

Call for Research Proposals

Domestic Savings in Latin America and the Caribbean

1. Background

Domestic savings rates in Latin America and the Caribbean have remained stagnant at approximately 18% of GDP on average since the 1980s, compared to over 30% in fast growing East Asia. This has accompanied lower investments in physical capital. There are at least three elements to the domestic savings problem in the region: (i) a **low volume of domestic saving**; (ii) **poor financial intermediation of savings**; and (iii) **inefficient allocation of savings**. From a development economics viewpoint, addressing (i) – (iii) could produce substantial benefits in terms of reducing the volatility of growth and crisis resilience; higher and more stable investment; higher productivity investments; social protection; and increasing long-term financing in local currency, among others.

Domestic savings can be decomposed into its private (household and corporate) and public components. In Latin America and the Caribbean, both public and private savings have fluctuated around low averages since the 1980s. While the problem of low public savings has been traced back to the perennial problems of weak structural fiscal balances and government expenditures that are frequently biased towards current spending (instead of capital spending), the underlying causes of the stagnation in private savings have proven more difficult to pin down. It is possible, for example that the private sector is saving appropriately, just not domestically.

In Latin America and the Caribbean, large informal sectors complicate the domestic savings problem because informal workers do not contribute to mandatory pension plans. Moreover, to the extent that these workers save voluntarily, their informal status may limit their access to formal financial services. This means that their savings may not be intermediated by the formal local financial system and are therefore less likely to flow to productive investments. Similarly, very little is known about the saving patterns of informal firms and its implications for investment.

2. Objectives

The objective of this call for proposals is to sponsor research that addresses different aspects of the public and private savings problem in the region. The project is especially interested in papers that

provide new evidence on any of the three elements discussed in the first paragraph: (i) **low volume of domestic saving**; (ii) **poor financial intermediation of savings**; and (iii) **inefficient allocation of savings**.

Possible questions to be addressed include (the list of topics is meant to be suggestive, and the topics are by no means exclusive):

- Do domestic savings follow domestic investment and growth or vice-versa? What is the evidence for Latin America and the Caribbean? What types of investments are particularly constrained by domestic saving?
- How are savings intermediated in economies characterized by high levels of informality in labor markets and macroeconomic risks?
- What is the role of fiscal policy in promoting domestic savings?
- What are the main impediments to increasing pension savings in the Latin American and Caribbean region?
- What is the saving/investment pattern of informal firms in Latin America and the Caribbean?
- How are households in the region saving? Are there any specific constraints that limit the amount of savings households channel through formal financial markets?

3. Methodology and Scope

The project is seeking either theoretical or empirical contributions. In the case of theoretical models, it should be relevant for policy analysis or calibrated for a Latin American or Caribbean country. In the case of empirical contributions, studies using either macroeconomic or microeconomic data are welcome. Proposals that seek to employ previously unexploited datasets—including surveys of informal firms—or others are encouraged. The scope of the papers should be relevant for individual countries (or within countries) of Latin America and the Caribbean, for parts of the Latin American and Caribbean region or for the whole region. Cross-country comparisons between Latin America and the Caribbean and other regions are also welcome.

4. Selection Criteria

Individual researchers should present a proposal for this project. The final number of proposals accepted will depend on the quality and the proposed budget of the proposals received. Each approved research proposal will receive financial support from the IDB. **Proposed budgets will be evaluated taking into account the quality and the scope of the work proposed.**



Proposals should include a detailed background section and literature review and sources of data to be used. Final papers will be considered for dissemination as IDB working papers

In all cases, the final dataset employed in the analysis will be delivered to the IDB along with the research paper (an exception may be made in the case of proprietary data, in which case the team should provide the appropriate documentation. Still in those cases, providing the data at some level of aggregation may be required).

5. Proposal Submission

Researchers (Individuals Only) interested in submitting a proposal should use the Web form located at <http://www.iadb.org/en/research-and-data/project-details,3187.html?id=2113>

The following information will be required to apply:

- A proposal with that includes a clearly defined research question that fits the Terms of Reference outlined in this Call for Proposals, the proposed methodology, and the potential database to be used if applicable.
- A budget indicating the time and resources that will be used within the context of the research work plan. The budget is requested as a separate file and should not be included in the proposal. The proposed budget should disaggregate items financed by the IDB and those financed by other institutions. The budget should distinguish among amounts assigned to professional honoraria, “overhead”, and other major categories of research expenditures.
- The name and Curricula vitae (three pages maximum) of the research leader and other researchers involved. The research team should demonstrate its ability to meet the objectives of the project, including relevant experience.

Note: ALL proposals and research papers must be submitted in English.

Length of proposal: no more than seven pages.

6. Coordination & Schedule

The IDB project team is led by Eduardo Cavallo, Research Economist (RES/RES).

The tentative schedule of activities is as follows (the schedule can vary depending on the scope of the proposal. Please specify in the proposal if a longer/shorter time span would be required to successfully complete the terms of reference):

October 21st, 2013: Due date for receiving proposals. Researchers should ensure that complete documentation is submitted through the Web form located at <http://www.iadb.org/en/research-and-data/project-details,3187.html?id=2113>

October 28th, 2013: Announcement of Selected research proposals.

December 2, 2013: Deadline for receiving a detailed annotated outline, including literature review and critical analysis of previous work.

April 1st, 2014: Deadline for receiving first completed draft.

June 15th, 2014: Deadline for receiving second draft.

August 1st, 2014: Deadline for receiving a final version of the research papers, following the guidelines of the Bank's Publications Protocol, for publication as a Working Paper.

7. Financial Aspects

The IDB will contribute an amount that will be determined based on the quality and the scope of the proposal for each study.

The payment schedule will be determined based on the approved budget and the timeline for each proposal. A typical payment schedule would be:

- 20% within 30 days of receipt by the Bank of the signed agreement.
- 30% within 30 days of receipt and acceptance by the Bank of the detailed annotated outline, complete literature review and analysis. Expected December 2, 2013
- 15% within 30 days of receipt and acceptance by the Bank of a first draft. Expected March 15th, 2014
- 15% within 30 days of receipt and acceptance by the Bank of a second draft. Expected June 15th, 2014
- 20% within 30 days of receipt and acceptance by the Bank of the final research paper and completion of this TOR. Expected August 1st, 2014