

TC ABSTRACT

I. Basic Project Data

▪ Country/Region:	Regional
▪ TC Name:	Inequality and Social Mobility in Latin America and the Caribbean
▪ TC Number:	RG-T3609
▪ Team Leader/Members:	Ibanez Londono, Ana Maria (VPS/VPS) Team Leader; Messina Granovsky, Julian Santiago (RES/RES) Alternate Team Leader; Molina, Silvana (VPS/VPS); Gomez Davalos, Mabel (VPS/VPS); Romero Pinto, Maria Jimena (VPS/VPS)
▪ Taxonomy:	Research and Dissemination
▪ Date of TC Abstract:	22 Jan 2020
▪ Beneficiary:	IDB borrowing member countries
▪ Executing Agency:	Inter-American Development Bank
▪ IDB funding requested:	US\$1,000,000.00
▪ Local counterpart funding:	US\$0.00
▪ Disbursement period:	36 months
▪ Types of consultants:	Firms; Individuals
▪ Prepared by Unit:	Vice Presidency for Sectors and Knowledge
▪ Unit of Disbursement Responsibility:	Vice Presidency for Sectors and Knowledge
▪ TC included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Social inclusion and equality

II. Objective and Justification

- 2.1 The purpose of this TC is to generate knowledge, strengthen technical capacity in the region and promote policy dialogues to support IDB's role on reducing inequality and promoting social mobility. Given the recent wave of social unrest in some countries of the region and the need of governments, this technical cooperation will provide inputs, knowledge and public policy alternatives to address the rising demands of LAC governments to the IDB on this issue.
- 2.2 LAC is one of the regions with the greatest and most persistent inequality levels in the world. In 2014, the top 10% in Latin America received 37% of national income, while the poorest 10% poorest received 1.5%. The aggregated figures hide a large heterogeneity across countries in the region. In 2017, the country with the highest Gini coefficient was Brazil (0.532), and El Salvador (0.380) with the lowest. Despite the recent sharp reductions in poverty levels across the region, inequality trends have declined at a much slower pace. Poverty rates declined from 43% in 2011 to 24% in 2017, while the Gini coefficient for income decreased from 0.561 to 0.513. LAC continues to be the most unequal region in the world. Eight of the 20 most unequal countries in the world are in the region. In addition, inter-generational social mobility continues to be low. In OECD countries it would take 4.5 generations for a child born in a low-income family to achieve the average level of income. This figure is 6, 9 and 11 generations for Chile, Brazil and Colombia, respectively. The structural causes of inequality, the inability of governments for implementing redistributive policies, the pervasive informality on labor markets and small firms, an overall lack of competition culture, and low investments in education may partially explain the high inequality levels in the region and the factors that sustain it. Understanding the main causes driving inequality in the region is crucial to identify the public policies and regulations required to address it and avoid its harmful consequences. The relationship between inequality and growth is complex and in theory

ambiguous. In imperfect markets, inequality limits poorer individuals from making optimal investments in human capital, leading to sub-optimal allocation of resources (Galor and Zeira, 1993). Other have argued that low wealth is likely to reduce entrepreneurial effort due to moral hazard considerations (Aghion and Bolton, 1997). Positive arguments include the higher ability of richer individuals to save, the necessity of some level of inequality to provide individuals the necessary incentives to take risks and invest, and political economy considerations (Forbes, 2000). Considering these ambiguous theoretical predictions, and the difficulty of untapping causal relationships in cross-country data, it is perhaps not surprising that the empirical literature is inconclusive. Some studies have found negative effects of inequality on growth (Ferreira et al., 2018), while other have found the opposite (Li and Zou, 1998). Reducing inequality, increasing social mobility and leveling the playing field should thus be a priority in Latin America and the Caribbean. Nonetheless, addressing the causes of inequality is a complex process that requires a democratic consensus and implies increasing transfers, through taxes, labor and anti-trust regulations among others, from wealthy to less privileged groups of the society. The IDB can play an important role to support countries throughout this process by generating knowledge on the causes, the extent of inequality and its consequences; promoting an informed debate among policy-makers and stakeholders in the region; providing technical support to design effective public policies and regulations to increase equality and social mobility; strengthening technical capacity on this topic in the region; and mainstreaming inequality in its operations.

III. Description of Activities and Outputs

- 3.1 **Component I: Analysis on the causes of inequality and the policies to reduce inequality and promote social mobility.** 14 studies will be funded to explore public policies aimed at reducing inequality and improving social mobility. It will be strengthened the capacity in LAC on this topic by promoting the creation of a network of academic, policymakers, stakeholders and practitioners. The papers will be on: Relation between inequality and growth; policies to address the structural causes of inequality related to IDB priorities and operations; fiscal redistributive policies; and other consequences of inequality
- 3.2 **Component II: Promoting the debate on inequality: Causes of inequality, solutions and the way forward.** As results from Component 1, dissemination activities based on this information, will be designed. The dissemination activities will include: (i) one seminar to launch the project, two intermediate seminars to discuss the on-going work of the project, and a final seminar to present the results of the project; (ii) visualization tools with the data generated in Component 1; and (iii) the production of dissemination material for the wider public

IV. Budget

Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Analysis on the causes of inequality and the policies to reduce inequality and promote social mobility	US\$790,000.00	US\$0.00	US\$790,000.00
Promoting the debate on inequality: Causes of inequality, solutions and the way forward	US\$210,000.00	US\$0.00	US\$210,000.00
Total	US\$1,000,000.00	US\$0.00	US\$1,000,000.00

V. Executing Agency and Execution Structure

- 5.1 The execution of this TC will be carried out by the Bank through the Vice Presidency for Sectors and Knowledge (VPS/VPS). VPS/VPS will lead the project with the support of a Task Force which will provide inputs to design the new data to collect in the first component, select the topics of the studies in the second component, propose the consultants for undertaking the studies, draft the terms of reference, and oversee the work of the consultants. The SEAs and REAs will consult within their sectors to collect ideas and proposals to incorporate in the project. Four consultants will join the project team. Their role is to advise and support the Task Force, write a compilation paper on the results of the project, and coordinate the publication of the results of the project on a highly renowned university press.
- 5.2 The role of the Bank as executor is justified in that this TC represents an initiative promoted by the Bank, and the products and activities envisaged will generate knowledge and strengthen technical capacity of the Bank and its member countries.

VI. Project Risks and Issues

- 6.1 The cancellation of some dissemination events due to unforeseen events is also a potential risk. If this is the case, the project team will propose a new venue, date and agenda to substitute for the event cancelled. Lastly, some of the proposed studies might not be able to access the required data to undertake the study. To mitigate this risk, the Task Force will select the topics and country studies taking into account data availability.

VII. Environmental and Social Classification

- 7.1 The ESG classification for this operation is "undefined".