

## **Fiscal Transfers in Latin America and the Caribbean: What Are Their Composition and Cyclicity Patterns?**

### **1. Background and Justification**

It is by now well known that public spending has typically been pro-cyclical in the developing world, including the majority of countries in the Latin American and the Caribbean (LAC) region, and a-cyclical or counter-cyclical in industrial countries. These policies tend to aggravate (ameliorate) output fluctuations in the developing (industrial) world. This basic stylized fact has been a source of heated debate in academia and policy circles regarding the motivations for such asymmetric behavior and, consequently, the mechanisms through which the developing world could escape the pro-cyclicity trap. Key insights point to the need to improve institutions, strengthen checks and balances, and increase access to capital markets (particularly in bad times).

Interestingly, most of the studies showing these empirical regularities do so by focusing on aggregate spending, which includes (i) categories associated with discretionary spending policy (both consumption and capital spending) as well as (ii) spending associated with automatic stabilizers (e.g., unemployment insurance), which generally tend to be included in the transfers spending category.

Notably, not much attention has been paid (in a systematic manner) to the cyclical properties of spending composition, in particular regarding the cyclical nature of fiscal transfers. Casual observation suggests that in industrial countries an important part of these transfers involves automatic stabilizers (e.g., unemployment insurance and other social programs that are countercyclical by design). On the contrary, suggestive evidence points to the fact that a large part of fiscal transfers in LAC (which in several countries have notoriously increased during the last 10 to 15 years) tend to have a more structural nature (conditional cash transfers and subsidies).

### **2. Objective**

The main objective of this research project is to understand the nature of and role played by fiscal transfers in the LAC region. For this purpose it is fundamental to have disaggregated fiscal data regarding fiscal transfers (including monetary amounts involved in the budget) as well as country-specific knowledge to help understand and categorize the main objective of key transfers. This detailed study will be extremely useful for policy formulation, and it will allow for an analysis of the cyclical properties of transfers.

The project intends to draw cross-country comparisons and policy recommendations from a collection of case studies. Studies would be prioritized in countries with substantial coverage of

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fiscal transfers such as Chile, Mexico, Peru, Brazil, Ecuador, Colombia, Uruguay, Argentina, several countries in Central America, and the Caribbean region.

The specific objectives of this project are the following:

- (1) To generate a country-specific database on fiscal transfers at the program level. Country studies will attempt to cover all transfers. However, given the large number of fiscal transfer programs, it may prove difficult to track them all, in which case the country study will at least identify and focus on the most important ones (the extent of coverage is to be discussed on a country-by-country basis).
- (2) The country-specific database will need to include (i) total spending in fiscal transfers, (ii) monetary spending in each program, and (iii) a brief characterization of the program's nature (e.g., automatic stabilizer, transfers to subnational units, structural, developmental, conditional transfer, subsidy). Ideally, the country-specific database should have a large time series dimension.

### 3. Scope, Methodology, and Data

This project seeks to contribute by providing a novel dataset that helps understand the size and nature of and the role played by fiscal transfers in the LAC region. The following features are expected:

- Transfers will be classified into different areas, including automatic stabilizers, transfers to subnational units, structural, developmental, etc., so that an analysis of transfer composition can be performed.
- Within each category, a description of the main programs will be undertaken.
- An analysis of the cyclicity of each key component will be added to the study.
- A discussion of the appropriateness of the share of structural vis-à-vis automatic stabilizer transfers will be included.
- A comparison with a set of industrialized countries (to be selected and undertaken jointly with other participants of this project) will be carried out.

### 4. Selection Criteria

**Research institutions only (including think tanks)** may present proposals. The IDB seeks to produce up to eight (8) studies and will contribute up to US\$30,000 for each study. The research proposals will be selected based on the following criteria:

- a) Quality and feasibility of the proposed case;
- b) Clarity in the description of data availability;
- c) Experience of the research team.

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To be considered for the project, the research proposal should include the following:

- a) A brief survey of previous studies on this topic conducted on the country or countries;
- b) Data templates for the description and analysis of data availability;
- c) A description of strategy for collecting relevant data;

In addition, proposals must include:

- The name of the research leader and a list of other researchers involved. The center should present a research team whose makeup is justified by its capacity to meet the objectives of the project, including relevance of prior experience. Curricula vitae of all researchers involved in the whole project may appear in a separate annex. Subsequent substitutions for researchers originally specified in the proposal may be made with prior approval from project coordinators, but the research leader (of each subject) must lead the entire project until its full completion.
- A budget (in a separate annex) indicating the time and resources that will be used within the context of the research work plan. The budget proposed by the research center should disaggregate items financed by the IDB contribution and those financed by the research center. The budget should distinguish among amounts assigned to professional honoraria, "overhead" and other major categories of research expenditures. **The proposal and corresponding budget *must be sent in separate files.***
- Institutions must provide the name and contact information of their legal representative, with authority to sign contracts with the IDB, if selected to conduct the study.

In all cases, the final dataset employed in the analysis will be delivered to the IDB along with the companion paper describing that data and the methodology employed. (An exception may be made in the case of proprietary data, in which case the team must provide the appropriate documentation).

### 5. Proposal Registration

Proposing **research institutions** should be registered as Research Network members (contact Elton Mancilla at [red@iadb.org](mailto:red@iadb.org)) and should be based in the Latin American and Caribbean region. U.S. and European institutions do not qualify as members of the Research Network. However, researchers from the United States and Europe can participate with research teams from proposing institutions.

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### 6. Coordination

The project will be coordinated by Fernando Navajas (FIEL), Alejandro Izquierdo (IDB/RES), and Guillermo Vuletin (IDB/RES).

The tentative schedule of activities is as follows:

- **November 15, 2016:** Due date for **receiving proposals**. Institutions should ensure that the complete documentation is submitted to the evaluation committee. Complete documentation includes the following components: registration form with all information requested; the research proposal, budget, and curriculum vitae (CVs up to three pages long).
- **November 18, 2016:** Announcement of **selected research proposals**.
- **December 2, 2016: First Discussion Seminar** in Washington, D.C., with the Technical Directors of the project for the purpose of discussing proposals.
- **December 5, 2016:** Due date for receiving a PowerPoint presentation summarizing the proposal.
- **April 28, 2017:** Due date for receiving a **first draft** of dataset and companion paper.
- **May 29, 2017: Second Discussion Seminar** in Washington, D.C. with the Technical Directors of the project to discuss the projects.
- **July 31, 2017:** Deadline for a **final version of the dataset and companion paper**. Data should be submitted by this date.

### 7. Financial Contribution and Payment Schedule

The IDB will contribute up to **US\$30,000** as a contribution to the total budget of each study. The payment schedule is as follows:

- **20 percent** within 30 days of signing the formal agreement between the IDB and the respective research center.
- **15 percent** within 30 days upon receiving and approval by the IDB of the summary of the research proposal in a PowerPoint presentation.
- **15 percent** within 30 days of presenting and approval by the IDB of the first draft of the research paper.
- **30 percent** within 30 days of presenting and approval by the IDB of the second draft of the research paper.
- **20 percent** within 30 days of presenting and approval by the IDB of the final research paper and delivery of the datasets utilized by the study.

Call for Research Proposals



VPS/RES

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