Better Spending for Better Lives
How Latin America and the Caribbean Can Do More with Less

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Middle-income demands
Worse external conditions
Domestic sources of growth

Solving the Expenditure Puzzle
Better Spending: Doing More with Less Without Shortchanging the Future
Public Spending across the Region’s Largest Economies

8.2% of GDP
Some Spend Above Their Level of Development, Others Below
Greater Appetite for Expenditure, Greater Vulnerability
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Shortchanging the Future: Current vs. Capital Expenditure

Developing Economies

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The Power of Multipliers

Capital expenditure multiplier
up to 2

Current expenditure multiplier
up to 0.2

Cumulative multiplier

Time
Young vs. Old

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Expenditure and Old Age

78% of expenditure in 2065 is allocated to Old Age.

35% of expenditure in 2015 is allocated to other purposes.

Reduced fiscal space for other expenditures.
Early vs. Tertiary Education

- Prenatal programs
- Preschool programs
- Programs targeted toward the earliest years
- Schooling
- Job training

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National vs. Subnational Governments

Large spending decentralization with little local revenues = Less efficiency and excessive civil service
What favors growth?

- Capital expenditures
- Quality human capital

- Excessive transfers
- Large expenditure without good management
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Transfers, Procurement, and Wages: Large Potential Gains
Wage Gap between Public and Private Sector

Estimated wage gap
Further Inefficiencies in Transfers

- **Transfers** fall in bad times

- **Social security systems** are indexed to wages and revenue

- Little spending on **unemployment insurance**
Cost Overruns and Delays in Infrastructure

48% in LAC - 20% in multilaterals = 0.7% of regional GDP

0.5% of regional GDP
What Encourages Efficiency?
The Case of Education

- Teacher numeracy and literacy skills
- Free school choice
- Pay premium for top teachers

- Share of wages in education spending
- Standardization of pedagogical content
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Reducing Inequality through Transfers and Direct Taxes

4.7% in Latin America

8x

38% in OECD and EU

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Many Transfers Favor the Rich

- Contributory pensions: 0.35
- Subsidies: 0.18
- Noncontributory pensions: -0.28
- Conditional cash transfers: -0.46
Unintended Effects in Noncontributory Programs Universal Allowance per Child (AUH)

- **Spending on AUH**: 0.72% of GDP
- **Apparent benefit**: 2.8 pps poverty reduction
- **Unintended effect**: 0.6 pps poverty increase from informality
- **True benefit**: 2.2 pps poverty reduction

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More Equity in Spending on Education, but Inequality in Results

![Bar chart showing percentage of students with a score equal or higher than 420 across quintiles for Latin America and the Caribbean and Europe and North America.](chart.png)
Recommendations
Build Trust: A Bird in the Hand...

Congressmen

Latin America: 52%
Brazil: 70%
Canada: 24%

Voters
Promote fiscal rules that protect investment
Strengthen Institutions for Allocative Efficiency

Priority strategies

- Fiscal and productivity councils
- Smart spending reviews
- Results-based budgeting
- Medium-term expenditure frameworks

Cost-Benefit
Build Efficient Institutions:
The Case of Procurement

- **Planning**
  - Lack of objectives and priorities

- **Monitoring and control**
  - Only of what is covered

- **Transparency**
  - Little open data

- **Ex-post evaluations**
  - Do not exist

- **Coverage /Coordination**
  - Weak coverage

- **Competition**
  - Many exceptions

- **Digital tools**
  - Little use of transactional portals

- **Professionalization**
  - Little professionalization

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Rewards across Different Sectors

- 47% under-five mortality
- 30% violent crime
- 17% PISA scores
- 1.2% of GDP in infrastructure
More Rewards

4.4% of GDP in efficiency savings
Better Spending for Better Lives

- Protect public investment
- Invest in human capital
- Avoid inefficient transfers

To grow more