Many countries in Latin America and the Caribbean (LAC) have achieved considerable economic growth, yet the region still faces many seemingly intractable problems. The conventional wisdom in development agencies – that prioritization is impossible and that everything must be done – is simply not effective.

*Latin American Development Priorities* shows how limited resources could be used for the greatest benefit of the LAC region. A panel of economists met over three days in San José to review proposals to tackle the ten most important challenges, which emerged from a survey by the Inter-American Development Bank (IDB). The Expert panel was asked a question which appears simple but is actually very difficult to answer: What should LAC governments do with an additional nominal $10 billion?

Hard choices are needed if the region’s problems are to be tackled effectively. This book provides the means to make those choices as objectively as possible.

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Latin American Development Priorities

Edited by

BJØRN LOMBORG
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Bjørn Lomborg
Copenhagen, June 2008
Abbreviations and acronyms

AAA Accountability and Anticorruption Project
ADR alternative dispute resolution
AIOS International Association of Pension Fund Supervisor Organizations
APA Administrative Procedure Act (US)
ASEAN Association of Southeast Asian Nations
AUGE Programa de Acceso Universal de Garantías Explicitas
B/C benefit-cost
BCR benefit-cost ratio
BDH Bono de Desarrollo Humano (Ecuador)
CBA cost-benefit analysis
CBO Congressional Budget Office
CCT conditional cash transfer
CEDLAS Center for Distributive, Labor, and Social Research
CER cost-effectiveness ratio
CGD Center for Global Development
CIPPEC Centro de Implementación de Políticas Públicas
CONAFE Consejo Nacional de Fomento Educativo
CPI consumer prices index
CPI Corruption Perceptions Index (TI)
CPMF bank debit tax
CPTED crime prevention through environmental design
CV contingent valuation
CVM contingent valuation method
DALY disability adjusted life year
DARE Drug Abuse Resistance Education
DB defined benefits
DC defined contributions
DCPP Disease Control Priorities Project
DIP Devolución de Impuestos a los Pobres
List of abbreviations and acronyms

DPT: diphtheria, pertussis, and tetanus
DWL: deadweight loss
ECA: East Europe and Central Asia
ECD: early child development
ECH: Encuesta Continua de Hogares (Uruguay)
ECLAC: Economic Commission for Latin America and the Caribbean
EITC: earned income tax credit
EPA: Environmental Protection Agency (US)
ESU: evolutionarily significant unit
FAO: Food and Agricultural Organization (UN)
FOIA: Freedom of Information Act
FONASA: National Health Fund (Chile)
FRL: fiscal responsibility law
FTA: free-trade agreement
GAO: Government Accountability Office (US)
GDP: gross domestic product
GIS: geographic information systems
GNI: gross national income
HC: Hogares Comunitarios (Colombia)
HDI: Human Development Index
HDIs: human development indicators
HRM: human resource management
IBP: International Budget Partnership
IFC: International Finance Corporation (World Bank)
IFIs: International Financial Institutions
IMF: International Monetary Fund
IMSS: Instituto Mexicano de Seguridad Social
INE: Instituto Nacional de Estadísticas
IPCC: Intergovernmental Panel on Climate Change
IPV: intimate partner violence
IRR: internal rate of return
IRS: Internal Revenue Service (US)
ISAPRE: private insurer (Chile)
ISSTE: Instituto de Seguridad Social de los Trabajadores del Estado
IUCN: International Union for the Conservation of Nature and Natural Resources (World Conservation Union)
IUGR: intrauterine growth retardation
**List of abbreviations and acronyms**

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<td>JIT</td>
<td>just-in-time</td>
</tr>
<tr>
<td>LAC</td>
<td>Latin America and the Caribbean</td>
</tr>
<tr>
<td>LAPO</td>
<td>Latin American Public Opinion Project</td>
</tr>
<tr>
<td>LBW</td>
<td>low birthweight</td>
</tr>
<tr>
<td>LMIC</td>
<td>low- and middle-income countries</td>
</tr>
<tr>
<td>MDG</td>
<td>Millennium Development Goal</td>
</tr>
<tr>
<td>MIRR</td>
<td>modified internal rate of return</td>
</tr>
<tr>
<td>MMR</td>
<td>measles, mumps, and rubella</td>
</tr>
<tr>
<td>MOH</td>
<td>Ministry of Health</td>
</tr>
<tr>
<td>NAFTA</td>
<td>North American Free Trade Agreement</td>
</tr>
<tr>
<td>NGO</td>
<td>non-governmental organization</td>
</tr>
<tr>
<td>NPM</td>
<td>new public management</td>
</tr>
<tr>
<td>NPV</td>
<td>net present value</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
</tr>
<tr>
<td>OOP</td>
<td>out-of-pocket (spending)</td>
</tr>
<tr>
<td>OPS</td>
<td>Organización Panamericana de la Salud</td>
</tr>
<tr>
<td>OR</td>
<td>operations research</td>
</tr>
<tr>
<td>ORT</td>
<td>oral rehydration therapy</td>
</tr>
<tr>
<td>PACES</td>
<td>Programa de Ampliación de Cobertura de la Educación Secundaria</td>
</tr>
<tr>
<td>PAHO</td>
<td>Pan American Health Organization</td>
</tr>
<tr>
<td>PAYG</td>
<td>pay-as-you-go (social security)</td>
</tr>
<tr>
<td>PB</td>
<td>Participatory Budgeting</td>
</tr>
<tr>
<td>PDV</td>
<td>present discounted value</td>
</tr>
<tr>
<td>PELA</td>
<td>Proyecto de Elites Latinoamericanas</td>
</tr>
<tr>
<td>PIDI</td>
<td>Proyecto Integral de Desarrollo Infantil</td>
</tr>
<tr>
<td>PIRLS</td>
<td>Program in International Reading and Literacy Studies</td>
</tr>
<tr>
<td>PISA</td>
<td>Program for International Student Assessment</td>
</tr>
<tr>
<td>PL</td>
<td>plurality (electoral formula)</td>
</tr>
<tr>
<td>PMP</td>
<td>fiscal policymaking process</td>
</tr>
<tr>
<td>PPP</td>
<td>public–private partnership</td>
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<tr>
<td>PPP</td>
<td>purchasing power parity</td>
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<tr>
<td>PR</td>
<td>proportional representation</td>
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<tr>
<td>PRAF</td>
<td>Programa de Asignación Familiar (Honduras)</td>
</tr>
<tr>
<td>PSF</td>
<td>Programa da Saúde da Família</td>
</tr>
<tr>
<td>PV</td>
<td>present value</td>
</tr>
<tr>
<td>QALY</td>
<td>quality adjusted life year</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>research and development</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
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<td>--------------</td>
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<tr>
<td>REP</td>
<td>Reentry Partnership Initiative</td>
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<tr>
<td>RES</td>
<td>Research Department (Inter-American Development Bank)</td>
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<tr>
<td>RPS</td>
<td>Red de Protección Social (Nicaragua)</td>
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<tr>
<td>SEDLAC</td>
<td>Socio-Economic Database for Latin America and Caribbean</td>
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<tr>
<td>SGF</td>
<td>Solidarity and Guarantees Fund</td>
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<tr>
<td>SGSSS</td>
<td>Sistema General de Seguridad Social en Salud</td>
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<tr>
<td>SMD</td>
<td>single-member district</td>
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<tr>
<td>SME</td>
<td>small and medium-sized enterprise</td>
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<tr>
<td>SP</td>
<td>stated preference</td>
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<td>SPSA</td>
<td>severance payment saving accounts</td>
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<tr>
<td>SSA</td>
<td>sub-Saharan Africa</td>
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<tr>
<td>SSRs</td>
<td>structural surplus rules</td>
</tr>
<tr>
<td>STATUS</td>
<td>Student Training Through Urban Strategies</td>
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<tr>
<td>SUS</td>
<td>Sistema Única da Saúde</td>
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<tr>
<td>TFP</td>
<td>total factor productivity</td>
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<tr>
<td>TI</td>
<td>Transparency International</td>
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<tr>
<td>TIMSS</td>
<td>Trends in International Mathematics and Science Studies</td>
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<tr>
<td>UEC</td>
<td>Universidad Externado de Colombia</td>
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<tr>
<td>UI</td>
<td>unemployment insurance</td>
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<tr>
<td>UIA</td>
<td>unemployment insurance account</td>
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<tr>
<td>UNEP</td>
<td>UN Environmental Program</td>
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<tr>
<td>UNODC</td>
<td>UN Office on Drugs and Crime</td>
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<tr>
<td>USDA</td>
<td>US Department of Agriculture</td>
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<tr>
<td>USDOI</td>
<td>US Department of the Interior</td>
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<tr>
<td>VAT</td>
<td>value added tax</td>
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<td>WEF</td>
<td>World Economic Forum</td>
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<tr>
<td>WHO</td>
<td>World Health Organization</td>
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<tr>
<td>WSIPP</td>
<td>Washington State Institute for Public Policy</td>
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<tr>
<td>WTP</td>
<td>willingness-to-pay</td>
</tr>
<tr>
<td>ZMVS</td>
<td>Zona Metropolitana del Valle del Sulla</td>
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Expert panel findings

An expert panel of nine distinguished economists who gathered for the Consulta de San José met to consider the research presented in this volume. The panel comprised:

- Orazio Attanasio, Professor of University College London
- Jere Behrman, Professor of the University of Pennsylvania
- Nancy Birdsall, President of the Center for Global Development
- John H. Coatsworth, Professor of Columbia University
- Ricardo Hausmann, Professor of Harvard University
- Finn E. Kydland, Nobel Laureate and Professor of the University of California
- Nora Lustig, Visiting Professor of George Washington University and Former Director of the UNDP Poverty Group
- José Antonio Ocampo, Professor of Columbia University and Former United Nations Under Secretary General
- Andrés Velasco, Professor of Harvard University and Minister of Finance for Chile.

Over three days, this panel was presented with more than forty solutions to regional challenges. For each challenge, the members heard the arguments from expert authors and an alternate view. The panel then deliberated and ranked the proposals, in descending order of desirability, as follows:

1. Early Childhood Development (Poverty)
2. Fiscal Rules (Fiscal Problems)
3. Increase Investment in Infrastructure, Including Maintenance (Infrastructure)
4. Policy and Program Evaluation Agency (Fiscal Problems)
5. Conditional Cash Transfers (Poverty and Education)
6. Universal Health Insurance: Basic Package (Health)
7. Nutrition Programs for Pre-School Age Children (Poverty and Education)
9. Replace Taxes on Formal Employment with Other Taxes (Employment)
10. Adopt Policies and Services to Reduce Transaction Costs for Trade (Infrastructure)
11. Cash Awards to Journalists for Publication in Major International Media of Governance Failures (Public Administration)
12. Implement Protocols and Publish Outcomes (Health)
13. Training for Disadvantaged Workers (Employment)
14. Automated Computer-Based System for Revenue Collection (Public Administration)
15. Tobacco Tax and Other Measures to Reduce Smoking (Health)
16. Program Targeting At-Risk Mothers and Young Children (Violence and Crime)
17. Comprehensive Program to Deal with Youth and Gang Violence (Violence and Crime)
18. Merit Recruitment and Promotion in the Civil Service (Public Administration)
19. Civil Society Monitoring and Information Provisions (Public Administration)
20. Contingent Debt Instruments (Fiscal Problems)
21. Reduction of the Minimum Wage and Transfers to the Working Poor (Employment)
22. Government Monitoring: Audit Agencies and Ombudsmen (Public Administration)
23. Improve Judicial and Prosecutorial Independence and Performance (Public Administration)
24. Universal Health Insurance: Full Package (Health)
25. Women’s Representation: Quotas (Democracy)
26. Make Tax System More Progressive (Fiscal Problems)
27. Voucher Programs (Education)
28. Alcohol Tax, Restriction of Alcohol Sales, Elimination of Alcohol Advertising (Health)
29. Comprehensive Prison Treatment and Reintegration Program (Violence and Crime)
More information on the Expert panel’s methodology and approach can be found in the Introduction to this volume.

The top five solutions

Top priority was given to Early Childhood Development programs. These are interventions that improve the physical, intellectual, and social development of children early in their life. The interventions range from growth monitoring, daycare services, pre-school activities, improved hygiene and health services to parenting skills. Besides improving children’s welfare directly, the panel concluded that these programs create further benefits for family members, releasing women and older siblings to work outside the home or to further their own education. Evidence shows that the benefits are substantially higher than the costs. Promoting early childhood development is a regional solution that provides both immediate and long-term benefits.

Improving Fiscal Rules was generally seen as a great opportunity to improve the budget process within many countries in the LAC region. Consolidating the budget process through procedural rules that would set structural deficit targets and limit deficits, spending and debt levels, and increase budget transparency, would help avoid insolvency and excess spending in good times. At a low cost, this could potentially increase nations’ growth rate substantially.

Next on the panel’s list was Increased Investment in Infrastructure, Including Maintenance. The panel found that the LAC region under-invests in infrastructure. Improving roads, seaport, water, sanitation, electricity, and telecommunication would considerably stimulate growth. Boosting infrastructure and improving maintenance was found to yield a very high return on investment, while also providing and increasing access to markets and thus generating more prosperity.

The panel found that idea of establishing independent Policy and Program Evaluation Agencies very promising. An independent (public or private) and possibly international agency should provide evaluation and cost-benefit analysis to monitor social conditions and government programs over time. Between nations, the agencies should share information on effective policies. This would ensure that more effective programs are prioritized by both policymakers and the public.
Expert panel findings

The panel also recommended Conditional Cash Transfer (CCT) programs to provide monthly cash payments to poor households conditioned on parents sending their children to school, health clinics, etc. The panel found that this is a well-proven way to permanently reduce poverty. Furthermore, the panel found that CCTs could address several different problem areas such as poverty, inequality, and inadequate health and education, especially if adapted to local conditions.

Promising solutions that require further research

During the panel’s deliberation, a number of very promising proposals were identified as needing further research as there is still a lack of knowledge of impact and effectiveness. The panel found that they addressed very important problems. The proposals were:

- Prevention of Domestic Violence (Violence and Crime)
- Improving the Quality of Education (Education)
- Rural Infrastructure (Poverty)
- Financial Services for the Poor (Poverty)
- Improve Efficiency of Delivery (Health)