—including payroll taxes, social security contributions, hiring subsidies, and other non-wage labor costs—continue to play a central role in shaping labor market outcomes. While these instruments finance essential social protection systems and pursue important social objectives, they can also influence labor demand, labor supply, informality, productivity, and employment creation[2]. Despite their importance, comparable information on the magnitude, composition, and long-term fiscal implications of social protection expenditures and labor-related policies remains fragmented across countries. Differences in institutional arrangements, accounting methodologies, administrative records, and statistical classifications make it difficult to compare expenditures across countries or evaluate their sustainability over time[3].

1.2 The demographic transition further increases the urgency of this challenge. Population aging, changing dependency ratios, and evolving labor force participation patterns are expected to place increasing pressure on pension systems, health expenditures, long-term care, and labor markets over the coming decades[4]. At the same time, the Inter-American Development Bank is strengthening its country engagement model through Country Development Initiatives (CDIs). For the Social Protection and Labor Division (SPL), this evolution requires moving beyond comprehensive sector diagnostics toward a more strategic and evidence-based prioritization of policy recommendations[5]. Although

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1 Public spending on social protection has expanded significantly across Latin America and the Caribbean over the past two decades, contributing to poverty reduction while increasing governments' long-term fiscal commitments. See World Bank (2022), *The State of Social Safety Nets 2022*; International Monetary Fund (2024), *Fiscal Monitor: Putting a Lid on Public Debt*.

2 A broad body of evidence shows that payroll taxes and other non-wage labor costs affect labor demand, informality, productivity, and employment creation. See James Heckman and Carmen Pagés (2004), *Law and Employment: Lessons from Latin America and the Caribbean*; Adriana Kugler and Maurice Kugler (2009); and Santiago Levy (2008), *Good Intentions, Bad Outcomes*.

3 Differences in accounting standards, institutional arrangements, and statistical classifications limit the comparability of social protection expenditures across countries and hinder cross-country policy benchmarking. See Organisation for Economic Co-operation and Development (2023), *Government at a Glance: Latin America and the Caribbean*; and World Bank (2022), *ASPIRE: The Atlas of Social Protection Indicators of Resilience and Equity*.

4 Population aging is expected to substantially increase pension and health expenditures throughout Latin America and the Caribbean over the coming decades, strengthening the need for fiscally sustainable social protection systems. See United Nations (2024), *World Population Prospects 2024*; and International Monetary Fund (2024), *Fiscal Monitor*.

5 International experience suggests that improving the quality of public expenditure increasingly depends on prioritizing interventions according to their expected impact, fiscal sustainability, and implementation

SPL has developed several regional analytical platforms—including the Labor Market Observatory and the Better Jobs Index—there is currently no integrated framework that combines harmonized estimates of social protection expenditures and labor costs with an operational methodology to translate this evidence into prioritized recommendations for country engagement. This Technical Cooperation addresses this gap[6].

1.3 **Request.** As part of the Bank's Research and Dissemination agenda, the Social Protection and Labor Division (SPL) has identified the need to generate regional information that strengthen the analytical and operational basis for SPL engagement across Latin America and the Caribbean. This Technical Cooperation reflects the Bank's interest in developing harmonized analytical tools and an operational prioritization methodology that can be applied across multiple countries and future Bank operations.

1.4 **Objective.** The general objective of this Technical Cooperation is to strengthen the analytical and operational capacity of the Social Protection and Labor Division (SPL) by developing different tools, including harmonized analytical frameworks, data, and operational guidance, that support evidence-based country dialogue, the preparation of Country Development Initiatives (CDIs), and the design of social protection and labor operations. The specific objectives are: To produce harmonized estimates of social subsidies, non-wage labor costs, and their fiscal sustainability, using data from the Labor Market Observatory and other administrative sources, to inform country dialogue, the design of operations, and the formulation of country strategies. To design, pilot, and institutionalize a strategic and selective methodology to improve the quality, prioritization, and cross-sectoral coordination of SPL inputs in CDI preparation. The principal expected outcome is the incorporation of a prioritized and evidence-based SPL reform agenda into at least one CDI, and the use of the analytical framework or methodology in at least two SPL analytical or operational products, using the tools developed under the project

1.5 **Complementarity.** This Technical Cooperation complements ongoing IDB operations in the fiscal and social protection space. It is complementary to *Support for Public Policies to Increase Coverage, Sustainability and Adequacy of Pension Systems in the Region* (ATN/OC-16361-RG), whose diagnoses on pension coverage and sustainability will feed directly into the harmonized expenditure estimates produced under Component 1. It also complements *Strengthening Fiscal Governance through Comparative Data and Policy Insights in LAC* (ATN/OC-21896-RG), which develops comparative fiscal data and policy analysis across the region; RG-T4980 extends this agenda specifically into social protection expenditures and labor costs. This TC supplies the social protection and labor cost expenditure layer that informs this broader fiscal framework. All these operations

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capacity. See World Bank (2023), *Public Expenditure Reviews: A Guidance Note*; and Organisation for Economic Co-operation and Development (2023), *Government at a Glance*.

6 The proposed Technical Cooperation builds on the Inter-American Development Bank's regional analytical platforms—including the Labor Market Observatory and the Better Jobs Index—and on its operational experience supporting labor market, social protection, and fiscal sustainability reforms across Latin America and the Caribbean.

provide analytical and institutional building blocks that will draw on and reinforce through its regional evidence base and CDI prioritization methodology.

1.6 **Strategic Alignment.** This Technical Cooperation is aligned with the IDB Group's Institutional Strategy, *Transforming for Scale and Impact* (CA-631), contributing to the objectives of reducing poverty and inequality and fostering sustainable, inclusive growth through evidence-based social protection and labor market policies. The TC is also aligned with the Strategic Development Program financed with P3E - OC SDP Pillar 3 - Social Protection and Human Capital Development fund, as established in document GN-2819-25, by promoting more inclusive, equitable, and sustainable social protection systems in borrowing member countries. It is further consistent with the Labor Sector Framework Document (GN-2741-12), given its focus on non-wage labor costs, payroll taxes, and their effects on informality and job creation, and with the Social Protection and Poverty Sector Framework Document (GN-2784-12), given its focus on the fiscal sustainability and targeting efficiency of social protection expenditures, including cash transfers, non-contributory pensions, and early childhood development subsidies. The project responds to the Bank's broader effort to strengthen its country engagement model through Country Development Initiatives, and to the SPL sector strategy of providing fiscally sustainable, prioritized, and operationally relevant policy recommendations.

II. COMPONENTS

2.1 The TC will be executed over a three-year period and is organized around three mutually reinforcing components. Year 1 focuses on developing the regional analytical framework, the harmonized database, and country diagnostic notes. Year 2 focuses on the regional analytical report and the Strategic Prioritization Framework and operational toolkit. Year 3 focuses on piloting the prioritization framework in at least one CDI and completing dissemination and institutionalization activities.

2.2 **Component 1. Measuring Social Protection Expenditures, Labor Costs, and Fiscal Sustainability** (US$200,000). This component will finance a regional analytical framework to estimate and compare social protection expenditures, labor costs, and their implications for fiscal sustainability across countries in Latin America and the Caribbean, leveraging the Labor Market Observatory and complementary administrative and fiscal data. Activities to be financed, detailed in the Terms of Reference (Annex III), include developing a harmonized methodology for measuring social protection expenditures and non-wage labor costs; compiling and harmonizing regional datasets; producing regional and country-level estimates; developing fiscal sustainability analytical tools; and preparing the regional analytical report and country diagnostic notes. These tasks will be carried out through the engagement of two individual consultants, as detailed in the Procurement Plan (Annex IV). Expected Outputs: regional analytical framework and harmonized database; country diagnostic notes (2); regional analytical report.

2.3 **Component 2. Strategic Prioritization Framework for SPL Country Engagement** (US$110,000). This component will finance the development and piloting of an operational framework that strengthens the quality, selectivity, and consistency of SPL inputs into Country Diagnostics for Impact. Activities to be financed, detailed in the Terms of Reference (Annex III), include reviewing recent CDIs and Country Strategies; developing the Strategic Prioritization Framework and operational criteria; preparing practical guidance for CDI preparation; and piloting the framework in at least one CDI. These tasks will be carried out through the engagement of two individual consultants, as detailed in the Procurement Plan (Annex IV). Expected Outputs: Strategic Prioritization Framework; operational toolkit for CDI preparation; pilot implementation report; operational guidance note.

2.4 **Component 3. Knowledge Generation and Institutionalization** (US$40,000) This component will finance activities to ensure that the analytical products and operational methodologies developed under the TC become institutional assets that support future country engagement and operational work. Activities to be financed, detailed in the Terms of Reference (Annex III), include preparing policy briefs and knowledge products; organizing a regional dissemination event and technical workshops; developing communication materials; and preparing the institutionalization strategy. These tasks will be carried out through the engagement of an individual consultant, as detailed in the Procurement Plan (Annex IV). Resources under this component will finance costs directly associated with these activities, such as consultant fees, event logistics, and travel of non-Bank participants, and will not be used to finance the Bank's routine activities, including staff salaries, benefits, and IDB staff travel, which are covered by the

Administrative and Capital Budgets in accordance with GN-2819-25. The dissemination event is reflected in the Procurement Plan (Annex IV). Expected Outputs: knowledge and dissemination package; regional dissemination event; institutionalization strategy.

2.5 **Expected Results**. By the end of the execution period, the TC is expected to deliver: (i) a regional analytical framework and harmonized database on social protection expenditures, labor costs, and fiscal sustainability; (ii) a Strategic Prioritization Framework for SPL Country Engagement, piloted in at least one CDI; and (iii) at least one CDI that incorporates a prioritized and evidence-based SPL reform agenda using these tools, with the framework or methodology applied in at least two SPL analytical or operational products..

2.6 **Beneficiaries.** The primary beneficiary of this Technical Cooperation is the Social Protection and Labor Division of the Inter-American Development Bank, whose analytical and operational capacity will be strengthened through the tools developed under the TC. Secondary beneficiaries include Bank Country Offices and operational teams involved in the preparation of Country Strategies, lending operations, and technical cooperation projects, as well as government counterparts—including ministries of finance, labor, social development, planning, and social security institutions—across Latin America and the Caribbean.

III. BUDGET

3.1 The total cost of this Technical Cooperation is US$350,000, fully financed by the P3E - OC SDP Pillar 3 - Social Protection and Human Capital Development through Bank nonreimbursable resources (TCN), with no local counterpart contribution. The budget is distributed across the three components as follows:

Components	IDB- P3E	Total
Component 1: Measuring Social Protection Expenditures, Labor Costs, and Fiscal Sustainability	200,000	200,000
Component 2: Strategic Prioritization Framework for SPL Country Engagement	110,000	110,000
Component 3: Knowledge Generation and Institutionalization	40,000	40,000
Total	**350,000**	**350,000**

IV. EXECUTION STRUCTURE

4.1 Considering that the taxonomy of this TC is Research and Dissemination (R&D), this Technical Cooperation is an initiative promoted by the Bank and will be executed directly by the Bank. The TC will be executed by the Inter-American Development Bank (IDB), in accordance with the Bank's Technical Cooperation Policy (GN-2470-2) and the Procedures for the Processing of Technical Cooperation Operations and Related Matters (OP-619-4), through the Social Protection and Labor Markets Division (SCL/SPL).

4.2 **Institutional Capacity.** As the operation will be executed directly by the Bank through SCL/SPL, fiduciary risk associated with execution is assessed as low. SCL/SPL has extensive experience executing Bank technical cooperation operations of comparable scope and budget, including the procurement and supervision of individual consultant contracts. The Bank's standard procurement and financial management systems will apply throughout execution.

4.3 **Procurement.** All procurement to be executed under this Technical Cooperation have been included in the Procurement Plan (Annex IV) and will be hired in compliance with the applicable Bank policies and regulations as follows: (a) Hiring of individual consultants, as established in the regulation on Complementary Workforce (AM-650) and (b) Contracting of services provided by consulting firms in accordance with the Corporate procurement Policy (GN-2303-33) and its Guidelines.).

4.4 **Execution and Disbursement Period.** The execution period for this Technical Cooperation is 36 months. The disbursement period is also 36 months, consistent with the implementation periods considered in the Results Matrix (Annex II) and the Procurement Plan (Annex IV).

4.5 **Financial Management.** As this Technical Cooperation is executed directly by the Bank, all expenses will be incurred and recorded in US dollars through the Bank's internal financial management systems, and financial information will be monitored on an annual basis in accordance with the Bank's standard policy for Bank-executed technical cooperations. Financial management will follow the Bank's standard internal control framework, and no external audit is required beyond the Bank's standard internal control and audit procedures.

4.6 **Monitoring, Reporting, and Supervision.** Monitoring and supervision of this TC will be the responsibility of the Team Leader within SCL/SPL, with technical support from the project team identified on the cover page of this document. Progress will be monitored against the indicators and targets established in the Results Matrix (Annex II) and reported through the Bank's Technical Cooperation Monitoring and Reporting System (TCM), in accordance with the Bank's policy on the Technical Cooperation Monitoring and Reporting System (OP-1385-4), with annual progress updates.

4.7 **Evaluation.** A TC Completion Report will be prepared at the end of the execution period, summarizing results achieved against the indicators in the Results Matrix (Annex II) and documenting lessons learned. No external evaluation or audit is contemplated beyond the Bank's standard internal procedures for Bank-executed technical cooperations.

V. POTENTIAL RISKS

5.1 The main risks identified for this operation, their potential effects, and the corresponding mitigation actions are: (1) Data availability and quality risk: Harmonized cross-country data on social protection expenditures and labor costs may be incomplete or inconsistent across countries, which could affect the comparability of estimates and delay Component 1 deliverables. Mitigation: the analytical team will rely on the Labor Market Observatory and triangulate multiple data sources, applying documented harmonization protocols and flagging data limitations transparently in outputs. (2) Adoption risk: SPL country teams may not systematically apply the prioritization framework once developed. Mitigation: Component 3 explicitly finances an institutionalization strategy and dissemination activities designed to embed the framework into SPL's standard operational practice.

5.2 **Intellectual Property.** All analytical products, datasets, frameworks, toolkits, and knowledge products developed under this Technical Cooperation are the exclusive property of the Inter-American Development Bank. The Knowledge products generated under this Technical Cooperation will be published under a Creative Commons IGO 3.0 license. However, at the specific request of the beneficiaries and in accordance with the provisions of document AM-331, the intellectual property rights to such products may also be licensed through specific contractual agreements to be drafted with the guidance of the Legal Department. No special intellectual property agreements beyond the Bank's standard consultant contract clauses are required for this operation.

VI. EXCEPTIONS TO BANK POLICIES

6.1 No exceptions to Bank policies are requested for this operation.

VII. ENVIRONMENTAL AND SOCIAL ASPECTS

7.1 This Technical Cooperation is not intended to finance pre-feasibility or feasibility studies of specific investment projects or environmental and social studies associated with them; therefore, this TC does not have applicable requirements of the Bank's Environmental and Social Policy Framework (ESPF).

REQUIRED ANNEXES:

- Annex II: Results Matrix
- Annex III: Terms of Reference
- Annex IV: Procurement Plan