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Edited by Bjorn Lomborg

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Latin American Development Priorities

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.

BJØRN LOMBERG is Director of the Copenhagen Consensus Center and Adjunct Professor in the Department of Management, Politics and Philosophy at Copenhagen Business School. He is the author of the controversial bestseller, *The Skeptical Environmentalist* (Cambridge, 2001), and was named as one of the top 100 public intellectuals by *Foreign Policy* and *Prospect* magazines in 2008.

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This volume is dedicated to all of those people who took part in the Consulta de San José, with gratitude for their insight and effort.

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 Explícitas
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

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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
HDIIs	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

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JIT	just-in-time
LAC	Latin America and the Caribbean
LAPO	Latin American Public Opinion Project
LBW	low birthweight
LMIC	low- and middle-income countries
MDG	Millennium Development Goal
MIRR	modified internal rate of return
MMR	measles, mumps, and rubella
MOH	Ministry of Health
NAFTA	North American Free Trade Agreement
NGO	non-governmental organization
NPM	new public management
NPV	net present value
OECD	Organization for Economic Cooperation and Development
OOP	out-of-pocket (spending)
OPS	Organización Panamericana de la Salud
OR	operations research
ORT	oral rehydration therapy
PACES	Programa de Ampliación de Cobertura de la Educación Secundaria
PAHO	Pan American Health Organization
PAYG	pay-as-you-go (social security)
PB	Participatory Budgeting
PDV	present discounted value
PELA	Proyecto de Elites Latinoamericanas
PIDI	Proyecto Integral de Desarrollo Infantil
PIRLS	Program in International Reading and Literacy Studies
PISA	Program for International Student Assessment
PL	plurality (electoral formula)
PMP	fiscal policymaking process
PPP	public–private partnership
PPP	purchasing power parity
PR	proportional representation
PRAF	Programa de Asignación Familiar (Honduras)
PSF	Programa da Saúde da Família
PV	present value
QALY	quality adjusted life year
R&D	research and development

List of abbreviations and acronyms xxiii

REP	Reentry Partnership Initiative
RES	Research Department (Inter-American Development Bank)
RPS	Red de Protección Social (Nicaragua)
SEDLAC	Socio-Economic Database for Latin America and Caribbean
SGF	Solidarity and Guarantees Fund
SGSSS	Sistema General de Seguridad Social en Salud
SMD	single-member district
SME	small and medium-sized enterprise
SP	stated preference
SPSA	severance payment saving accounts
SSA	sub-Saharan Africa
SSRs	structural surplus rules
STATUS	Student Training Through Urban Strategies
SUS	Sistema Única da Saúde
TFP	total factor productivity
TI	Transparency International
TIMSS	Trends in International Mathematics and Science Studies
UEC	Universidad Externado de Colombia
UI	unemployment insurance
UIA	unemployment insurance account
UNEP	UN Environmental Program
UNODC	UN Office on Drugs and Crime
USDA	US Department of Agriculture
USDOJ	US Department of the Interior
VAT	value added tax
WEF	World Economic Forum
WHO	World Health Organization
WSIPP	Washington State Institute for Public Policy
WTP	willingness-to-pay
ZMVS	Zona Metropolitana del Valle del Sulla

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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)
8. Crime Prevention through Environment Design (Violence and Crime)
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.

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)