

Private Spending on Skills Development in Latin America and the Caribbean

A Project of the Latin American and Caribbean Research Network

There is broad consensus that the level and distribution of skills in a country play a key role in determining growth and inequality. The connection between cognitive skills and economic growth across countries is indeed robust, and the lack of skills has been suggested as a major reason for lackluster economic performance in Latin America. Low skill levels tend to perpetuate the cycle of poverty and reduce income mobility. Unfortunately, there is clear evidence pointing to deficient and unequal accumulation of skills in Latin America and the Caribbean (LAC). Fifteen-year-old students in the region perform poorly on the Programme for International Student Assessment (PISA) test, even when compared to their counterparts in countries at similar levels of economic development. Moreover, within countries there are substantial differences in academic achievement across socioeconomic groups. These substantial inequalities in skills across socioeconomic groups arise early in life.

Governments in the region recognize this critical challenge, and are increasing investment to promote skills development. This increased public spending has been documented across different programs designed to promote skills development: early childhood development, formal education, conditional cash transfers, and active labor market programs. However, the public sector is not the only sector investing in skills development. Indeed, individuals and firms invest a substantial amount of time and money in skills development.

Nevertheless, there is limited research exploring a critical aspect of the skills development process: the skills development investments made by households and firms. Consequently, the Inter-American Development Bank (IDB) is launching a research network project whose objective is to document the magnitude and nature of investments in skills made by households and firms. The evidence to be produced by this project could shed light on this important aspect of the skills development process that has received little attention to date. Moreover, documenting investments in skills development made by families and firms can complement existing evidence on public investments, thus providing a comprehensive overview of investments in this area.

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