

HRD Terms of Reference, Template 2022 For PEC consultancies

Measures to calculate the redistributive impact of fiscal policies using static methodologies consultant

Background of this search:

The Fiscal Division (IFD/FMM) is looking for an economist expert in poverty, inequality, and fiscal policy to contribute with the project team of the technical cooperation Fiscal Policies for Equity in Latin America and the Caribbean (LAC).

Before the COVID-19 pandemic, the LAC region had the highest level of inequality in disposable income in the world, with a regional Gini coefficient of 0.48 (Busso and Messina, 2020). The economic and social crisis caused by the pandemic exacerbated the problem of inequality, increasing it by approximately 6% (IDB, 2021). This was a consequence of the pandemic's greater impact on vulnerable groups and on those with informal employment (Acevedo et al., 2021). Although employment has recovered, the effects of the pandemic on equity and inequality are likely to persist into the medium term, due to heterogeneous losses of human capital in the active and school-age populations.

One of the main causes of the high inequality in LAC is the weak redistributive impact of the social spending and tax systems. This is clearly reflected in the fact that household market income inequality in LAC is very similar to that observed in the developed countries, but disposable income—i.e., household market income after receiving government transfers and paying direct taxes—is much more unequal. This is because government interventions in LAC reduce income inequality by only 5% (as measured by the Gini coefficient), compared with 35% in developed countries.

Most of the gap in the redistributive impact of government interventions relates to public spending, as it accounts for around 70% of the redistributive impact of fiscal policy in developed countries (Izquierdo and Pessino, 2020). The much smaller redistributive power of spending policies in LAC relates mostly to the low levels of social spending, that on average are less than half of those observed in OECD countries. Within social spending, pensions are particularly important.¹ Existing pensions systems in the region increase inequality, as most poor households tend not to have access to a formal pension, as they were more likely to have been engaged in informal work during their active working life, preventing them to have access to a formal pension. This results in richer households receiving most of the pension transfers. For instance, in El Salvador and Guatemala, the two richest quintiles receive about 80 percent of total public pension transfers, while the two poorest quintiles receive only about 10 percent.

Another important difference between countries in the region and developed countries relates to social assistance spending. These types of programs tend to have a low redistributive impact in LAC, as their funding tends to be low in most countries and their management is characterized by important leakages. The relatively low spending on social assistance programs leads to a

¹ Education and health are also important social spending that affect equity and equality. However, as current spending on education and health do not have an immediate or direct impact on disposable income, most current methodologies do not consider the redistributive impact of these expenditures or consider them in alternative measures of income, such as consumable income.

generalized undercoverage of poor households. In the region, the average coverage by these programs of the extremely poor, moderately poor, and vulnerable populations stands at 56%, 43%, and 28%, respectively (Stampini et al., 2021). Benefits also leak to nonpoor individuals: on average, approximately 40% of the beneficiaries of conditional transfers and 60% of those receiving noncontributory pensions are nonpoor. Such leakages are primarily received by vulnerable households and individuals, but approximately 10% of conditional transfers and 20% of noncontributory pensions are received by middle- and high-income beneficiaries (Stampini et al., 2021).

Another factor that explains the gap in redistributive impact of government interventions in LAC vis-à-vis developed countries relates to tax systems. Tax systems have a low redistributive impact in LAC countries, both because the relative low levels collections form the most progressive taxes, such as the personal income tax and property taxes.² Furthermore, the tax revenues composition is highly biased towards the value added tax (VAT) and other taxes on goods and services, which are usually considered to be regressive taxes. In addition to the level and composition of revenues, tax codes in LAC present numerous tax benefits that predominantly benefit higher income households in absolute terms. In the case of the VAT, most LAC countries have implemented reduced rates or exemptions on goods that are disproportionately consumed by poor households, with the aim of reducing the tax burden on these households. This tax benefit on goods rather than individuals creates tax expenditures that benefit the entire population instead of just the poor. Indeed, more than 70% of VAT exemptions in LAC benefit nonpoor individuals (Pessino and Alaimo, 2018). In the case of the individual income tax, countries usually offer numerous deductions that account for revenue losses of approximately 1.6% of GDP and almost exclusively benefit higher-income groups. All the above leads to tax burdens being regressive or not very progressive in the countries of the region.

Two other underlying factors also affect the redistribute impact of fiscal policies. The **first** one is that spending and tax policies do not take into sufficient consideration gender and ethnic equity, two dimensions along which important inequalities are observed in the region. Regarding gender, economic gaps between men and women are huge. Before the pandemic, for every 100 men living in poor households, 112 women were in similar condition. Likewise, 28% of women over 15 years of age had no income of their own, compared to 12% of men in the same range (ECLAC, 2020). The pandemic worsened this situation, drastically reducing women's economic empowerment by further deepening the feminization of poverty. Compared to 93% of men, only 67% of women in LAC participate in the formal workforce and more than 126 million works in the informal sector (UNWOMEN, 2020). While it is known that the tax system can affect women's decisions about where and how much to work, as well as their consumption patterns (Astudillo et al., 2022), little is known about the effects of the tax system on women's decisions and opportunities in LAC. There are also no targeting efforts, including tax incentives that increase opportunities for women, particularly those with lower incomes. Regarding ethnicity, afro-descendant and indigenous populations represent around 58% of people living in extreme poverty in LAC. Afro-descendant households are 2.5 times more likely to live in chronic poverty than non-Afro-descendants (Freire et al., 2018). Meanwhile, indigenous peoples account for 8% of the region's population but constitute approximately 14% of the poor population and 17% of the extremely poor in Latin America.

² In OECD countries, average revenue from individual income and property taxes stands at 8.1% and 1.2% of GDP, respectively, compared with only 2.1% and 0.3% in LAC.

The **second** underlying factor that affects the low redistributive impact of spending and tax policy relates to institutional weaknesses in Ministries of Finance, that prevent the correct inclusion of equality in policy design and implementation. Regarding policy design, most ministries in the region do not include fiscal equity discussions on fiscal planning instruments and law proposals. For instance, very few countries in the region include equity analysis on documents explaining the motivations behind the reform or introduction of a law. Something similar is observed in budget proposal documents or medium-term fiscal frameworks. Additionally, Ministries of Finance do not play an active role in the management of fiscal equity. For instance, they do not use all the information they have available for a better targeting of subsidies for energy and public utilities³ or tax benefits.

Given the fiscal policy and management challenges mentioned above, this consultancy will seek to contribute to measure the economic incidence of specific fiscal reforms, as well as the overall impact of existing spending and tax policies on inequality.

The team's mission:

The IDB's Fiscal Management Division (FMM) has the main purpose of supporting the governments of Latin America and the Caribbean to strengthen fiscal policy and management, both at the national and subnational levels, to promote economic growth and reduction of inequity and poverty. To support the countries in this task, FMM finances projects to promote development through the following areas: (i) tax policy and administration; (ii) public spending policy and management; (iii) subnational fiscal policy and management; (iv) fiscal sustainability and macro fiscal policy; and (v) fiscal transparency.

What you'll do:

- **First responsibility.** Conduct country specific assessments, to determine to what extent existing tax policies and government spending programs reduce inequality and poverty. The assessments will be carried out utilizing the methodology developed by the Institute for Commitment to Equity (CEQI) at Tulane University and presented in Lustig, editor (2018), which assigns the tax burden and benefits of public spending to each household based on microdata from households' surveys.
- **Second responsibility.** Generate harmonized microdata for income concepts and fiscal interventions. This activity will be carried out following the nomenclature guides and standard guidelines that are detailed in the CEQ Manual, chapter 6, and the relevant updates required by the IDB. Specifically, (i) produce computer code ("do files" in Stata) with selected variables; and (ii) generate a set of harmonized microdata using said "do files".

³ Subsidies for propane, gasoline, diesel fuel, and electricity predominantly benefit higher-income households, with the highest-income decile receiving five times more subsidies than the poorest one. This is a result of higher levels of consumption in these segments (Llerena et al., 2015). In the case of subsidies for electricity, gas, and water, some countries have differential rate policies that aim to provide lower rates to poorer households. However, this type of targeting is usually based on household records or consumption levels. The use of available fiscal and government records could improve the targeting of these policies.

- **Third responsibility.** Generate tax incidence analysis with the inclusion of a pair of different assumptions about taxes or expenses not included in the previous methodology according to the specifications of the IDB coordinators of the project

Deliverables and Payments timeline:

- **Product 1.** Country incidence analysis completed.
- **Product 2.** Harmonized micro-data completed and tax incidence analysis.
- **Product 3.** Final report.

The payment will be according to the following schedule:

- 30% Upon delivery Product 1.
- 30% Upon delivery Product 2.
- 40% Upon delivery and acceptance of Product 3.

What you'll need:

Citizenship: You are a citizen of one of our 48-member countries.

Consanguinity: You have no family members (up to fourth degree of consanguinity and second degree of affinity, including spouse) working at the IDB Group.

Education: master's degree required (Ph.D. preferred) in economics or related area

Experience: minimum of 10 years working as international consultant, with extensive experience in public economic analysis and tax policies.

Languages: Proficiency in oral and writing skills in English is required

Core and Technical Competencies:

- Ease of oral and written expression.
- Capacity to work in teams.
- Ability to lead initiatives.

Opportunity Summary:

- Type of contract and modality: Products and External Services Consultant (PEC). Lump Sum
- Length of contract: 6 months
- Starting date: February 2023
- Location: Consultant's place of residence
- Responsible person: Alejandro Rasteletti, Sector Lead Specialist, and Karen Astudillo, Specialist, IFD/FMM

Requirements: You must be a citizen of one of the IDB's 48 member countries and have no family members currently working at the IDB Group.

Our culture: Our people are committed and passionate about improving lives in Latin-America and the Caribbean, and they get to do what they love in a diverse, collaborative, and stimulating work environment. We are the first Latin American and Caribbean development institution to be awarded the EDGE certification, recognizing our strong commitment to gender equality. As an employee you can be part of internal resource groups that connect our diverse community around common interests.

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Design and implementation of new tools to measure fiscal equity consultant

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What you'll do:

- **First responsibility.** Contribute to the development and implementation of new analytical tools adapted to the LAC context and geared towards the analysis of the redistributive impact of fiscal policies on certain groups and considering a broader set of effects. Specifically, to assess the effects of fiscal policies on gender and diversity gaps, to model the behavioral responses, to consider general equilibrium or indirect effects, and/or to measure the effects on equality of opportunities
- **Second responsibility.** Carry out three disaggregated micro simulations of some policy change in one of the countries under investigation, using models similar to those of Euromod the most adaptable models for the region based on microeconomic surveys of income, household expenditures and social policy. One of the micro simulations will analyze the impact of changes in the inclusion and exclusion of potential beneficiaries of each policy on poverty and inequality. Another of the micro simulations will focus on the short- and long-term impact of COVID-19 on poverty, inequality and intergenerational

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transmission. Micro-simulations of the effects of COVID-19 will take into account impacts through labor market and education channels.

Deliverables and Payments timeline:

- **Product 1.** Work plan.
- **Product 2.** Draft paper.
- **Product 3.** Final report.

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- 30% Upon delivery Product 2.
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Core and Technical Competencies:

- Ease of oral and written expression.
- Capacity to work in teams.
- Ability to lead initiatives.

Opportunity Summary:

- Type of contract and modality: Products and External Services Consultant (PEC). Lump Sum
- Length of contract: 10 months
- Starting date: February 2023
- Location: Consultant's place of residence
- Responsible person: Alejandro Rasteletti, Sector Lead Specialist, and Karen Astudillo, Specialist, IFD/FMM

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Evaluation consultant on the economic incidence of fiscal policy

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What you'll do:

- **First responsibility.** Develop a methodology to analyze tax and expenditure reforms, assessing the effects on different key prices, to determine the economic incidence of these reforms.
- **Second responsibility.** Collect data and implement the methodology developed. The results should highlight the transmission mechanisms channels and the heterogeneous effects on different income groups, as well as on men and women.

Deliverables and Payments timeline:

- **Product 1.** Draft report.
- **Product 2.** Final report.

The payment will be according to the following schedule:

- 30% Upon delivery Product 1.
- 70% Upon delivery Product 2.

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HRD Terms of Reference, Template 2022 For PEC consultancies

Policy analysis consultant

Background of this search:

The Fiscal Division (IFD/FMM) is looking for an economist expert in poverty, inequality, and fiscal policy to contribute with the project team of the technical cooperation Fiscal Policies for Equity in Latin America and the Caribbean (LAC).

Before the COVID-19 pandemic, the LAC region had the highest level of inequality in disposable income in the world, with a regional Gini coefficient of 0.48 (Busso and Messina, 2020). The economic and social crisis caused by the pandemic exacerbated the problem of inequality, increasing it by approximately 6% (IDB, 2021). This was a consequence of the pandemic's greater impact on vulnerable groups and on those with informal employment (Acevedo et al., 2021). Although employment has recovered, the effects of the pandemic on equity and inequality are likely to persist into the medium term, due to heterogeneous losses of human capital in the active and school-age populations.

One of the main causes of the high inequality in LAC is the weak redistributive impact of the social spending and tax systems. This is clearly reflected in the fact that household market income inequality in LAC is very similar to that observed in the developed countries, but disposable income—i.e., household market income after receiving government transfers and paying direct taxes—is much more unequal. This is because government interventions in LAC reduce income inequality by only 5% (as measured by the Gini coefficient), compared with 35% in developed countries.

Most of the gap in the redistributive impact of government interventions relates to public spending, as it accounts for around 70% of the redistributive impact of fiscal policy in developed countries (Izquierdo and Pessino, 2020). The much smaller redistributive power of spending policies in LAC relates mostly to the low levels of social spending, that on average are less than half of those observed in OECD countries. Within social spending, pensions are particularly important.¹⁰ Existing pensions systems in the region increase inequality, as most poor households tend not to have access to a formal pension, as they were more likely to have been engaged in informal work during their active working life, preventing them to have access to a formal pension. This results in richer households receiving most of the pension transfers. For instance, in El Salvador and Guatemala, the two richest quintiles receive about 80 percent of total public pension transfers, while the two poorest quintiles receive only about 10 percent.

Another important difference between countries in the region and developed countries relates to social assistance spending. These types of programs tend to have a low redistributive impact in LAC, as their funding tends to be low in most countries and their management is characterized by important leakages. The relatively low spending on social assistance programs leads to a generalized undercoverage of poor households. In the region, the average coverage by these

¹⁰ Education and health are also important social spending that affect equity and equality. However, as current spending on education and health do not have an immediate or direct impact on disposable income, most current methodologies do not consider the redistributive impact of these expenditures or consider them in alternative measures of income, such as consumable income.

programs of the extremely poor, moderately poor, and vulnerable populations stands at 56%, 43%, and 28%, respectively (Stampini et al., 2021). Benefits also leak to nonpoor individuals: on average, approximately 40% of the beneficiaries of conditional transfers and 60% of those receiving noncontributory pensions are nonpoor. Such leakages are primarily received by vulnerable households and individuals, but approximately 10% of conditional transfers and 20% of noncontributory pensions are received by middle- and high-income beneficiaries (Stampini et al., 2021).

Another factor that explains the gap in redistributive impact of government interventions in LAC vis-à-vis developed countries relates to tax systems. Tax systems have a low redistributive impact in LAC countries, both because the relative low levels collections form the most progressive taxes, such as the personal income tax and property taxes.¹¹ Furthermore, the tax revenues composition is highly biased towards the value added tax (VAT) and other taxes on goods and services, which are usually considered to be regressive taxes. In addition to the level and composition of revenues, tax codes in LAC present numerous tax benefits that predominantly benefit higher income households in absolute terms. In the case of the VAT, most LAC countries have implemented reduced rates or exemptions on goods that are disproportionately consumed by poor households, with the aim of reducing the tax burden on these households. This tax benefit on goods rather than individuals creates tax expenditures that benefit the entire population instead of just the poor. Indeed, more than 70% of VAT exemptions in LAC benefit nonpoor individuals (Pessino and Alaimo, 2018). In the case of the individual income tax, countries usually offer numerous deductions that account for revenue losses of approximately 1.6% of GDP and almost exclusively benefit higher-income groups. All the above leads to tax burdens being regressive or not very progressive in the countries of the region.

Two other underlying factors also affect the redistribute impact of fiscal policies. The **first** one is that spending and tax policies do not take into sufficient consideration gender and ethnic equity, two dimensions along which important inequalities are observed in the region. Regarding gender, economic gaps between men and women are huge. Before the pandemic, for every 100 men living in poor households, 112 women were in similar condition. Likewise, 28% of women over 15 years of age had no income of their own, compared to 12% of men in the same range (ECLAC, 2020). The pandemic worsened this situation, drastically reducing women's economic empowerment by further deepening the feminization of poverty. Compared to 93% of men, only 67% of women in LAC participate in the formal workforce and more than 126 million works in the informal sector (UNWOMEN, 2020). While it is known that the tax system can affect women's decisions about where and how much to work, as well as their consumption patterns (Astudillo et al., 2022), little is known about the effects of the tax system on women's decisions and opportunities in LAC. There are also no targeting efforts, including tax incentives that increase opportunities for women, particularly those with lower incomes. Regarding ethnicity, afro-descendant and indigenous populations represent around 58% of people living in extreme poverty in LAC. Afro-descendant households are 2.5 times more likely to live in chronic poverty than non-Afro-descendants (Freire et al., 2018). Meanwhile, indigenous peoples account for 8% of the region's population but constitute approximately 14% of the poor population and 17% of the extremely poor in Latin America.

The **second** underlying factor that affects the low redistributive impact of spending and tax policy relates to institutional weaknesses in Ministries of Finance, that prevent the correct inclusion of

¹¹ In OECD countries, average revenue from individual income and property taxes stands at 8.1% and 1.2% of GDP, respectively, compared with only 2.1% and 0.3% in LAC.

equality in policy design and implementation. Regarding policy design, most ministries in the region do not include fiscal equity discussions on fiscal planning instruments and law proposals. For instance, very few countries in the region include equity analysis on documents explaining the motivations behind the reform or introduction of a law. Something similar is observed in budget proposal documents or medium-term fiscal frameworks. Additionally, Ministries of Finance do not play an active role in the management of fiscal equity. For instance, they do not use all the information they have available for a better targeting of subsidies for energy and public utilities¹² or tax benefits.

Given the fiscal policy and management challenges mentioned above, this consultancy will seek to contribute to the development new tools and methodologies to measure the economic incidence of specific fiscal reforms, as well as the overall impact of existing spending and tax policies on inequality.

The team's mission:

The IDB's Fiscal Management Division (FMM) has the main purpose of supporting the governments of Latin America and the Caribbean to strengthen fiscal policy and management, both at the national and subnational levels, to promote economic growth and reduction of inequity and poverty. To support the countries in this task, FMM finances projects to promote development through the following areas: (i) tax policy and administration; (ii) public spending policy and management; (iii) subnational fiscal policy and management; (iv) fiscal sustainability and macro fiscal policy; and (v) fiscal transparency.

What you'll do:

- **First responsibility.** Analyze international experiences related to tax credits on labor income for low-income households, and review the economic literature analyzing the economic effects of these policies.
- **Second responsibility.** Develop and implement a methodology to forecast the economic incidence and redistributive effects of tax credits on labor income. The methodology has to be based on microsimulations and take into consideration general equilibrium effects. The methodology will be implemented for 3 countries to be determined.

Deliverables and Payments timeline:

- **Product 1.** Draft report.
- **Product 2.** Final report.

The payment will be according to the following schedule:

- 30% Upon delivery Product 1.

¹² Subsidies for propane, gasoline, diesel fuel, and electricity predominantly benefit higher-income households, with the highest-income decile receiving five times more subsidies than the poorest one. This is a result of higher levels of consumption in these segments (Llerena et al., 2015). In the case of subsidies for electricity, gas, and water, some countries have differential rate policies that aim to provide lower rates to poorer households. However, this type of targeting is usually based on household records or consumption levels. The use of available fiscal and government records could improve the targeting of these policies.

- 70% Upon delivery Product 2.

What you'll need:

Citizenship: You are a citizen of one of our 48-member countries.

Consanguinity: You have no family members (up to fourth degree of consanguinity and second degree of affinity, including spouse) working at the IDB Group.

Education: master's degree required (Ph.D. preferred) in economics or related area

Experience: minimum of 10 years working as international consultant, with extensive experience in public economic analysis and tax policies.

Languages: Proficiency in oral and writing skills in English is required

Core and Technical Competencies:

- Ease of oral and written expression.
- Capacity to work in teams.
- Ability to lead initiatives.

Opportunity Summary:

- Type of contract and modality: Products and External Services Consultant (PEC). Lump Sum
- Length of contract: 9 months
- Starting date: June 2023
- Location: Consultant's place of residence
- Responsible person: Alejandro Rasteletti, Sector Lead Specialist, and Karen Astudillo, Specialist, IFD/FMM

Requirements: You must be a citizen of one of the IDB's 48 member countries and have no family members currently working at the IDB Group.

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HRD Terms of Reference, Template 2022
For PEC consultancies

Support the elaboration of proposals for the institutional strengthening of ministries of finance consultant

Background of this search:

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What you'll do:

- **First responsibility.** Contribute to the design and implementation of tools and diagnostics that will allow ministries of finance to include equity analysis in budget documents, medium term fiscal frameworks and on documents explaining the motivations behind the reform or introduction of a law.
- **Second responsibility.** Analyze and propose recommendations to improve the exploitation of existing administrative data to better target fiscal interventions.

Deliverables and Payments timeline:

- **Product 1.** Draft report.
- **Product 2.** Final report.

The payment will be according to the following schedule:

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Experience: minimum of 10 years working as international consultant, with extensive experience in public economic analysis and tax policies.

Languages: Proficiency in oral and writing skills in English is required

Core and Technical Competencies:

- Ease of oral and written expression.
- Capacity to work in teams.
- Ability to lead initiatives.

Opportunity Summary:

- Type of contract and modality: Products and External Services Consultant (PEC). Lump Sum
- Length of contract: 6 months
- Starting date: February 2023
- Location: Consultant's place of residence
- Responsible person: Alejandro Rasteletti, Sector Lead Specialist, and Karen Astudillo, Specialist, IFD/FMM

Requirements: You must be a citizen of one of the IDB's 48 member countries and have no family members currently working at the IDB Group.

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