

TC Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	The institutional implications of population decline in LAC
▪ TC Number:	RG-T4781
▪ Team Leader/Members:	Keefer, Philip Edward (IFD/IFD) Team Leader; Rasteletti, Alejandro Gabriel (IFD/IFD) Alternate Team Leader; Centeno Lappas, Monica Clara Angelica (LEG/SGO); Kim, Seojeong (IFD/IFD); Pineda Ayerbe, Emilio Inigo (IFD/IFD); Canillas Gomez, Mariana Belen (IFD/IFD); Stone, Leslie Faye (IFD/IFD) Kim, Seojeong (IFD/IFD); Pineda Ayerbe, Emilio Inigo (IFD/IFD); Canillas Gomez, Mariana Belen (IFD/IFD); Stone, Leslie Faye (IFD/IFD); Kim, Seojeong (IFD/IFD)
▪ Taxonomy:	Research and Dissemination
▪ Operation Supported by the TC:	N/A
▪ Date of TC Abstract authorization:	N/A
▪ Beneficiary:	All 26 borrowing member countries
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC SDP Window 2 - Institutions(W2C)
▪ IDB Funding Requested:	US\$400,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	36 months for both disbursement and execution period
▪ Required start date:	July 2025
▪ Types of consultants:	Firms and individuals
▪ Prepared by Unit:	IFD-Institutions for Development Sector
▪ Unit of Disbursement Responsibility:	IFD/IFD-Institutions for Development Sector
▪ TC included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Institutional Strategy 2024-2030 (CA-631)	Supports sustainable economic growth; Institutional capacity, rule of law, and citizen security; Public sector policy and management; Fiscal policy and management; Transparency and integrity; Citizen security and justice; Private sector development

II. Objectives and Justification of the TC

- 2.1. **Objective.** This Technical Cooperation (TC) aims to generate and disseminate knowledge on the institutional implications of demographic change in Latin America and the Caribbean (LAC). By producing rigorous analysis and effectively communicating insights across the region, the TC seeks to deepen understanding, inform public discourse, and strengthen the capacity of policymakers to design and implement reforms that address the demographic challenge.
- 2.2. **Justification.** The region has undergone an unprecedented decline in fertility rates—over 50% between 1980 and 2020—resulting in a sharp decrease in the share of young people and a growing proportion of those over 65. This demographic shift is already contributing to population decline. To date, most attention has focused on the sustainability of pension systems, the consumption patterns of older adults (e.g. the Silver Economy), and the services they will require (e.g. the Care Economy). This TC

seeks to explore a broader set of challenges and opportunities that have received less attention but carry significant implications for economic growth, poverty reduction, and the region's capacity to respond to climate change.

- 2.3. The sparse and often contradictory literature on the economic consequences of recent demographic changes underlines the need to invest in understanding the institutional aspects of the phenomenon. For example, many argue that as the share of elderly rises, more elderly will continue to work, minimizing effects on labor supply and, therefore, growth. However, Maestas, et al. (2023) present persuasive evidence from the US that each 10 percent increase in the fraction of the population over 60 reduced per capita GDP by 5.5 percent, mostly due to slower labor productivity growth. Engbom (2023) finds that as the labor market ages, entrepreneurial activity declines. The inequality effects of demographic change have only recently received attention, but Vigdor (2023) argues that they are significant. He concludes that broad movements in earnings inequality in the US can be traced to demographic trends and that an aging, declining population will yield more equality. In the context of climate change, intuition suggests that a declining population produces fewer emissions, but Kuruc et al. (2023) argue that declining populations innovate less, and retirees consume more, such that even accounting for effects of climate impacts, living standards fall as population declines. Bloom et al. (2015) anticipated many of the issues raised by demographic change, explicitly highlighting the challenges for institutional capacity: "current institutional and social arrangements are unsuited for aging populations and shifting demographics." The OECD has also found important fiscal consequences of aging across levels of government in its member countries (Dougherty, et al. 2022), but this issue is untouched in the region.
- 2.4. To effectively respond to demographic changes and foster a comprehensive understanding of their broader implications, this TC will examine key areas where demographic shifts impact public policy and institutional arrangements across the region. These areas will be identified through roundtable discussions with thematic experts. To the extent possible, thinking on these topics will be informed by the experiences of other countries that have already experienced aging and population decline. Potential topics for analysis may include:
 1. *Demographic change and fiscal policies in LAC.* Beyond pensions, two areas of fiscal policy are key. One involves evaluating whether current tax systems that rely on consumption taxes are appropriate (efficient, buoyant, equitable) for an aging and declining population, and assessing whether budget institutions are sufficiently flexible to accommodate the reallocation of resources across public services with falling/rising numbers of beneficiaries. The other concerns debt sustainability: will debt be sustainable if shrinking populations grow more slowly (e.g., because neither productivity growth nor immigration do not compensate for a declining work force)?
 2. *Demographic change and inter-governmental governance arrangements.* Inter-governmental fiscal transfers, the assignment of service delivery responsibilities, and the organization of regional representation in general will need reform because lagging regions are likely to depopulate more rapidly than others.
 3. *Demographic change and savings and investing patterns.* As populations age, aggregate saving behavior may shift, influencing domestic interest rates and investment levels. New policies might be required for better financial market functioning. Aging also increases demand for annuity products, long-term care

insurance, and financial planning tools, prompting the development of new financial instruments to manage longevity and health-related risks. Additionally, aging high-income countries may channel more investment abroad, particularly to younger, faster-growing economies—creating new patterns of intergenerational and international capital flows.

4. *The interaction between financial market failures and demographic change.* Understanding this interaction includes examining whether older entrepreneurs and enterprises in the Silver/Care economies suffer disproportionately from these failures, and whether the current targeting of policies meant to compensate for financial market failures is appropriate in the face of demographic change.
 5. *Demographic change and public sector organization.* Identifying necessary changes in organization and planning within the public sector is critical to address the cross-cutting challenge posed by demographic change, including an aging workforce, automation and digitalization, and the changing composition of services.
 6. *Citizen security.* The IDB's focus on citizen security is driven by high levels of violence and the growing influence of organized crime, both primarily involving young men. It is therefore imperative to understand how security policies in the region should adapt to the declining share, and eventually the absolute number, of young men in the region.
 7. *The political economy of reform.* Reforms that are key to growth, poverty, and climate change agendas frequently have long-run payoffs that are sensitive to the time horizons of voters. How does demographic change and its corresponding effects on voter time horizons affect support for these reforms?
- 2.5. **Strategic Alignment.** This TC is consistent with the IDB Group's Institutional Strategy Transforming for Scale and Impact (CA-631) and is aligned with the objectives of: (i) reducing poverty and inequality, and (iii) boosting sustainable regional growth. This is because the adaptation of fiscal and financial sector policies in the region to aging and population decline will have important consequences for growth and equality. Additionally, the TC is aligned with its operational focus areas of Institutional Capacity, Rule of Law, and Citizen Security, as it will analyze the significant challenges that demographic change will pose for the institutional capacity of countries. For example, lagging regions are a key focus of the Institutional Strategy, are likely to depopulate faster than leading regions, and so the demographic shift is likely to require new arrangements for inter-governmental fiscal relations.
- 2.6. Moreover, this TC is aligned with the objectives of the Priority Area 3: "Effective, Efficient and Transparent Institutions" (W2C) of the Bank's Ordinary Capital Strategic Development Program (OC-SDP) (GN-2819-14): (i) "contribute to public policies and institutions that are more effective, efficient, transparent, and citizen-centered" by focusing on maintaining effective and citizen-centered public policies in the face of population decline; (ii) "improve service delivery to citizens" by including activities focused on how to increase government capabilities to change the composition of services in the face of population decline; (iii) "reduce constraints for business growth and productivity" by assessing the productivity consequences of population decline and how to mitigate them; and (iv) "strengthen enforcement of the rule of law, and the fight against corruption, including fostering transparency and integrity and citizen security and justice" by investigating the effect of population decline and aging on citizen security.

- 2.7. **Complementarity.** This TC will complement other efforts by the Bank to better understand the implications of aging, such as those associated with the Silver and Care economies, labor markets, and pensions and fiscal sustainability.

III. Description of activities/components and budget

- 3.1. **Component 1: Knowledge generation.** This component will support efforts to identify and document the key policy and institutional domains where demographic challenges are expected to be most acute and where the region is particularly unprepared to respond. To this end, roundtables¹ with subject matter experts and selected regional counterparts will be convened, to validate or refine the list of priority issues outlined in this TC. Participants of the roundtables will assess the severity of the challenges and identify knowledge gaps and feasible data collection strategies to support policymaking. Building on this, diagnostics and assessments will be commissioned, and targeted data collection efforts will be initiated to analyze the institutional consequences of demographic change in the areas identified through the roundtables. These will provide a rigorous diagnostic of each challenge, and offer actionable, evidence-based policy recommendations.
- 3.2. **Component 2: Knowledge dissemination.** This component aims to raise awareness among policymakers in the region about the emerging demographic challenges and the policy responses identified through this TC. The TC will conclude with a regional conference to present the key findings and recommendations generated by its activities, while also providing a platform for counterparts to share experiences, challenges, and responses. Participants will be selected in collaboration with the relevant sector specialists based on the specific policy recommendations that emerge from the results of the component 1. In principle, the relevant sectors will coordinate invitations to these events, following appropriate protocols. To further stimulate dialogue and knowledge dissemination, the results of the TC may be consolidated into a flagship publication.
- 3.3. In case any activity under either component is held in the region, a non-objection letter from the host country's liaison authority with the Bank will be obtained prior to the initiation of activities in the country.
- 3.4. **Expected results.** A tangible increase in regional interest and collaboration to address knowledge gaps, along with validation of key issues and their relevance; greater demand for expanded data collection across countries; and enhanced counterpart engagement in policy changes and IDB support to effectively respond to the demographic challenge.
- 3.5. **Budget.** The total cost of this operation will be US\$400,000.00 which will be financed by the Priority Area 3: Effective, Efficient and Transparent Institutions (W2C) of the Bank's Ordinary Capital Strategic Development Program (OC-SDP). The execution and disbursement period is 36 months. Table 1 details this budget:

Indicative Budget (US\$)

Activity/ Component	Description	IDB/W2C	Counterpart Funding	Total Funding
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¹ The modality of the roundtables (virtual, hybrid, and/or in-person) will be determined at a later stage.

1. Knowledge	Data collection and analysis	300,000	0	300,000
2. Dissemination	Conference and publication costs	100,000	0	100,000
Total		400,000	0	400,000

IV. Executing agency and execution structure

- 4.1. **Execution Agency.** The Bank will execute this TC through the Institutions for Development Department (IFD). The Bank is considered to have adequate systems to guarantee the proper execution of the project and ensure the sustainability of its implementation in line with the “Operational Guidelines for Technical Cooperation Products” (GN-2629-1). Also, as an operation classified under the Research and Dissemination taxonomy, this TC is considered a Bank initiative, and the Bank is therefore responsible for selecting and contracting consultancy services, in accordance with Annex II of the Procedures for the Processing of Technical Cooperation Operations and Related Matters (OP-619-4).
- 4.2. **Procurement.** The activities to be executed under this TC will be contracted in accordance to the procurement policies established by the Bank, such as: (i) contracting of individual consultancies as established in the Complementary Workforce Regulations (AM-650); and (ii) hiring of consulting firms for services of an intellectual nature and the contracting of logistics services and non-consulting services, according to Corporate Procurement Policy (GN-2303-33) and its associated Guidelines.
- 4.3. **Intellectual property.** The knowledge products generated within the scope of this technical co-operation shall be the property of the IDB and may be made available to the public under a creative commons license.

V. Major issues

- 5.1. As with any knowledge undertaking, the risks associated with this TC are the possibility that key data is unavailable and costly to collect, and the possibility that issues initially identified as key challenges turn out not to be problematic. These risks will be mitigated through consultations with experts and counterparts.

VI. Exceptions to Bank policy

- 6.1. There are no exceptions to the Bank policies.

VII. Environmental and Social Aspects

- 7.1. This TC 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:

[Results Matrix_92325.pdf](#)

[Terms of Reference_53773.pdf](#)

[Procurement Plan_67575.pdf](#)

