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Looking Forward:
Challenges and
Opportunities in
Latin America

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Looking Forward: Challenges and Opportunities in Latin America

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Latin America used to be characterized by economic downturn, vulnerability to commodity, insufficient public policies, weak institutions and a passion for soccer. While we continue to be challenged by those issues (and still believe we are the best at soccer), there is a shift in the narrative of the region in several regards: the new government and political shifts in Argentina, the peace agreement in Colombia, the improvement in local capacity and decentralization, and the fight against corruption. All of these changes are surrounded by uncertainty and skepticism, but they provide an opportunity for the government to learn from past mistakes and leverage best practices, innovation, and social awareness in order to strengthen the region's resilience.

In the sixth edition of the Latin America Policy Journal (LAPJ), we touch on some of the challenges and opportunities that the region faces. For this edition, we are grateful to have an article from the president of Paraguay's Central Bank, Carlos Fernandez Valdovinos, with an overview of Latin American economies that lay the groundwork for the following topics included in the latest edition.

Social Expenditure and Economic Vulnerability. A drop in prices has put an end to limitless social spending and constant solid growth in Latin America. Based on previous work from the Inter-American Bank, Martín Ardanaz and Priscilla Gutiérrez discuss the efficiency of social spending in Central America. Latin America's need to redefine its economic model and to adjust to the post-commodity era is addressed by Pilar Navarro and Gabriel Villamizar. They take a look at the policies regarding international reserves and the implications in the Venezuelan economy. Moreover, Beatriz Botero explores the recent tensions between local communities and the national government surrounding mining exploitation in Colombia.

Gender Inequality. Latin America continues to be a region that is highly unequal for women and minorities. Women's voices remain at the margins of public policy discussions. According to the Development Bank of Latin America (CAF),¹ the representation of women in the national legislative in 2012 was 23 percent (an increase of 8 percentage points from 2000), but several countries have very low participation. In countries such as Brazil, Panama, and Barbados, women represent less than 10 percent of the total number of legislators. Amanda Beaujon takes a look at female participation in the labor force in Brazil, and Natalia Cote-Muñoz reviews gender inclusion in Colombia's peace agreement.

Inclusive Growth. In the last 10 years, 70 million people in the region were able to overcome poverty. However, millions are still trapped in the cycle of poverty.² In her article, Pilar Navarro highlights poverty statistics and the progress of the region related to this issue. While poverty and inequality are key challenges,

*Endnotes of each article can be found online: <http://hkslapj.com/>

education can be the backbone of inclusive progress. For that matter, Andrew Blackman discusses in his article the education policy to close Ecuador's learning gap.

Urban Transformation. According to the World Bank,³ 72 percent of cities outperformed their countries in terms of economic growth. More and more cities are experiencing rapid industrialization and becoming competitive, therefore demanding more capacity and innovation. Andreina Seijas, Robert Watson Jr., and Vladimir Velázquez Moreira present a case study of urban revitalization of Asunción's Historic City Center.

Fighting Against Corruption. In 2016, major corruption cases emerged across Latin America. The Panama Papers, former president Dilma Rousseff's impeachment, and Odebrecht corruption scandals have motivated the region to rethink anticorruption crusades. For example, five governments have signed conventions against corruption,⁴ and in 2015, Argentina's president, Mauricio Macri, introduced a bill to fight bribery.⁵ In this edition, an article from Juan Gustale discusses corruption cases in Latin America and Paraguay in particular.

Finally, the LAPJ team would like to express our sincere gratitude to the John F Kennedy School of Government at Harvard University Dean Douglas Elmendorf; the Harvard Kennedy School Student Government; the Mossavar-Rahmani Center for Business and Government; the David Rockefeller Center for Latin American Studies; the Shorenstein Center on Media, Politics, and Public Policy; and the Malcolm Weiner Center for Social Policy for their generous financial support to make this edition possible.

—Jessica Grisanti, Editor-in-Chief

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Darwin and the Evolution of Latin American Economies

By Carlos Fernández Valdovinos

Carlos Fernández Valdovinos is the governor of the Central Bank of Paraguay (CBP), a position he has held since 2013. From 2011 until 2013, he served as the International Monetary Fund (IMF) resident representative for Brazil and Bolivia, after covering the departments of Africa, Europe, and the Western Hemisphere as senior economist at the IMF. He also served as senior economist for Argentina at the World Bank until 2006, after working as chief economist of the Central Bank of Paraguay from 2001 to 2004. He holds a PhD in economics from the University of Chicago and a master of science in policy economics from the University of Illinois at Urbana-Champaign. He was awarded Best Central Bank Governor of the Year in 2015 and 2016 by Global Finance, and in 2017 The Banker magazine named him Central Banker of the Year for the Americas.

ABSTRACT

A famous quote, attributed to Charles Darwin, states that "it is not the strongest of the species that survives, nor the most intelligent. It is the one that is most adaptable to change." Adaptation, for a plant or animal, is an ongoing process that helps an organism to assimilate and to survive changes in the environment by transforming its genetic structure accordingly. A similar process may take place in the economy. Only countries able to transform their "productive structure DNA" can successfully endure more challenging scenarios and continue to grow in spite of less favorable external conditions. This is especially true of Latin American countries.

GROWTH OUTLOOK: SHIFTING EXTERNAL CONDITIONS

External tailwinds benefited Latin America at the beginning of the twenty-first century. Prices of commodities (which constitute the region's main exports) increased 17.1 percent per year on average between 2003 and 2011. The dynamic was mainly driven by China's increasing demand, underlying an economy growing on average at 10.8 percent per year during the same period. At the same time, financial conditions eased after the 2008 global crisis. Reference rates plummeted to historical lows leading to large capital flows into emerging markets and contributing to the appreciation of domestic currencies vis-à-vis the U.S. dollar.

The combination of these positive external shocks boosted economic growth in Latin America: average annual output growth in the region increased from less than 2.5 percent between 1980 and 2002, to more than 4 percent between 2003 and

2011. Some countries such as Chile, Paraguay, and Peru took advantage of the more favorable scenario to strengthen macroeconomic fundamentals by accumulating foreign reserves, reducing public debt, improving fiscal balances and lowering inflation levels. However, progress on this front was uneven across economies.

As expected, the benign scenario did not last forever. The upward phase of the commodity “super-cycle,” which started in the early 2000s, ran its course and prices fell approximately 30 percent per year in 2014 and 2015. In addition, as the United States’ monetary policy normalization began, the US dollar strengthened: measured by the US Dollar Index (DXY), it appreciated by about 24 percent between July 2014 and November 2016. The golden years for Latin America (2003-2011) turned sour, and output growth slowed significantly. Even worse, a recent IMF study points out that, due to poor prospects for commodity prices, the growth of commodity-exporting economies could slow down even further in coming years. According to this research, the recent drop in prices could potentially cut back the growth rate of commodity-exporting countries by one percentage point per year.

Given the more complex scenario, a critical question for policy makers is what type of policies they should or could implement. For the short term, given that policy space differs across countries, the immediate policy response cannot be homogenous. As for fiscal policy, countries that have systematically exhibited deficits in recent years need to make adjustments to ensure sustainability of public finances. On monetary policy, some central banks with inflation-targeting regimes could face constraints to adopt a more accommodative stance, as inflation has remained relatively high for a long period. Regaining credibility by bringing the inflation rate back to the Central Bank’s target should be a priority for the authorities.

In a global environment that is expected to remain subdued for an extended period, officials have to err on the side of caution. Depending on the policy space available, counter-cyclical measures could be applied to mitigate (as it would be impossible to fully neutralize) the effects of recent negative external shocks. Policymakers should take into account that, as highlighted by the IMF, the current slowdown is not just a cyclical phenomenon. Likewise, it has a structural component as investment and potential output tend to grow more slowly in exporters during commodity price slumps.

ECONOMIC GROWTH: AN ONGOING SEARCH FOR SUSTAINABILITY

Given the drop in potential output, demand side policies will clearly be insufficient for the near future. Economic authorities should not overlook the fact that input accumulation (capital and labor)—or productivity increases—can generate economic growth in the long run. Now that countries cannot depend on external tailwinds to grow, it is time to go back to basics. Policies need to focus, once again, on what historically has been the major source of steady economic growth: productivity. Thus, measures under the “new normal” should include structural reforms that will eliminate supply bottlenecks and improve productivity. In this regard, historically, factor accumulation (labor and capital) explained the lion’s share of growth across Latin American regions (see Table 1). While there is an increase in Total Factor Productivity (TFP) contribution for the 2003-2012 period, it remains well below those observed in successful emerging Asian economies.

Naturally, the structural reforms needed to boost productivity will depend on each country’s singularities. There is no one recipe that will work for every country.

Table 1: Contribution to GDP growth
(Annual average, percent)

	Capital		Labor, adjusted with education		TFP		Real GDP	
	1990–2002	2003–2012	1990–2002	2003–2012	1990–2002	2003–2012	1990–2002	2003–2012
LA6*	1.3	1.7	1.9	2.0	-0.1	0.7	3.1	4.4
Other South America	1.0	1.3	2.3	2.2	-1.0	0.6	2.3	4.1
Central America	1.5	1.4	2.9	2.4	-0.7	0.6	3.8	4.4
The Caribbean	0.6	0.7	1.5	1.1	0.0	0.1	2.1	1.9

Sources: Sosa, S. Tsounta E. & Kim (2013)

* Brazil, Chile, Colombia, Mexico, Peru, and Uruguay

However, recent studies support the view that countries should now (among other things) enhance the quality of infrastructure and public services while increasing domestic savings, prioritize the quality of institutions, and seek greater diversification and complexity of economies.

In terms of infrastructure, while access to public services might have increased recently, quality and efficiency indicators in Latin America remain well behind comparable regions. According to the World Economic Forum's Global Competitiveness Report, in the last decade, emerging countries from Asia have reduced their infrastructure quality gap with advanced economies. However, Latin America did not exhibit major improvements and lags significantly behind the Asian Tigers (see Figure 1). For example, according to the Inter-American Development Bank (IDB), in 2013 the electric power transmission and distribution losses in terms of output was the highest worldwide (14.8 percent), even above the Middle East, North Africa (12 percent), and sub-Saharan Africa (11.8 percent). Low public investment is one of the main drivers behind poor infrastructure in the region. In their research for the Comisión Económica para América Latina (CEPAL), Daniel Perotti and Ricardo Sánchez argued that governments in Latin America would need to invest on average 6.2 percent of gross domestic product (GDP) per year over the 2012-2020 period to bridge the gap between infrastructure supply and demand. In 2012, according to these authors, public investment in Latin America represented only 3.42 percent of GDP on average, well below estimated recommendations. Given the magnitude of investment required, it is crucial to identify the optimal combination of funding and promoting mechanisms (such as public-private partnerships or turnkey projects) to diversify financing sources.

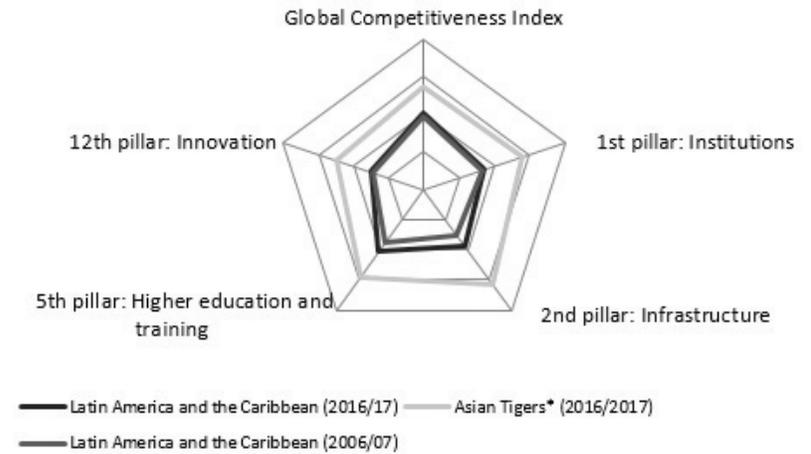
Another weakness in the region is the low level of domestic savings. A recent IDB report, shows that Latin America has historically saved below its investment levels. On the contrary, emerging and developing Asian countries have managed to finance their investment plans with their own savings since the late 90s. There are several "micro" factors explaining this outcome. For instance, in 2014 only 13.5 percent of Latin Americans mentioned they held savings in a financial institution, well below emerging Asia (36.5 percent) and even sub-Saharan Africa (15.9 percent). Policies for financial inclusion are, therefore, vital to fostering domestic saving, especially in those countries where most of the population is between

We must not underestimate the importance of economic institutions, as these are key factors to explain growth differences across countries.

the ages of 18 and 35. In addition, pension system frameworks must be strengthened in order to channel long-term savings to appropriate investment projects.

As for institutions, governance related indicators also rank Latin American countries below those in emerging and developing Asia. Jean Monnet, a French political economist and diplomat, once said that "nothing is possible without men, but nothing lasts without institutions." We must not underestimate the importance of economic institutions, as these are key factors to explain growth differences across countries. A study in 2005 estimated that if Latin American countries were endowed with insti-

Figure 1: Global Competitiveness Index by Region



Source: Global Competitiveness Report (WEF)
*Hong Kong, Singapore and Taiwan.

Former Brazilian minister of finance Joaquim Levy correctly remarked, “There is no silver bullet for growth.” Alleged shortcuts to economic and social success can easily push countries over the cliff.

tutions like those in Finland, GDP per capita growth would be, on average, two percentage points higher. Consequently, authorities in the region are urged to enhance the business climate and intellectual property protection frameworks in their economies through more transparent and efficient rules and policies. In addition, some countries must also rebuild their macro institutions (fiscal and monetary) to restore confidence and provide predictability.

Another important aspect to be tackled by policymakers is adding more complexity and diversification in exports and output. On this regard, Ricardo Hausmann and César Hidalgo have introduced the concept of economic complexity as a key determinant of economic growth and long-term development. The idea is that economic complexity captures the productive knowledge of a country, and this in turn is reflected in the amplitude and sophistication of the goods exported by the country. More complex economies tend to export a wider range of goods and such goods also tend to be more sophisticated. Given Latin America’s heavy reliance on commodities exports, it stands to reason that the lack of diversification and complexity of production is a major obstacle to strong and sustained growth. To turn this situation around, the region must double its efforts by taking advantage of learning spillovers derived from trade and increasing its participation in global supply chains.

FINAL REMARKS: WHAT MATTERS AT THE END OF THE DAY

It will be a while before Latin American countries can harvest the fruits of the aforementioned policies. But this should not be an excuse to avoid them or, even worse, to try replacing them with expansionary macroeconomic policies. Former Brazilian minister of finance Joaquim Levy correctly remarked, “There is no silver bullet for growth.” Alleged shortcuts to economic and social success can easily push countries over the cliff.

During the past decade, Latin America has experienced a deep economic and social transformation, which lifted millions out of poverty. Under the “new normal,” prioritizing policies that will promote sustainable employment and growth can preserve gains. It is now time for the region to move from “counter-cyclical policies” to “structural policies.” These policies will trigger economic growth over the medium and long-term, not only over the economic cycle.

Finally, authorities must keep in mind that countries growing the fastest are not the biggest or most advanced ones, but the most productive. These are years for being conservative on macroeconomic policies, but very bold on microeconomic policies. At the end of the day, if economies cannot adapt to changing conditions, well... we should keep in mind Darwin’s advice about coping with change.

The Efficiency of Social Spending in Central America: A Within Country Perspective

By Martín Ardanaz and Priscilla Gutiérrez

Martín Ardanaz (PhD in political science, Columbia University) currently holds a position as fiscal and municipal development specialist at the institutions for development sector of the Inter-American Development Bank (IDB). His area of expertise includes the political economy of public finance in developing countries. He is currently investigating the determinants of fiscal performance and public expenditure efficiency at the national and subnational level across Latin America and the Caribbean.

Priscilla Gutiérrez is the country economist for Nicaragua in the IDB’s country department of Central America, Mexico, Panama, and the Dominican Republic. She previously held the position of economist for Guatemala within the same department. She has worked for the Bank of Mexico and the Mexican Secretariat of Finance and Public Credit, focusing on issues related to the regulation of financial institutions, housing finance, and the elimination of fossil fuel subsidies. She has also worked for an Irish independent deputy, conducting research into the renegotiation of Ireland’s sovereign debt. She holds a master’s in public administration and international development from the John F. Kennedy School of Government at Harvard University.

This article is based on previous work from Jordi Prat and Javier Beverinotti, “Social Expenditure in Central America, Panama and the Dominican Republic at a Glance: 2007-2013,” Inter-American Development Bank, 2016.

The information and views set out in this article are those of the authors and do not necessarily reflect the official opinion of the Inter-American Development Bank (IADB).

ABSTRACT

This paper studies the efficiency of public social spending in Central America from a within country perspective. Based on an original dataset that includes information on geographical distribution of inputs and outcomes in the education and health sectors, changes in student-teacher ratios or number of medical personnel are not generally accompanied by better outcomes over time, suggesting ample space to improve

the efficiency of public spending in both sectors. These results are consistent with recent literature stressing the importance of studying factors beyond physical inputs and human resources, such as the structure of incentives of front line service providers and the strengthening of accountability mechanisms at different policy levels.

1. INTRODUCTION

Despite significant progress made in several social indicators, the countries of Central America and the Dominican Republic are still lagging behind the rest of Latin America and the Caribbean (LAC). In terms of education, one of the Millennium Development Goals (MDGs) aimed at ensuring that by 2015 children would be able to complete a full course of primary schooling. Moving toward the fulfillment of this goal, the primary school completion rate in the region has been rising; by 2013 it had reached levels above 80 percent of the school-age population, compared to 73 percent in 2001. However, the LAC measure was close to 101 percent in 2013. In terms of health outcomes, the mortality rate among children under five and the prevalence of malnutrition have been in constant decline since 2001, but are still above the LAC average. In the period 2001-2013, the mortality rate fell from 36.7 to 23.7 deaths per 1,000 children in the region; it was lower in LAC as a whole, falling from 30.6 to 18.0 deaths for every 1,000 children. In the case of malnutrition, whose eradication is also an MDG target, it has fallen from 20.7 percent to 13.2 percent of the total population from 2001 to 2013. In LAC, the malnutrition rate fell from 9.7 percent to 7.7 percent over the same period.

Although the progress and the challenges faced by the social sector and spending at the national levels are well known, knowledge about these factors *within* each country remains limited. Given the fact that examining the geo-

graphical distribution of social spending and outcomes at the territorial level is important not only to analyze spending efficiency but also to address questions of equity, this article analyzes the evolution of input/outcome indicators in education and health using district level (e.g., departments) information. Based on an original dataset that includes information on geographical distribution of inputs and outputs in both sectors across eight countries over time, findings show that there is ample space to improve the productivity of public spending. Although the methodologies for assessing efficiency are not free of limitations, they are useful as a first step to quantify space for improvement and to support more in-depth studies that may be conducted in the future.

The paper is organized as follows: the next section presents a brief conceptual framework that serves as a reference for the analysis. Section three describes our dataset and empirical strategy to evaluate public spending efficiency. Section four presents the results of combining information on public spending inputs and outcomes at the district level using a difference in difference approach and frontier analysis. The final section draws conclusions and suggests avenues for future research.

2. DETERMINANTS OF PUBLIC SPENDING EFFICIENCY IN HEALTH AND EDUCATION

Although the production function of education and health services contains elements specific to each sector, it is possible

to identify three general (or common) factors: the physical and human inputs; the level of effort exerted by front line service providers (teachers, doctors); and their level of competence, knowledge or, more generally, quality. For example, the level of competence or knowledge of teachers and medical personnel is an essential factor determining the productivity of social spending. Recent studies have shown that higher competence levels are not predicted by easily observable or standard characteristics (such as level of formal education or years of experience), but by behaviors (e.g., quality of teacher-student interactions), or the specific knowledge of the subject matter, which are important for the improvement of outcomes. Of course, the outcomes related to this function (e.g., learning, better health and nutrition conditions) are partially affected by factors that are external to the service delivery units or systems, such as the behavior and characteristics of households. However, based on the measurement of indicators for all three factors, ideally at the most disaggregated level possible (e.g., school, medical clinic), it is possible to gain a basic idea of the “micro” functioning of the service delivery chain and, at the same time, detect any deficiencies hindering the achievement of better outcomes.

In spite of the importance accorded by the literature to the variables of effort and competence for explaining variation in performance, proxies to measure these dimensions in a cross-country context are not common. The difficulties in identifying these kinds of indicators are even greater when the unit of analysis is no longer the country, and the search is focused on disaggregated data at the district or territorial level. In the absence of indicators for all the factors in the production function, this article focuses on the measurement of variables for which comparative information was possible to obtain.

3. DATA AND METHODOLOGY

3.1 Data

We build on an original panel dataset covering 96 departments across eight countries between 2003 and 2013 that was constructed using a series of country level studies reviewing public expenditure and outcomes in the education and health sectors at both the national and district (departmental) levels. Given data limitations, we use information on territorial distribution of inputs (teachers, medical professionals) to proxy for public spending (budget execution) levels. This approach is justified by the fact that the wage component is the biggest component of expenditure in both sectors. Therefore, in the case of the education sector, we use data on teacher-student ratios per educational level, dropout, and grade repetition rates. Meanwhile, in the health sector, we use information on the number of healthcare facilities, beds, and physicians per 10,000 people as inputs, and data on life expectancy and infant mortality rates as outputs. Figure 1 shows the degree of heterogeneity in both inputs and outcomes that is present in the data.

3.2 Estimating Public spending efficiency

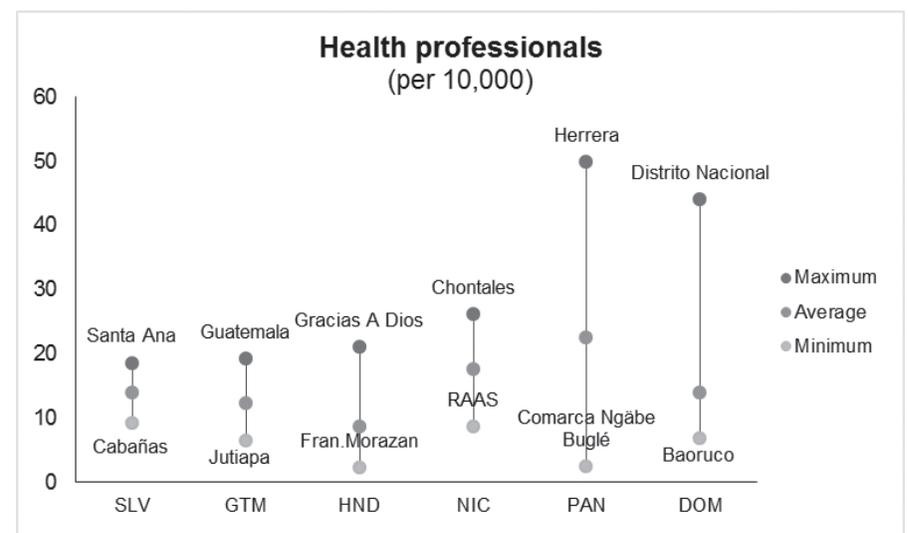
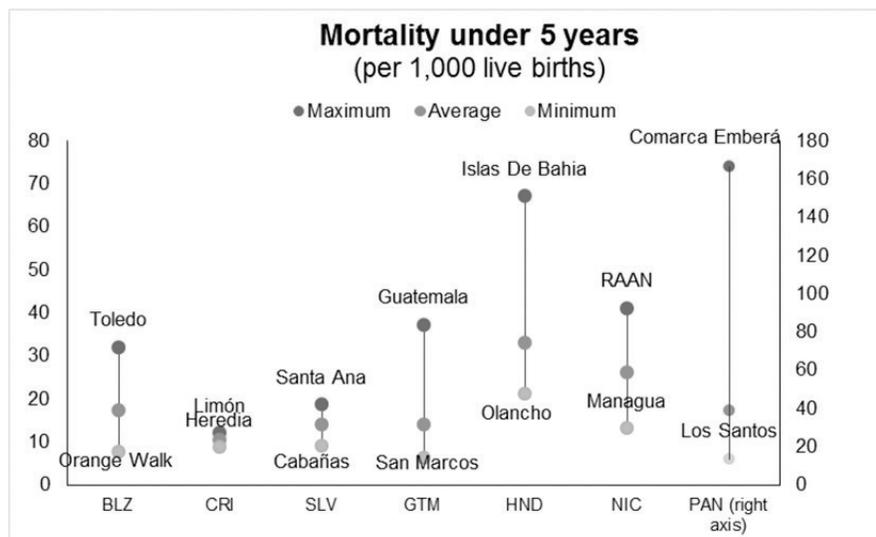
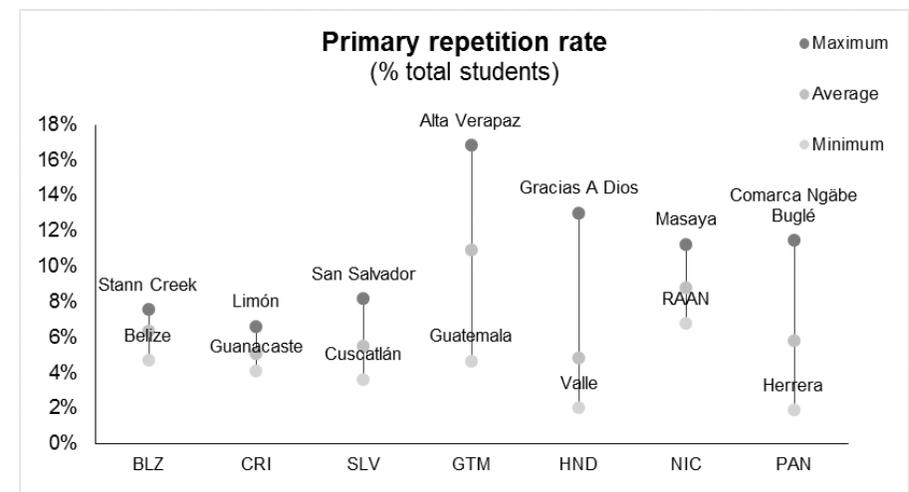
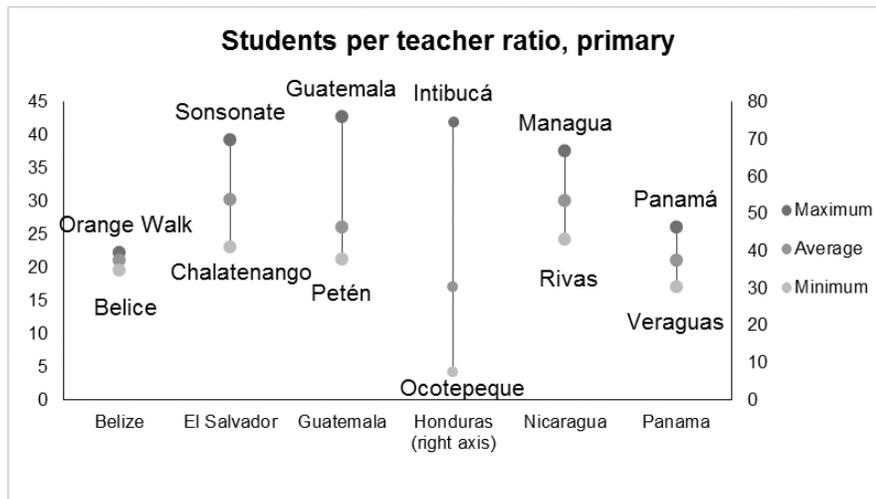
The empirical strategy is composed of two elements. In the first place, we use a difference in difference (DD) model to study the impact of public spending on education outcomes. In particular, we run country by country panel regressions of the following form:

$$y_{it} = \beta_i x_{it-1} + \alpha_i + \lambda_t + \varepsilon_{it}$$

in which the dependent variable is the primary dropout/grade repetition rate in district i at time t , x is our proxy for public spending (the student teacher ratio at period $t-1$), and α (λ) is a district (time) fixed effect. A negative β coefficient would in-

Although the progress and the challenges faced by the social sector and spending at the national levels are well known, knowledge about these factors within each country remains limited.

Figure 1: Indicators Used in the Analysis of Public Spending Efficiency in Health and Education



dicating that school inputs are contributing toward better schooling outcomes, and thus provide an indirect assessment of the efficiency of public expenditures. Secondly, we rely on non-parametric frontier techniques (e.g., Data Envelopment Analysis, DEA) to directly quantify public spending (technical) efficiency scores in the health sector. The DEA technique takes a given decision-making unit (e.g., department) and compares it with the best performer(s) of peer districts in the sample. This leads to an empirical approximation of a production possibility frontier, defined as the maximum attainable outcome by a decision-making unit for a given input level (input-oriented approach) or as the minimum required input to attain a given output level (output-oriented approach). Inefficiency is defined as the distance from the observed input-output combinations to the efficiency frontier. Districts on the frontier will exhibit scores of one, and less efficient districts will show scores between zero and one. To generate the efficiency scores in the health sector, we combine lagged information on inputs (average number of medical professionals between 2007 and 2012) and the latest available data point on health outcomes (child mortality rate in 2013).

4. RESULTS

In the case of education, Table 1 shows that the student-teacher ratio at the departmental level is weakly linked to dropout or grade repetition rates over time. A closer look at the data shows that while 80 percent of the districts saw reductions in the student-teacher ratio, nearly 40 percent of those districts experienced increases in dropout rates. Thus, this suggests that school inputs (e.g., increasing number of teachers) are not sufficient to improve schooling outcomes.

In the case of health, we find that there is ample space for improving efficiency at

the district level. The districts show an average efficiency 0.72, suggesting that with the same level of public inputs; a typical district could reduce its child mortality rate by more than 25 percent. This number in turn conceals a high level of territorial heterogeneity, with wide variations in efficiency levels within each country. For example, nearly 60 percent of the districts show considerably low efficiency levels (below 0.8).

5. BEYOND INPUTS: CONCLUSIONS AND NEXT STEPS

The traditional approach to the achievement of better outcomes in the social sectors has usually been based on the provision of additional inputs (schools and hospitals) or human resources (teachers and doctors). However, changes in physical inputs and human resources are not generally accompanied by better outcomes. As documented in the previous section, this finding is also observable in the countries of Central America and the Dominican Republic, where there are wide variations at the district level in the productivity of the inputs deployed by the central government. What are the most promising programs that could help improve spending efficiency and effectiveness? What are some of the preconditions for their implementation?

Given that the productivity of public expenditure depends on the interrelationships between physical inputs and levels of effort and competence of the human resources, any attempts to improve spending efficiency limited to taking action on one specific dimension may have only a limited impact on outcomes. With this in mind, the new public policy approaches that are being designed tend to combine initiatives which, on the one hand, affect the structure of incentives for service providers to improve their levels of effort and competence and, on the

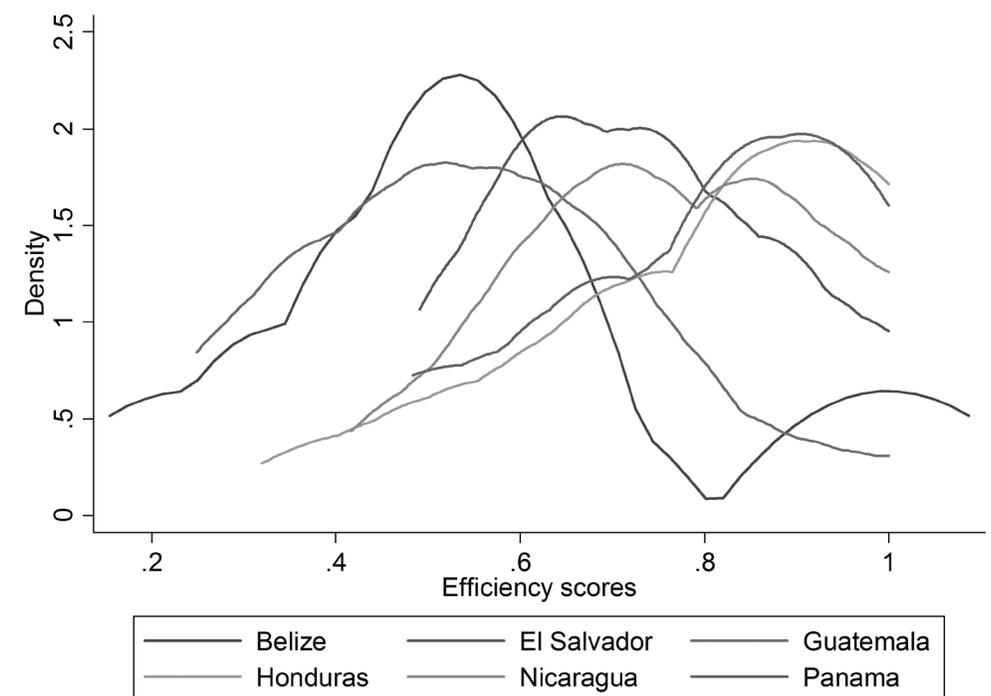
Table 1: Primary Education Inputs and Outputs: Panel Data Regressions (2003-2013)

	Belize	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Panama
<i>Outcome</i>							
<i>Dropout rate (primary)</i>							
Student-teacher ratio	-0.055 (0.044)	-0.241 (0.164)	0.192 (0.149)	0.004 (0.055)	-0.003 (0.011)	0.314 (0.224)	0.164 (0.777)
<i>Outcome</i>							
<i>Repetition rate (primary)</i>							
Student-teacher ratio	-0.468 (0.042)	-0.0922 (0.185)	0.0766 (0.117)	0.0921 (0.069)	-0.0149 (0.023)	0.1556 (0.012)	-0.8618 (0.012)
Fixed effects (District)	Y	Y	Y	Y	Y	Y	Y
Time effects	Y	Y	Y	Y	Y	Y	Y
Observations	60	49	98	154	126	119	84
Numer of Districts	6	7	14	22	18	17	12

Robust std. errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1 (Note: coefficients multiplied by 100)

Figure 2: Distribution of Public Spending Health Efficiency Scores by Country



other hand, provide the public with tools for accessing information on the quality of the services received, thus implementing measures aimed at improving the accountability of providers and politicians. In general, these types of programs focus on the key point of intersection between provision and consumption of education and health services.

The pursuit of these initiatives that affect dimensions beyond the provision of inputs requires, first of all, the collection and systematization of information that, unfortunately, is not yet available on the Central America, Panama, and Dominican Republic (CAPDR) countries. For example, the scores achieved by the countries of the region in the PEFA indicator measuring the availability of information on expenditure received by service delivery units (PI-23) are generally lower than other dimensions of public finances assessed by this instrument in each country. It is therefore essential to gather information that will facilitate a diagnosis at the ground level, providing precise information on the allocation, execution, and distribution of public resources, from their origin through to their final destination. To do this, it is important to reinforce the financial management instruments that facilitate a system of detailed periodic monitoring at the level of departments or districts of the distribution of human resources, equipment, infrastructure, and other inputs, which will make it possible to attend to the areas that are lagging behind the most. One way of beginning to work in this direction is through the implementation of survey instruments, such as Public Expenditure Tracking Surveys (PETS), which are widely used in developing countries.

Secondly, in addition to monitoring financial flows, it is important to measure dimensions like productivity or effort and quality of the human resources that participate in the provision of educational

and health services. To this end, standard surveys can also be used in schools and medical clinics, in order to obtain standardized measures of behavior (such as absentee levels of key personnel, their level of knowledge, effort, and the quality of the services offered), and to be able to make comparisons at the regional level of the distribution of these characteristics within each country. These inputs will make it possible to examine the allocation of resources at the subnational level in more detail, with a view to channeling resources where the needs are greatest. Although budget allocation processes could suffer from elements of inertia, central authorities need to have the capacity to target spending at the territories that are lagging behind the most, and that have the greatest needs for public resources. In this respect, it will be essential to implement a national strategy that allows the government to prioritize the allocation of spending based on the social and economic conditions of each department of the country, and to redesign intergovernmental transfer systems in order to incorporate criteria that facilitate the closure of gaps in development between territories.

Last of all, it is important for public expenditure to be subject to periodic systematic and transparent evaluations. By evaluating public expenditure, governments will be able to continuously adapt the allocation of resources according to the needs of the population. A periodic evaluation of social spending could be an element that will contribute to the definition of the social agenda of the countries in more equitable and efficient terms over time.

Poverty Figures for Latin America: A Wasted Effort?

By Pilar Navarro



Pilar Navarro is an economist from the Universidad Central de Venezuela and the Instituto de Estudios Superiores de Administración (IESA) hydrocarbon management program. For more than five years she has worked as a researcher and analyst in the economic research department of Ecoanalítica (Venezuelan economic and financial consulting firm) where she has participated as author and coauthor of multiple reports on the Venezuelan conjuncture; following the economic, social, and political reality of Venezuela, with emphasis on the impact of government policies on the national economy. She currently a senior economist at Ecoanalítica and is a columnist for web portals such as Prodavinci and Infolatam.

ABSTRACT

Since the start of the twenty-first century, the countries of Latin America have enjoyed a favorable global climate that promoted higher than average growth in the region. However, a characteristic of the region is that it has been one of the most unequal in the world, where economic growth tends to create greater concentrations of wealth instead of significant reductions in poverty and inequality. This article will look at how indicators, such as a favorable global climate and economic growth, have behaved in the past decade and how a global climate that is no longer so favorable is affecting, and will continue to affect, the levels of poverty and inequality in Latin America.

WHAT ARE THE REASONS FOR POVERTY AND INEQUALITY?

According to the book *Pobreza y Desigualdad en América Latina* by Leonardo Gasparini, Martín Cicowiez, and Walter Sosa Escudero, the relevance of studying poverty and inequality stems from the potential consequences of these phenomena for other social and economic variables. For example, it is argued that the distribution of income has effects on the allocation of resources and investment in physical and human capital and, therefore, on an economy's rate of growth.

In Latin America, this study takes on particular importance insofar as there has been little success with distributive policies. Even though the region is not the poorest in the world, according to the latest Social Panorama report published by the Economic Commission for Latin America and the Caribbean (ECLAC), it does stand out as being the most

inequitable. In the same vein, according to figures from the World Bank and the Center for Distributive, Labor, and Social Studies (CEDLAS), Latin America is the most unequal region in the world in terms of poverty, followed by sub-Saharan Africa, and way behind Asia and Eastern Europe (see Figure 1).

HOW HAS POVERTY BEHAVED IN THE PAST DECADE?

The evolution of poverty in Latin America over the past decade has not been uniform. According to ECLAC, between 2003 and 2015, Latin American economies grew by 3.3 percent on average. This resulted in a considerable reduction in poverty, particularly between 2003 and 2007, when Latin American economies experienced strong economic growth thanks to the improvement in trade and a greater emphasis on meaningful social policies.

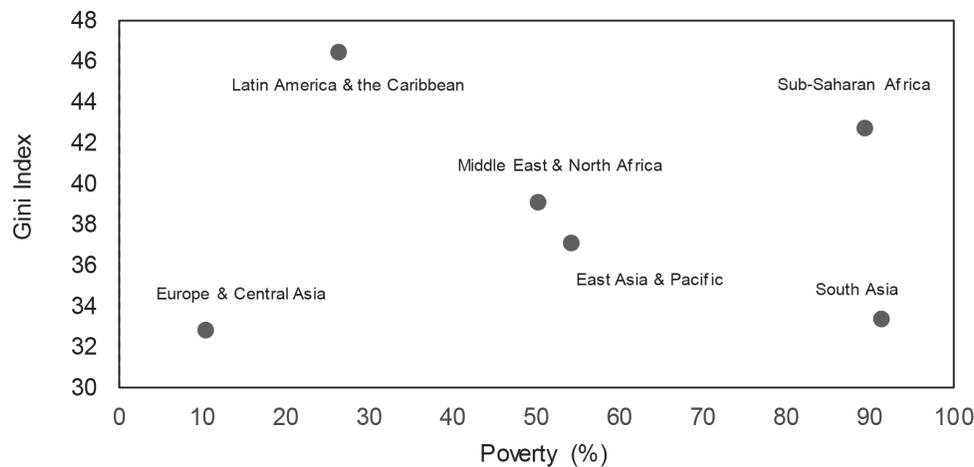
However, the trend in poverty reduction slowed down in 2008 and 2009—in line with the increase in food prices and the global economic crisis—but then picked up again in subsequent years.

It is calculated that, since the year 2000, poverty in the region has fallen by 30 percent. A process of inequality reduction also began that year in the majority of Latin American countries, which is still going on today. Between 2002 and 2013, the average Gini index fell by 10.3 percent, from 0.54 to 0.49 (see Figure 2).

However, there are significant differences between Latin American countries

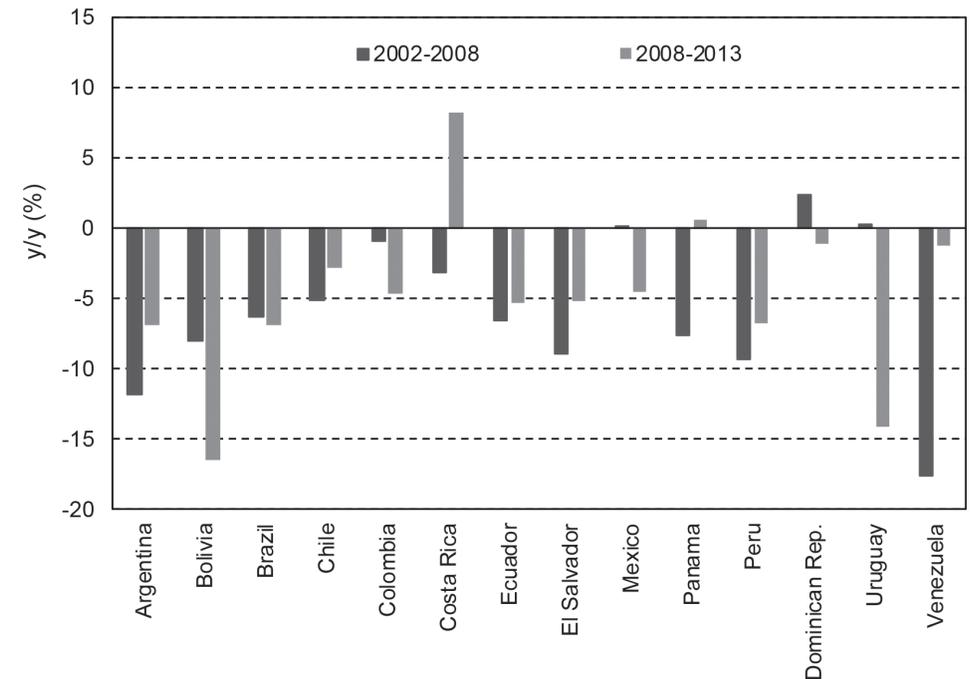
It is calculated that, since the year 2000, poverty in the region has fallen by 30 percent.

Figure 1: 2012 Gini Index Percent of Poverty for Regions Around the Globe (A Gini index of zero represents perfect equality, while an index of 100 implies perfect inequality)



Sources: World Bank and ECLAC

Figure 2: Gini Index Year on Year Variation Across Latin America (Percentage of distribution of income from 2002-2013)



Source: CEPAL

in terms of poverty and inequality. There is moderate poverty in countries such as Chile and Uruguay, and much higher poverty levels in countries like Honduras and Nicaragua. Even within each country, there are various levels of poverty (see Figure 3).

THE PACE OF POVERTY REDUCTION IS SLOWING DOWN

Even though poverty and inequality in income distribution have tended to fall without interruption over the past decade in Latin American countries, in recent years this trend has stagnated. According to ECLAC, the poverty rate in Latin America in 2015 was 29.2 percent of the population, whereas indigence and extreme poverty reached 12.4 percent. These

percentages are equivalent to 175 million people in a situation of poverty—75 million of which are in a situation of extreme poverty—and do not represent a significant reduction compared to 2014 (28.2 percent).

In 2016, the situation does not seem to be any different, as ECLAC does not forecast any significant changes, statistically speaking, in the levels of poverty in the region as a whole. What is really relevant about these figures is that they show how the poverty rate has stagnated since 2011, in line with a slowing down of the region's economy (see Figure 4).

A WASTED EFFORT?

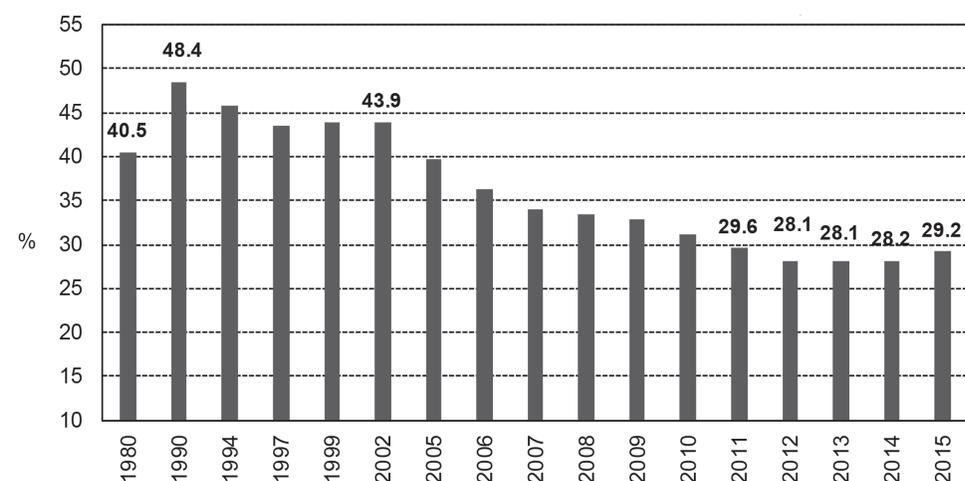
Despite the positive results obtained in the past decade in terms of poverty and

Figure 3: Gini Index Inequality and Poverty Indicators in Latin American Countries from 2002-2013

	2002		2013	
	Gini	Poverty	Gini	Poverty
Argentina	0.58	24.8	0.48	-
Bolivia	0.61	62.4	0.47	36.3
Brazil	0.63	37.8	0.55	18
Chile	0.55	18.7	0.51	7.8
Colombia	0.57	49.7	0.54	30.7
Costa Rica	0.49	20.3	0.51	17.7
Ecuador	0.54	56.3	0.48	33.6
El Salvador	0.53	48.9	0.45	40.9
Mexico	0.51	39.4	0.49	37.1
Panama	0.57	36.9	0.53	23.2
Peru	0.53	52.5	0.44	23.9
Dominican Rep.	0.54	47.1	0.54	40.7
Uruguay	0.44	18.8	0.38	5.7
Venezuela	0.50	48.6	0.41	32.1

Sources: CEPAL and World Bank

Figure 4: Total Population Under the Line of Poverty in Latin America (Total population, in millions, from 1980-2015)



Source: CEPAL

Although the poverty rates in Latin American countries have gone down, the 15 percent of the population that managed to climb out of poverty typically lives an existence barely above the poverty line; they constantly run the risk of falling back below it.

inequality reduction, Latin America is still a region with enormous inequalities. Moreover, there is evidence that this trend of good results is stagnating and could become negative.

Today the risks in the region are far from few. Although the poverty rates in Latin American countries have gone down, the 15 percent of the population that managed to climb out of poverty typically lives an existence barely above the poverty line; they constantly run the risk of falling back below it. Added to that, the population in Latin America is expected to increase by 5.5 percent over the next five years, whereas the forecast for average growth of the region's economy is only 0.9 percent (0.4 pp below growth for the period 2000-2005). This increase in population and low economic growth could lead to increased poverty and inequality in the region in the coming years.

ECLAC's executive secretary, Alicia Bárcena, warned that it does not seem as if Latin American governments have taken advantage of the recovery from the global crisis to strengthen social protection policies that would reduce vulnerability to economic cycles. In the current context, with a collapse of the region's trade, which has fallen by more than 11.0 percent from its peak in 2011, it looks as though the next few years will present major challenges in terms of reducing poverty and sustaining the economic growth and well-being of the population.

Expanding Women's Labor Force Participation in Brazil: Analysis and Recommendations

By Amanda Beaujon Marín



Amanda Beaujon Marín is a gender consultant with the Climate Investment Funds (CIF), working in the intersection of social development with climate change. She holds a master's degree in public policy from Harvard University. Before attending graduate school, she worked as a research associate at the International Center on Energy and the Environment (CIEA) in Caracas, Venezuela.

ABSTRACT

Gender gaps in the labor force take three main forms: participation, job type, and earnings. However, research has shown that increasing women's participation in the labor force can have a net positive impact on gross domestic product (GDP). One research study estimated a net impact of 9 percent on Brazil's GDP if female participation in the workforce reached similar levels to male participation. This article explores the main reasons why 40.6 percent of Brazilian women are not participating in the labor market, the reach of the legal reforms and social programs in the country, and present policy recommendations to increase women's participation in the labor force.

GENDER INEQUALITY IN BRAZIL

Brazil has made important advances toward gender equality over the last decade, but the impact of the reforms has been limited, and gender inequality remains high. In 2004, President Luiz Inácio Lula da Silva adopted the National Plan for Women's Policies, which categorized the priorities and actions necessary to promote women's rights in four areas: financial autonomy and equality in the labor market; access to education; health, sexual, and reproductive rights; and violence against women. To promote women's participation in the labor market, the plan included actions such as training, supporting entrepreneurs, and improving access to credit systems. Brazil has been successful at implementing policies that have reduced women's illiteracy rates and social programs that benefit low-income female workers. *Bolsa Família*, for example, is a direct cash transfer program that distributes most of the subsidy directly to women to increase their portion of household income. In 2005, of the total of

beneficiaries of *Bolsa Família*, 93 percent were women.

The country has also improved its legal framework by reforming labor laws. In 2002, President Fernando Henrique Cardoso issued a decree to include 120 days of paid maternity leave to mothers. Likewise, the law provides five days of paternity leave. Maternity and paternity leave are paid; the law establishes that parents receive their total wage while they are absent. The government covers the maternity benefits and the employers cover the paternity leave.

Despite the government's efforts, labor force participation of women has not changed significantly in the past decade, and the impact of the policies and programs does not reflect an increase in women in the labor market. In 2014, women represented 43.8 percent of the total labor force in Brazil, while in 2005 and 2000 they represented 43 percent and 41.2 percent, respectively. In 2013, the female labor participation rate as a percentage of the female population over 15 years old was 59.4 percent; 24.7 percent of total female employment was part-time. Furthermore, studies showed that *Bolsa Família's* impact on formal labor market participation for men and women is zero, and in the informal labor market is negative and significant, but small.

In 2010, Brazilian women outnumbered men in secondary and higher education. In secondary education, women were 53.9 percent of total enrolled students; they were 62 percent in higher education. The number of women in the labor force with advanced degrees has increased from 7.4 percent in 1992 to 11.9 percent in 2007. Working women are more educated than working men; on average women have 8.8 years of schooling and men have 7.7 years. Nonetheless, more education does not imply better wages for women in Brazil. Men's gross national income (GNI) is 67.5

percent higher than women's are, and the gender wage gap was 24.4 percent in 2014 according to the International Labour Organization (ILO).

The gender wage gap deepens as education level increases. Women with 12 or more years of schooling earn 58 percent of men's salaries. Studies show that only between 11 and 19 percent of the wage gap can be explained by work-related characteristics. Eliminating the unexplained differential would mean that women would be earning more than men in Brazil would.

Women remain the principal caregiver in the family and have a bigger share of domestic responsibilities throughout the country. This becomes an obstacle for their participation in the labor market, especially if they have younger children. Policy interventions to improve women's participation in the labor market require simplifying domestic chores for women, and challenging the cultural norms attributing women more responsibility in the household.

OPPORTUNITIES TO INCREASE WOMEN'S PARTICIPATION IN THE LABOR FORCE

Brazil has undertaken significant efforts to improve its legislation to endorse gender equality and eliminate discrimination against women. The constitution establishes that men and women have equal rights. However, if the laws work effectively, men and women with the same skills and level of experience will eventually have a similar wage. Changing the legislation is an important step towards gender equality, but without the implementation of new programs, it does not solve the problem. Below are three main areas where Brazil could explore policy options to increase women's labor force participation.

Improve Infrastructure and Access to Transportation

Investing in infrastructure reduces gender inequality because it reduces the time women allocate for household activities. Access to electricity and water resources, better roads, and easier means of transportation, will increase women's productivity and give them additional time to join the formal economy, accumulate human capital, and/or pursue child education. Such investment will also allow for greater economic growth in the country. A study in Brazil showed that increasing the investment in infrastructure in the country from 2.1 to 3.1 percent of GDP could increase the country's annual rate of output growth by a range of 0.5 to 0.9 percentage points. Other research showed that investing in access to electricity increased women's labor force participation by 9 percent in rural South Africa.

Access to better infrastructure and transportation can lead to an increase in women's income, because they could join the formal or informal labor force. This will reduce women's dependency and could increase family savings. Likewise, having additional time for human capital accumulation and child rearing can improve children's education and the health of both mothers and their children.

Access to Childcare

One of the main constraints women face when trying to enter the labor market is either the lack of, or high costs of, quality childcare. Taking care of children, especially young children, creates many additional hours of housework for women. On average, people with children spend 32 hours a week on housework, while people without children only spend 18 hours. Additionally, 94.7 percent of women with children reported they were

responsible for the housework, in comparison to 82 percent when they did not have children.

Research in low-income neighborhoods in Rio de Janeiro has found that access to free childcare has a significant impact on increasing maternal employment and labor-force participation rates, and reduces maternal unemployment. The increase of employment rates for mothers who were not working during the six months before the intervention increased from 9 to 17 percent. However, the intervention did not have any significant impact on women that were already working; it did not increase the number of hours they worked. The study also found that the increase in a family's income did not compensate for the program's costs.

A similar experiment in Turkey showed a significant increase in women's employment after the distribution of childcare vouchers. The same study also found that a targeted program that considers both the ability to pay and employability has a larger impact.

Given the high cost that childcare provision or subsidies represent for the government, Brazil should evaluate the impact it will have in increasing women's labor participation, family's income, and economic growth.

Paid Paternity Leave

Engaging men in housework is one of the main cultural changes needed to move toward a more equitable society. A study showed that men do enjoy collaborating on housework, but selectively. They prefer involvement in activities such as taking care of the children, helping them with their homework, or going grocery shopping rather than more routine tasks such as cleaning or doing laundry. While selective, this interest in household tasks presents an opportunity to promote a fa-

ther's engagement in caregiving by providing men with paternity leave when they have a newborn.

Currently, Brazil only has five days of paternity leave. However, there have been local and federal efforts to increase the number of days fathers receive after the birth of a child. These efforts have been met with resistance from public officials who fear that increased leave will harm productivity. In the city of Niterói, the mayor overturned the law approved by the city council regarding the extension of paternity leave to 30 days. In 2016, Brazil's congress approved an increase in paternity leave to 20 days. The law, however, is voluntary and only affects companies open to programs extending maternity leave. Unsurprisingly, there does not seem to be much interest from Brazil's National Confederation of Industry (CNI), an organization that promotes growth and competitiveness of Brazilian industry.

While critics fear that extending paternity leave will affect production and economic growth, studies show the opposite. The Institute for Women's Policy Research reported that the impact of paid family leave on workplace productivity is zero or positive, and increases workers' likelihood to return to work and families' incomes. Paternity leave helps create a more equitable distribution of childcare between both parents. A study evaluating Sweden's family leave policy, which provides leave to both mother and fathers, showed that paternity leave encourages men to share caregiving responsibilities, allowing women to return to their jobs earlier, reducing career interruptions.

CONCLUSIONS

Brazil's economy is starting to recover from a deep recession and is expected to return to growth during the first months of 2017. Increasing women's participation in the labor force can boost the country's

growth in the long term. The policies and legal reforms implemented in the past decades have had a limited impact on increasing women's participation in the labor market, but have proven to be effective in reducing poverty and increasing literacy.

To increase women's labor participation, the Brazilian government should consider the main challenges women face to be part of the formal labor force, and evaluate the current policies. Wage pay gap, number of hours allocated to housework, and discrimination are three of the main obstacles preventing women from joining the work force.

Addressing discrimination is fundamental to increasing women's participation in the labor force. Women have more years of education; however, the wage gap increases with education. Antidiscrimination laws have limitations and could be better implemented by conducting advocacy programs that promote gender. These programs can focus on emphasizing the benefits of gender equality in the labor force and the benefits for development and economic growth.

Investing in infrastructure, access to childcare, and mandatory paid paternity leave are steps that could reduce the time women allocate to housework and facilitate women's participation in the labor force. Additionally, these policies promote a more balanced distribution of household chores between men and women.

The road to achieving gender equality is long, and Brazil has made important improvements in the last few decades. However, it is important to continue the discussion, especially when these policies face resistance from local governments and national institutions. Gender equality not only has an impact on economic growth, it also promotes a more fair and just society.

Gender Inclusion Supports Peace in Colombia

By Natalia Cote-Muñoz



Natalia Cote-Muñoz is an American born Spanish Colombian who grew up in Mexico. Her work on security and human rights in Latin America has been published and/or referenced in the Council on Hemispheric Affairs, The SAIS Review, the United Nations Development Programme, and The Huffington Post, among others. After graduating from Swarthmore College with a BA in Political Science in 2012, Cote-Muñoz lived in Beijing for four years. During her time in Beijing she served as a Princeton in Asia Fellow teaching at China Foreign Affairs University, conducted research at the Carnegie-Tsinghua Center for Global Policy on China-Latin America relations, and led a feminist discussion group. She is currently in her first year of the master in public policy program at the John F. Kennedy School of Government at Harvard University, and hopes to use her international experience to improve South-South and triangular cooperation in peace and development. In her free time, she enjoys reading, world cinema, dank memes, and cute animals.

ABSTRACT

On October 2nd 2016, Colombians took a vote on a historic peace accord. Members of Colombia's largest rebel group, the FARC (Armed Revolutionary Force of Colombia, FARC for its Spanish acronym), and members of the government reached an agreement that ended a war that had raged for half a century. The Colombian peace process is innovative because it is the first one that actively includes gender, sexuality, and violence against women in the agreement. Gender and sexuality issues were included with support from the United Nations, an array of international accords, and the Colombian constitution. Government negotiators met with several women's focus groups in order to make an accord that was as representative as possible of all Colombian women. The language used

explicitly referred to women and members of the LGBTI community. The original version of the accord was rejected in October of 2016 by a margin of less than 1 percent. The opposition, led by former president Álvaro Uribe Vélez, focused on the use of gendered language and the recognition of LGBTI communities in order to mobilize the "no" vote.

FEMALE AND LGBTI VICTIMS OF THE WAR

Conflicts affect various genders and sexualities differently. In the middle of the Colombian conflict, entire towns were ravaged and raped by guerrilla members and paramilitary. Often in violent conflicts, the rape of women is used to humiliate members of the community. Furthermore, many women were enslaved and/or forced to perform domestic labor or crimes. Women have also suffered more forced displacement, violence, and threats than men. LGBTI members have also received a disproportionate amount of violence directed at them due to their sexual orientation and/or gender identity by the FARC (Fuerzas Armadas Revolucionarias de Colombia) and other groups involved in the war. The extent of this violence has also been significantly ignored and understudied.

The accord addressed these issues of gender and sexuality in several ways. One of the main ways was through language, and it received the brunt of the controversy. The accord used differentiations such as “women, boys, girls, ethnic communities, people with disabilities, elderly, and people with diverse gender identities and sexualities.” The accord also included a space to consider the specific realities of those who are not ethnic minorities, males, cisgender, straight, or adults:

This recognition implies the adoption of specific measures in the planning, execution, and follow-up of the plans and programs considered in this accord so that their implementation takes into account the specific and differential conditions of women, in accordance to their life cycle, affections, and needs (gender focus).

The accord calls for truth committees to put special emphasis on issues such as rape, forced abortions, gender, and dis-

crimination based on sexuality. Violence against women by the FARC is a crime that will not receive amnesty, and a special team would form to investigate issues of gender-based violence.

In addition, a huge issue in conflict resolution is the reintegration of male guerrilla members into society. Studies have shown that women play a large role in keeping peace after conflict. Women often help males integrate into their communities by preventing others from ostracizing them, providing services through civilian groups, sharing services, and by serving as teachers and trainer. However, women also tend to be disproportionately affected by the males who come back in post-conflict situations. Often, former warriors come back and rape women and behave violently. The accord planned to correct for those issues in areas discussing the reintegration of men.

WHAT IS GENDER IDEOLOGY AND DID THE PROCESS PROMOTE IT?

Opposers of the peace agreement claimed the process was promoting “gender ideology,” which they interpreted to mean being against evangelical and Catholic family values. The term “gender ideology” dates back to the time of Pope John Paul II, who used it to mean that it is the belief that gender is a differentiated social construction not decided by God’s will. Many conservative Catholics and Christians in Colombia believe that “gender ideology” promotes homosexuality and can influence a person’s gender identity.

In the months before the peace process came to an accord, there was strong provocation of Colombia’s religious right by the alleged promotion of “gender ideology.” The peace process came shortly after former minister of education, the openly lesbian Gina Parody, began promoting educational guides to support students from

“Gender ideology,” then, became part of the argument of the opposition due to a combination of opportunism and bad timing in the “yes” camp—it was an easier, more digestible way to gather people together against the accord than the legal, institutional, or political reasons.

LGBTI communities, which received strong backlash from the religious right. As Parody became involved in the peace accords, the opposition conflated the hysteria over her educational guides, using the inclusion of gender in the peace accords as a way to delegitimize them. Former Colombian president Álvaro Uribe lent his voice to the conflict saying that “One is not born female or male, but that this is defined by ‘society,’ is an abuse of minors, a disrespect of nature and of the family.” The reasons individuals opposed the accord ranged from issues of bypassing domestic legal institutions by conducting negotiations in Havana, to the desire for more punitive measures against the FARC. “Gender ideology,” then, became part of the argument of the opposition due to a combination of opportunism and bad timing in the “yes” camp—it was an easier, more digestible way to gather people together against the accord than the legal, institutional, or political reasons. Because of that, the “no” camp was able to both swiftly propagate misinformation and mobilize the religious right against “gender ideology.”

One of the main pieces of misinformation is that the accord promoted abortion, even though the final agreement does not even include the word. Furthermore, most of the gender and LGBTI-inclusive language was mainly rhetorical. In fact, the word LGBTI only appeared 10 times in the first accord, “gender” appeared 114 times, and “ideology” appeared none—“gender

ideology” was never mentioned. These linguistic differentiations are not new for Colombian law, as the Colombian Constitution already differentiates between men and women.

The opposition to “gender ideology” is not merely due to misinformation or ideological differences. Many have argued that the religious right’s position has been a way to try to incorporate its views into the peace accord. This is because the first accord was set up to be an addition to the constitution, and recently rights awarded to women and LGBTI individuals have increased. In April 2016, Colombia legalized same-sex marriage, six months after legalizing adoption by gay individuals. Incorporation of the religious right into the peace accord, then, could have allowed for inclusion of their views in the constitution; but not necessarily undone everything done thus far. In addition, the inclusion of the religious right in these accords is murky, due to the separation of church and state. Church victims should be considered, but otherwise their place is not in the accord.

WOMEN IN THE FARC

Women form about 40 percent of the FARC ranks. Although most female FARC members say that they enjoy gender equality, the reality is that this is not necessarily the case. Women who have defected from the FARC describe forced abortions and contraception for women as young as 12.

The women who did not abort were oftentimes forced to separate from their children. Many were often victims of sexual assault from other FARC members, and considered to be property. The highest echelons of the FARC have been controlled by men, with their female lovers unofficially as second-in-command. But once they were no longer together, the women would lose their power.

The reasons for women and girls to join the FARC vary, ranging from ideology, to family ties, to a desire for more power. However, the vast majority of women join to protect themselves from murder, torture, or abuse by state actors. Reasons for joining may also differ from those of men. For instance, economic reasons for joining the FARC and/or drug trafficking are often due to the fact that land and businesses, officially and unofficially, tend to be given to men in the family. With fewer resources at their disposal, women have an added incentive to join the guerrilla and/or the drug trade.

WOMEN AT THE TABLE: ENSURING THE SUSTAINABILITY OF PEACE

The talks for the peace accord included for the first time anywhere in the world a gender subcommission established by negotiators from both sides. This is extremely rare, as women tend to make up only 4 percent of signatories, 2.4 percent of chief mediators, 3.7 percent of witnesses and 9 percent of negotiators. Colombian president Juan Manuel Santos named two women to the government's team, accounting for one-fifth of government negotiators, while women made up 10 to 20 percent of FARC negotiators. Women's groups have a history of involvement in building peace in the Colombian conflict. In addition to negotiating local ceasefires with armed groups and winning

the release of hostages, they have documented human rights violations and pressured armed groups to release roadblocks. They have also protested budget priorities of local governments and looked for alternative solutions to deal with illegal activities such as drug trafficking. In September 2016, around 500 women gathered to celebrate the peace agreement and urge voters to support it.

The presence of women in the negotiation is key to the sustainability of the accord. Studies have shown that when women influence conflict resolution, agreements last longer. Furthermore, for democratizing countries, channeling support to female politicians and women's groups can play a key role in helping these states successfully transition into democracy. In the area of political participation, the accord underscored the need for female FARC members to have as good of a chance in political participation as their male counterparts, aiming for a fifty-fifty gender parity.

GETTING RID OF GENDER IDEOLOGY IN THE NEW ACCORD

Although there was a differentiated mentioning of the issues affecting women and LGBTI individuals in the original accord, most of the support was rhetorical. Rarely were concrete measures taken in order to support these groups, making the implementation of the differentiated requirements difficult and up for interpretation. The new accord, which was meant to correct for the "gender ideology" controversy, only further weakened an already weak set of arguments. However, the final peace process accord did correct for misinterpretation by saying that:

No content in the Final Accord will be understood or interpreted as the negation, restriction, or diminution of people's rights, independent of

their sex, age, religious beliefs, opinions, ethnic identity, belonging to the LGBTI population, or any other reason; nor of the right to free development of one's personality and of the right to freedom of conscience.

In addition, although the new accord no longer serves as part of the constitution, areas focusing on human rights do serve as constitutional amendments. Because of this, the amendments are more likely to be enforced. That said, research has shown that in peace agreements, implementation of issues regarding human rights have difficulties.

There are reasons to be optimistic for this accord. It is one of the first of its kind in conflict resolution in that it includes women and LGBTI individuals. It sets the precedent for continued inclusion of differentiated language and policy towards women and members of the LGBTI community with other guerrilla groups in Colombia and around the world. However, as Colombia supports the continued inclusion of these issues, it's important to take in the lessons of this accord in order

There are reasons to be optimistic for this accord. It is one of the first of its kind in conflict resolution in that it includes women and LGBTI individuals.

to make the inclusion of gender more politically feasible, to be aware of opposition sensibilities, and to correct for the lack of concreteness overall. Colombia will only achieve gender parity if it continues to push for it, while finding politically savvy ways to do so.

LOOKING FORWARD

There are many lessons to be learned from this episode of including gender and sexuality into a framework for conflict resolution. Selecting a referendum, openly including former minister Gina Parody, and underestimating the power of the opposition to mobilize, were tactical miscalculations of the domestic political climate. Referenda in particular, should only be used if legitimacy of an accord cannot be achieved through other means, as they tend to be swayed more by the popularity of the people passing each referendum than the actual content. There are other ways to achieve legitimacy; the new peace accord is not necessarily less legitimate.

In addition, more attention needs to be paid to the sensitivities of public opinion and how the public narrative is controlled, especially if a referendum or other democratic methods are used. According to Marshall Ganz, activist and senior lecturer at the John F. Kennedy School of Government at Harvard University, a public narrative must be a combination of the story of self (an individual, a victim), the story of us (the broader community—the Colombian people), and the story of now (creating urgency—a potential for peace after many years). The opposition managed to mobilize many Colombians by controlling the narrative in this manner; the peace process, according to them, would not bring justice to victims, but would empower criminals and damage families, and therefore should be voted against. An equally digestible and effective narrative from those in support of the accord, instead of just reacting to the opposition, might have led to the peace process passing the first time.

Furthermore, more work needed to be done to break apart the opposition. Because the opposition united in its strategy despite its different reasoning, it was easy

to spread misinformation. If a referendum is put forward to the popular vote, then it is essential to understand and address the public, particularly the opposition and potential polarization. Language of potentially sensitive issues needs to be constructed in a way that is effective in its goals, cannot be misconstrued, and does not weaken the proposals. Potential for polarization needs to be addressed, as well as prevention and control of the spread of misinformation. This needs to be a priority in a time where fake news and misinformation spread like viruses.

Finally, although the accord was fast-tracked in Congress, it is best to stay cautiously optimistic towards its implementation. If Colombia wants to ensure that gender and diverse sexualities are included, it is important that both national and international individuals and organizations continue to pressure for results. Without continuing to push for more in a strategic manner, Colombia will not achieve parity.

Paraguay and the Haunting Ghost of Corruption: Lessons from Latin America's Recent Scandals

By Juan Gustale



Juan Gustale graduated with a law degree from the National University of Asunción, Paraguay, in 2009. In 2012 he received a master's degree in banking law and financial regulation from the London School of Economics and Political Science (LSE) in the United Kingdom.

He is currently enrolled in the master in public administration program at the John F. Kennedy School of Government at Harvard University. Prior to coming to Harvard, he served as chief of staff to the board of directors, head of the anti-money laundering department, and head of the legal department for banking supervision at the Central Bank of Paraguay.

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Juan has spoken at over 20 conferences about anti-money laundering and terrorist financing, financial inclusion, banking regulation, compliance, and anticorruption in Paraguay and other countries including South Africa, Switzerland, Mozambique, Malaysia, Brazil, Argentina, Colombia, and Uruguay.

ABSTRACT

This paper seeks to address grand corruption in Paraguay, in light of recent events that took place in Latin America from 2013 to 2017, especially in Brazil, Panama, Perú, Guatemala, and Argentina: from Panama Papers to the involvement of Petrobras and Odebrecht S.A. (Odebrecht) in major corruption schemes, and the intervention of the United Nations International Commission against Impunity in Guatemala (CICIG). It also aims to

briefly analyze the origins and most common forms of corruption, as well as its devastating consequences. While recognizing that Paraguay has made numerous efforts to deter grand corruption over the last four years, this article offers a number of tangible proposals and initiatives to create a more robust democracy and achieve a positive cultural change regarding corruption.

A QUICK LOOK AT CORRUPTION IN PARAGUAY

Corruption in Paraguay is endemic and systematic. It is rooted at the very heart of public institutions and promoted as a way of life. Transparency International (the global coalition against corruption) diagnostics have shown that corruption is “widespread and involves multiple sectors of government and private enterprise.”

A painful dictatorship, under the relentless rule of General Alfred Stroessner Matiauda, dominated Paraguay from 1954-1989. The regime systematically violated human rights and one of its most disreputable policies was the use of corruption as a consensus-building tool. Stroessner went into exile in 1989, but with its fragile institutional structure, Paraguay struggled to achieve real democracy. Grand corruption, delinquency, and media censorship prolonged the country’s stagnation over the next two decades.

A study by Diego Aboal, Bibiana Lanzilotta, and Víctor Vázquez estimated that the cost of corruption in Paraguay in 2010 (in the form of bribery and extortion for companies) was as high as \$474,459,000, about 2.3 percent of the total national gross domestic product (GDP). In the case of Paraguay, empirical evidence has suggested that good governance and low corruption are highly correlated to per capita income, while both “corruption and low output growth were caused primarily by weak institutionalism.”

Corruption is predominantly reflected in bribery and extortion. Due to vulnerable border controls, cities located next to Argentina and Brazil have become infamous

for corruption worldwide; the so-called *Triple Frontera* zone (borders shared by the three countries) is deemed as a hotspot for organized crime and smuggling.

Judicial corruption is also a considerable concern in Paraguay. Courts retain lawsuits for months (even years) before issuing judgements, and political influence is customary within the judiciary. As of January 2017, Paraguay ranked 123 out of 176 countries on the Transparency International 2016 Index, receiving a score of 30. This is seen with relative optimism, since—back in 2004—the country was at the very bottom of the list (ranked 140 out of 145 countries, with a score of only 7).

DOMESTIC LEGAL AND REGULATORY FRAMEWORK

Paraguay is working hard to combat corruption. In 2005, Paraguay signed and ratified the United Nations Convention against Corruption, agreeing with the other countries that signed to work together to fight corruption. The National Constitution of Paraguay requires all public employees to disclose their income and assets within 15 days after taking office, and again within 15 days upon completion of their term. The Criminal Code contemplates the criminalization of corruption, while the Public Servants Law rules that public servants are prohibited from receiving any kind of gifts or benefits.

Transparency levels have improved since the enactment of Law 5189 in 2014 (referred to as the “Transparency Act”); it is now mandatory for public institutions to disclose data about salaries, payments, and expenditures of various types. Also,

the “Free Citizen Access to Public Information Act and Government Transparency Act” (Law 5282/2015) provides a comprehensive mechanism for requesting public information through a simplified process. In its first three months of existence, this law saw more than 450 requests being made through the government’s websites.

MAJOR CORRUPT SCANDALS IN THE REGION AND MAIN TAKEAWAYS

Several Latin American countries, including Brazil and Argentina, have been immersed in grand corruption cases in the past decade. Some of the most notorious events associated with corruption are briefly explored in the following paragraphs.

After a massive bribery scheme involving the Brazilian construction company Odebrecht was discovered in 2015, the firm signed the largest anticorruption settlement in history with the US Department of Justice and several other regulatory authorities. The giant corporation spent millions bribing politicians in multiple countries including Brazil and Panama. After the government of Perú decided to fine Odebrecht \$262 million on 23 January 2017, the financial media reported that the company is now “struggling to survive.”

The Odebrecht case worsened Brazil’s already tarnished reputation regarding corruption, especially after the Petrobras (the state-owned oil and gas company) scandal unfolded in 2015. The firm had lost \$17 billion to “mismanagement and graft.” Petrobras shares dropped dramatically and contributed to the deterioration of Brazil’s vacillating economy. Confidence in Dilma Rousseff—Brazil’s president at the time—and the government plummeted, especially since she had acted as chairwoman of Petrobras from 2003 to 2010.

Rousseff was impeached on 31 August 2016, although her role in Petrobras was not formally part of the impeachment.

Argentina is also dealing with grand corruption cases. Currently, Argentina’s former president, Cristina Fernández de Kirchner, is being investigated on several charges—including corruption, money laundering, and fraud—connected with public resources. Fernández, along with two former ministers, was indicted in December 2016 and her assets were frozen by the order of Federal Judge Julián Ercolini.

Guatemala’s corruption story is no better. In 2015, President Otto Pérez Molina, was sent to Matamoros Prison in an unprecedented move. This came as a result of an investigation by the National Justice Department, along with the CICIG, of a grand corruption scheme known as *La Línea*.

PROPOSALS FOR STRENGTHENING THE FIGHT AGAINST CORRUPTION IN PARAGUAY

Corruption in Paraguay needs to be addressed now. This paper offers a few simple recommendations to reinforce the current system:

- **Focus on More Effective Enforcement:** Remarkable progress has been achieved with laws such as the “Transparency Act” and the “Free Citizen Access to Public Information and Government Transparency Act,” initiatives that have been praised internationally. However, authorities have proven unable to effectively enforce these laws, given the scarce resources they have at their disposal. The SENAC (*Secretaría Nacional Anticorrupción*), created in 2012, receives public complaints about corruption, but has almost no investigative powers. The *Ministerio Público* (Public Ministry) has a special unit in charge of

Corruption in Paraguay is endemic and systematic. It is rooted at the very heart of public institutions and promoted as a way of life.

prosecuting corruption cases, but it is extremely busy, dealing simultaneously with prosecuting other financial crimes.

- **New Incentives and Corporate Social Responsibility (CSR):** The government should work closely with the private sector to create incentives that reward integrity and provide more detailed information about the consequences of corruption. Large industries need to act more responsibly and participate more firmly in deterring corrupt practices. Without corporate social responsibility, firms can create their own private governance which allows for incomplete regulation.”
- **Improve Communication Strategies:** Successful cases of convicted corrupt officials should reach a wider range of the population, in order to raise awareness about the severe implications of grand corruption. This could help engender a new mindset, especially with a vast majority of the population being young and prone to increasing formalization.
- **Civil Society Needs to Play a More Energetic Role:** Recent campaigns have shown that Paraguayans are not willing to tolerate more cases of corruption. Civil society campaigns attacking companies for social and environmental ills are becoming more common and effective in inducing behavioral change.
- **A Higher Degree of Coordination:** Paraguay should continue to work in close collaboration with other governments and regulators. In doing so they can improve channels of communication and cooperation, as reflected in the recent FIFA scandal.
- **Eliminate Bearer Shares:** Authorities should insist on passing leg-

islation prohibiting bearer shares, which are currently allowed under the Paraguay Civil Code, thereby permitting companies' shareholders to remain anonymous, making it harder for authorities to identify the ultimate beneficiary owner. The Panama Papers revealed that a local law firm helped set up thousands of secret shell companies. Corrupt politicians, criminals, and tax abusers around the world then used these secret companies for their own gain.

- **Seize the Current Window of Opportunity:** Paraguay is experiencing one of its best economic cycles in the past twenty years, providing an excellent chance to publicize the benefits of transparency and its direct correlation with sustainable economic and social development.

The Nighttime Movement in Asunción's Historic City Center: A Catalyst for Urban Revitalization

By: Andreina Seijas Jaspe, Robert Watson Jr., and Vladimir Velázquez Moreira

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Robert Watson Jr. is an international development specialist currently working as a senior advisor in social innovation and volunteerism for development to the Ministry of Planning for Economic and Social Development of Paraguay and a consultant for several organizations including the Inter-American Development Bank. He is a cofounder of Paraguay's first-ever national youth service program (AROVIA Paraguay), the Association for the Revitalization of the Historic Center of Asunción (AMCHA), and the Paraguayan Sustainable Cities Network. He recently helped organize TEDxCallePalma and the Latin American Street Art Festival Latidoamericano. He holds a bachelor's degree from Harvard University and a postgraduate degree from the Universidad Alberto Hurtado in Chile.

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ABSTRACT

The night is a highly regulated space that is often overlooked in urban studies. A reductionist approach links the nocturnal to partying and transgressive social behavior, and has prevented many cities from exploring this time frame. By analyzing the recent process of revitalization that is taking place in the Historic

City Center of Asunción (CHA in Spanish), this article hopes to demonstrate the potential of nightlife as a platform to enhance public safety, support economic development, and promote social inclusion in cities throughout Latin America.

Many cities across Latin America and the Caribbean have a common challenge: the existence of central areas that are run down or underutilized. Despite their great architectural and cultural value, many historic centers in the region become ghost towns after dark. This phenomenon is especially common in emerging cities—victims of an accelerated urbanization process and a rapid expansion towards suburbia.

Experiences in cities around the world demonstrate that culture and entertainment, particularly at night, are activities with great potential to spur the revitalization of historic centers. The night is a fundamental space for socialization, particularly for youths; a key space in which to build identities and a sense of belonging to the city. According to Mario Margulis in his book *La Cultura de la Noche*, “the night is a territory for the youth, a young island in a dormant city, a territory that they have been occupying and a space where generational hegemony is key.”

Still, the urban night has barely been addressed from the perspective of public and urban policy. This is due to a negative view that associates this time frame with insecurity and noise, a reductionist approach that restricts it to partying and overshadows its benefits such as: creating new jobs in the entertainment, tourism, and service industries; promoting cultural diversity and security; and building urban identities.

A city that offers safe and accessible twenty-four-hour transportation is much

more attractive and convenient for those who visit. Policies that invite people to stay out longer in the streets—such as the expansion of the hours of operation of businesses, cultural, and recreational facilities—help create a greater appropriation of these spaces and, with it, a greater sense of security in the city. This goes along with the ideas of North American journalist and activist Jane Jacobs, who championed the belief that “the public peace of cities is not kept primarily by the police . . . It is kept primarily by an intricate, almost unconscious, network of voluntary controls and standards among the people themselves, and enforced by the people themselves.”

The dominant trend in Latin America has been to constrain nocturnal activity as a way to reduce the rate of crimes and accidents, particularly those related to alcohol abuse. This was the case for regulations such as the *Ley Zanahoria* (Carrot Law), established in 1995 by Antanas Mockus, the former mayor of Bogotá. This policy banned nightlife and alcohol sales after 1:00 a.m., in order to prevent accidents and violence in the Colombian capital.

In the past decade, a new governance model that recognizes the night’s potential for urban development has emerged. In 2003, Amsterdam was the first city in the world to designate a “night mayor,” an intermediary between nighttime businesses, residents, and city government. Today, Amsterdam’s *Naachtburgemeester* leads a small NGO that implements initiatives to improve development and co-

existence at night. Paris, Zurich, London, and Berlin have also designated nighttime government institutions.

The Colombian city of Cali is the pioneer of this model in Latin America. The city has had a night manager since 2016; this person is in charge of mapping and overseeing the city’s night scene as part of a strategy to promote cultural and economic development. Like Cali, many other cities in the region are working on initiatives to take advantage of this time frame, but the impact and socioeconomic value of these initiatives have not been examined. This article will demonstrate the potential of nightlife to promote the revitalization of city centers by analyzing one of these initiatives in Asunción, Paraguay.

THE NIGHTTIME MOVEMENT OF ASUNCIÓN’S HISTORIC CITY CENTER

The Historic City Center of Asunción (CHA) is undergoing an unprecedented process of urban revitalization due to the convergence of institutional and civic initiatives with the potential to transform its quality of life. Asunción’s ability to harness nightlife and nighttime activities as catalysts for development make it a unique case study in the region. Such novel interventions have led to unexpected opportunities and challenges for policymakers and community leaders alike.

The city center is home to the three branches of government, and is one of the most developed territories in Paraguay in terms of infrastructure and connectivity. It encompasses the majority of the nation’s architectural heritage sites and is one of the most popular tourism destinations in Paraguay. It is also the site where citizens come together to celebrate national achievements and mobilize politically through social protest, and is therefore a reference of national identity.

Like other historic centers in the region,

the city center of Asunción has suffered a process of deterioration that is largely defined by its rapid residential depopulation. Until two years ago, no major real estate investments had taken place in this area. According to official government statistics, in 2012 only 22,017 people lived in the city center, 50 percent of which resided in the Chacarita, a neighborhood and major slum segregated from the formal city and economy. Ten years earlier, the city center had just over 30,000 residents.

The deterioration of the CHA deprived it of its economic, social, and cultural dominance and influence in Asunción. Since the 1990s, other neighborhoods have emerged and absorbed the city’s commercial and service activities. Nighttime activity migrated from the city center to the business district, the new economic center of the capital, which until recently had a monopoly on nightlife entertainment services.

Another factor that contributed to the decline of the city center was the municipal ordinance 114/03, also known as the Edicto Riera (Riera Edict), which until 2007 restricted the operating hours for nightclubs and bars, and the sale of alcoholic beverages. Inspired by experiences from other countries like Colombia’s *Ley Zanahoria*, this municipal regulation was implemented to promote public safety, a premise that was based on a narrow view of the factors that contribute to sustaining vibrant and secure nightscapes. Another important precedent to this regulation was the edict during the dictatorship of General Alfredo Stroessner Matiauda (1954-1989) that regulated the use of public spaces, a limitation that had deep implications for Paraguayan urban culture.

The decay of the CHA can be largely attributed to the model of horizontal urbanization that characterizes the country, incentivizing people—particularly lower and middle classes—to seek residence in neighboring municipalities where land

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costs and other services are relatively inexpensive. As a result, Asunción's population continues to move away from the capital, and particularly its historical center, where more than 220,000 square meters remain unoccupied or underutilized. At the same time, more than 1.3 million people enter the capital daily, many of them arriving to work in the historic center. This segment of the population spends on average two to five hours commuting to work, navigating a low quality and congested public transportation system.

Paraguay's Bicentennial in 2011 marked a turning point in the transformation of the CHA. During its numerous celebrations and commemorations, citizens occupied public spaces in the historic center to express a renewed sense of national pride. This event laid the groundwork for emerging social movements that redirected the urban agenda back to the CHA.

In 2013, the launch of an international ideas competition produced the first Master Plan of the Historic Center of Asunción (*PlanCHA*). The plan set the stage to recover the historic center through a partnership between the national government and the Municipality of Asunción, under the leadership of the National Secretariat of Culture (NSC). A defining moment in the consolidation of the plan was the organization of roundtable discussions with leaders from the private sector and civil society working in the CHA, which generated public-private partnerships to accelerate urban development.

As a part of this strategy, members of the NSC organized several meetings with owners of nightlife entertainment venues to create meaningful dialogue on the role of the nighttime economy in the CHA's revitalization. During these talks, several restaurant, bar, and club owners decided to create *AMCHA—la Asociación de la Movidita del Centro Histórico de Asunción* (Association for Nightlife in the Historic Center of Asunción).

AMCHA is a nonprofit civil society organization that brings together bars, restaurants, and entertainment businesses located in the CHA. Since its creation in August 2014, the association has organized more than 25 large-scale events that combine themes related to entertainment, art, and Paraguayan history. AMCHA has also established partnerships with hotels, NGOs, companies, and public institutions linked to the tourism and cultural sectors of the CHA.

Through these activities, nightlife has grown into a fundamental component of the revitalization of the CHA, becoming a new epicenter for entertainment, particularly amongst millennials and young professionals. This dynamism can also be linked to a larger civic and urban revival promoted by a new creative class that includes artists, artisans, entrepreneurs, and other innovators that have helped citizens reimagine the possibilities of their public spaces. It also motivated the organization of events such as TEDxCallePalma and the Latin American Festival for Urban Art, *Latidoamericano*, which have positioned the CHA on an international scale.

This transformation has had several implications. On one hand, it has shown the importance of civic participation and the use of public spaces to improve security, helping debunk once prevalent notions that identified the CHA as an insecure red-light district. On the other, it discredits a common belief that the night is exclusively related to partying; instead, it highlights the impact on urban culture, social cohesion, the generation of employment opportunities, and a collective sense of belonging to a previously forgotten area of the city.

An important indicator pointing to the impact of nightlife in the CHA is the fact that approximately 20 new bars and restaurants have opened in the area in less than two years. This points towards an emerging interest in real estate in the

area, as well as a renewed commitment from public institutions to promote activities in the CHA, especially at night.

A CASE STUDY: ST. PATRICK'S DAY

Towards the end of 2014, members of AMCHA began to evaluate options for organizing a large-scale nighttime activity in the CHA. In Paraguay, the nightlife movement during the summer is characterized by carnivals that take place in different parts of the country, the most famous and popular one occurring in the city of Encarnación. The association wanted to do something different and chose a theme

In Paraguay, the nightlife movement during the summer is characterized by carnivals that take place in different parts of the country, the most famous and popular one occurring in the city of Encarnación.

that would appeal to the younger generation as well as tourists, eventually opting for the theme of St. Patrick's Day.

In the process of designing this initiative, AMCHA understood that while St. Patrick's Day is an event recognized globally and celebrated in places including Ireland, Europe, and the United States, there was an opportunity to generate a Paraguayan version. The association set the goal of organizing "the biggest St. Patrick's Day party in South America," generating tourist and cultural circuits that combined the efforts of 12 restaurants, bars, and initiatives that make up

the organization, while also inviting others to join.

The main sources of funding for the event included sponsorship from the private sector, funds from AMCHA, other companies in the entertainment sector, and support from public institutions at both the national and local levels. AMCHA took advantage of the fact that several of its members already had experience organizing large-scale events. Harnessing their expertise was a key facet to organizing the first event in March 2015.

Following the event's success, AMCHA organized a second Saint Patrick's Day in March 2016. On this occasion, the NSC hired a consulting firm to implement an external evaluation of its results, which revealed that the event brought together approximately 52,000 people and mobilized approximately \$100,000 US dollars. In addition, the event generated 860 temporary jobs and 700 people worked overtime, representing \$35,500 of additional income. The study estimates that revenues from the sale of goods and services amounted to \$640,000. The 70 entertainment and gastronomic venues that participated in the event reported an increase in sales of 14 percent, ten times more than on a regular weekend.

The organization of the event also established public-private partnerships that facilitated the organization of other large-scale events within the framework of the PlanCHA. In the case of St. Patrick's Day, AMCHA and the Municipality of Asunción collaborated to implement street closures, garbage collection, press coverage, and street lighting. The NSC supported the initiative by contributing both monetary and in-kind resources to hire artists and pay for rental equipment; the Ministry of the Interior provided security personnel.

The second edition of St. Patrick's Day was a testimony to the CHA's emerging nighttime movement. The streets were

filled with thousands of people of all ages, including parents with children and young people walking in groups. Numerous street corners were filled with locals and tourists dancing and listening to music well into the early morning hours. Locals bar and restaurant owners opened up their businesses to the public, offering a varied menu and live entertainment.

CONCLUSIONS AND RECOMMENDATIONS

The St. Patrick's Day case study not only illustrates the changes in the CHA's night scene, but it also highlights the socioeco-

conomic implications of an event of this nature and its potential to cultivate the practice of the use of public space. Such practice has important repercussions in aspects such as the quality of urban life, security, diversity, and democratization.

Four main aspects from this case study are relevant to the analysis of experiences in other historic centers in the region: first, this experience encouraged the emergence of a master plan or collective vision for the historic center; second, it cultivated spaces for socialization, dialogue, and collaboration between the private sector, government, and civil society; third, it promoted the organization of

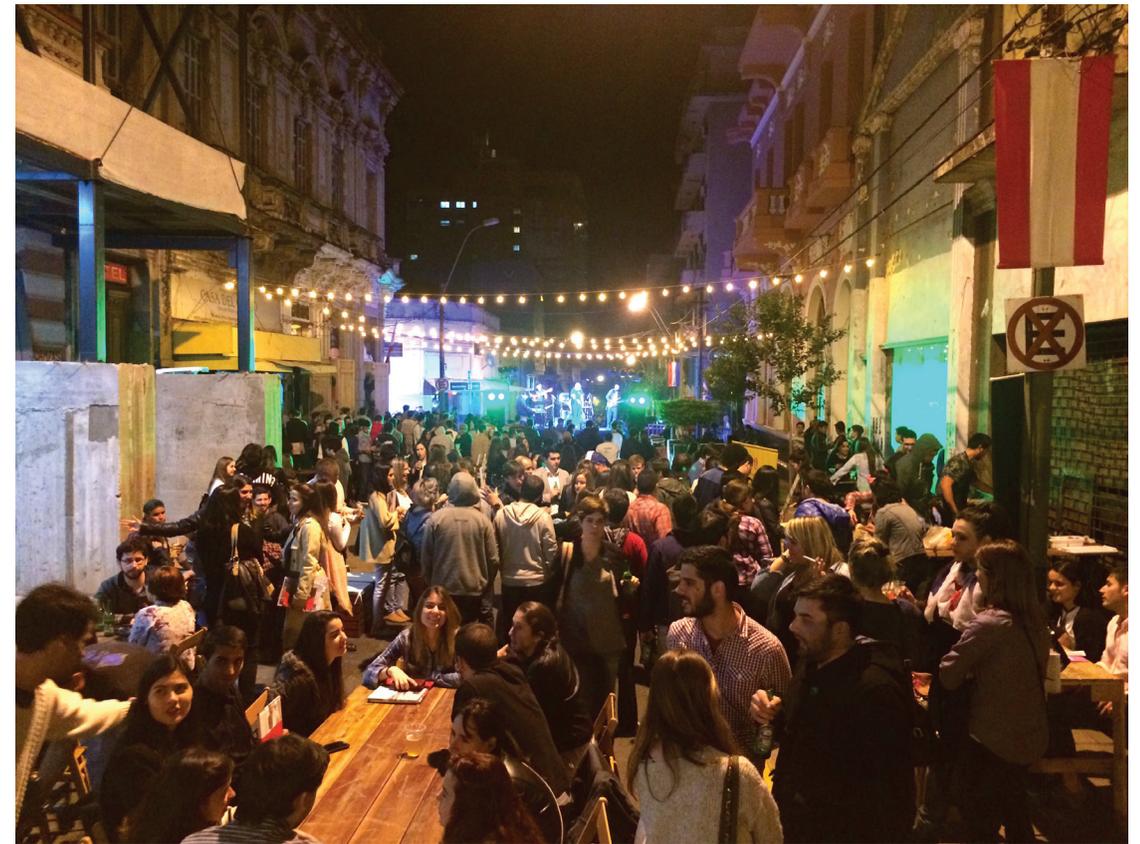
nighttime entertainment producers; and fourth, it helped place the notion of the nocturnal in the public agenda.

However, cities are spaces of conflicting interests: while music entertains some, it also disturbs others; and while some think an initiative is legitimate, others find it unreasonable. There are many challenges to ensure the continuity and consolidation of these aspects, such as enhancing public infrastructure, improving security services and access to nighttime public transportation, updating existing land use and public space regulations, stimulating new business development, and providing greater access to information about his-

toric centers. Their success also requires designing and monitoring an overarching nighttime strategy that allows Asunción—and other cities throughout Latin America—to take advantage of the social and economic benefits of planning open, vibrant, and inclusive nightscapes.



The Pantheon and the people (crédit: Juanjo Ivaldi)



The CHA by night (credit: Andreina Seijas)



Asociación del Centro Histórico de Asunción (AMCHA) Event (credit: AMCHA)

Reorienting Education Policy to Close Ecuador's Learning Gap

By Andrew Blackman



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Note: The views expressed herein are those of the author, and do not reflect those of the Coordinating Ministry for Economic Policy or the Ecuadorian government. The technical criteria included in the processing of information, errors, and omissions are the sole responsibility of the author.

ABSTRACT

Sweeping reforms undertaken over the past decade have transformed Ecuador's education sector and delivered impressive results in expanding access to schooling. While learning indicators have improved substantially, they have not kept pace with the expansion in access to schooling—meaning Ecuador now faces a significant 'learning gap.' Closing this gap will require a reorientation of education policy towards a focus on learning outcomes. Recent initiatives have demonstrated the government's commitment to improving student cognitive development, enhancing teaching effectiveness,

and strengthening accountability. The new Ten-Year Education Plan provides an important opportunity to institutionalize this focus on education quality.

Key words: government expenditures and education; analysis of education; government policy; Latin America.

JEL Codes: H52, I21, I28, O54.

Sweeping reforms undertaken over the past decade have transformed Ecuador's education sector and delivered impressive results in expanding access to schooling. In their 2006 review, the World Bank concluded that Ecuador's education system was underfunded, unequal, inefficient, and highly fragmented. In response, and consistent with the *Plan Decenal de Educación del Ecuador 2006-2015* (Ecuador's Ten-Year Education Plan 2006-2015), the government increased primary and secondary education spending from 2.3 percent of gross domestic product (GDP) in 2006 to 4.5 percent of GDP in 2015. A new decentralized management model was implemented, giving subnational authorities greater autonomy over the administration of education services. This was complemented by an expanded information management system and a comprehensive national evaluation system for students, teachers, and schools. These reforms have expanded and improved the physical and human resources of the sector (infrastructure, equipment, trained teachers, etc.), and free public education and cash transfers to poor families have reduced the economic barriers to school attendance. The result has been a remarkable increase in access to schooling. Primary enrollment is now almost universal, and secondary enrollment rose by 17.3 percentage points from 67.3 percent in 2006 to 84.6 percent in 2015, with particularly impressive increases among disadvantaged groups (see Figure 1). Consequently, the average Ecuadorian youth now receives over ten years of schooling.

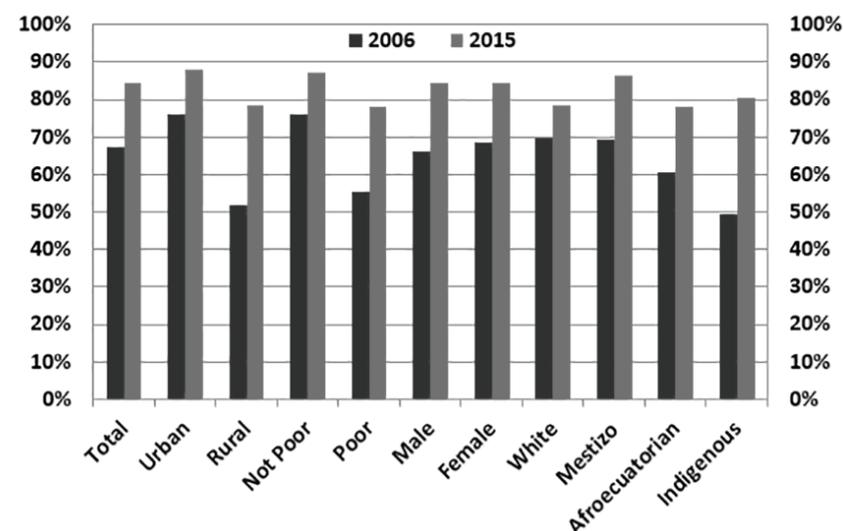
While learning indicators have improved substantially, they have not kept pace with the expansion in access to schooling—meaning Ecuador now faces a significant 'learning gap.' In 2006, the quality of education in Ecuador was among the lowest in Latin America and the Caribbean (LAC), with Ecuadorian students achieving among the lowest av-

erage marks in standardized tests conducted by the Latin American Laboratory for Assessment of the Quality of Education (LLECE in Spanish)—a part of United Nations Education, Scientific, and Cultural Organization (UNESCO). By 2013, Ecuador was one of the fastest-improving countries, with average scores improving by around half a standard deviation since 2006, placing Ecuador at around the regional average (see Table 1). However, average test scores remained below those of all the major LAC economies, including Peru (see Figure 2). This was concerning given that Peru was one of the worst performing countries in the 2015 Program for International Student Assessment (PISA) exams. Thus, although Ecuador is now performing at the regional average, that average appears to be a low bar.

Furthermore, domestic results suggest that the improvements could be benefiting high-achieving students more than those at the bottom of the distribution. Between 2008 and 2016 the proportion of students that reached or exceeded the learning goals for their year level in standardized national exams nearly doubled in mathematics (rising from 9.5 percent to 18.6 percent) and language and literature (rising from 11.4 percent to 21.1 percent). However, in 2016, 38.5 percent of students still did not meet the minimum standards for their grade level in mathematics (up from 26.1 percent in 2008), and 28.4 percent did not meet the minimum standards in language and literature (up from 20.9 percent in 2008) (see Figure 3). Thus, while Ecuador's education system is helping some students to surge ahead, many are not achieving the minimum level of cognitive ability for their level of schooling.

Recognizing the need for a reorientation of policy towards a focus on learning outcomes, recent government initiatives have placed improving quality at the center of the education agenda. Although the

Figure 1: Net Secondary School Enrollment Rate, 2006 and 2015
(Percentage of children aged 12-17 years enrolled in secondary school)



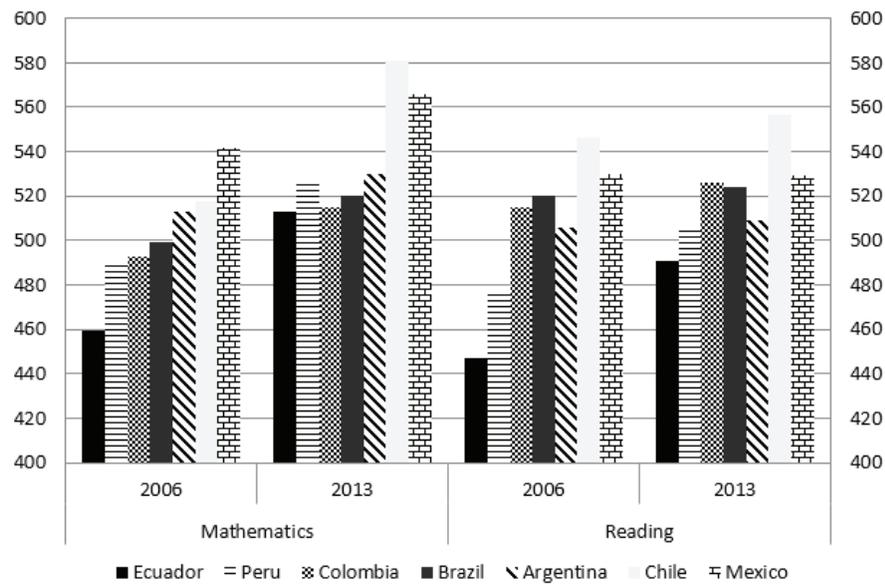
Source: MCDS, SIISE, 2016. Based on: INEC, ENEMDU, Survey Rounds: December 2006, December 2015).

Table 1: Average Test Scores by Country on the LLECE Standardized Regional Exams for Reading and Mathematics, 2006 and 2013
(Average test scores on the SERCE and TERCE exams, Grades 3 and 6)

COUNTRY	GRADE 3						GRADE 6					
	Reading			Mathematics			Reading			Mathematics		
	2006	2013	Difference	2006	2013	Difference	2006	2013	Difference	2006	2013	Difference
Argentina	510	512	2	505	533	28	506	509	2	513	530	17
Brazil	504	519	16	505	540	35	520	524	4	499	520	20
Chile	562	571	9	529	582	53	546	557	11	517	581	63
Colombia	511	519	9	499	519	20	515	526	11	493	515	22
Costa Rica	563	543	-20	538	558	19	563	546	-18	549	535	-14
Ecuador	452	508	56	473	524	51	447	491	43	460	513	54
Guatemala	447	495	48	457	501	44	451	489	38	456	488	32
Honduras		497			508			479			480	
Mexico	530	519	-11	532	549	17	530	529	-1	542	566	24
Nicaragua	470	478	8	473	485	12	473	479	6	458	462	4
Panama	467	490	23	463	494	31	472	483	11	452	461	10
Paraguay	469	481	12	486	488	2	455	469	14	468	456	-13
Peru	474	521	47	474	533	59	476	505	29	490	527	37
Dominican Rep.	395	454	59	396	448	52	421	456	34	416	437	21
Uruguay	523	524	2	539	551	12	542	532	-10	578	567	-12
Regional Average	491	510	19	491	522	31	494	507	12	492	511	19

Source: LLECE, *Primera Entrega de Resultados: Tercer Estudio Regional Comparativo y Explicativo (TERCE)—Comparación de Resultados del Segundo y Tercer Estudio Regional Comparativo y Explicativo*, UNESCO, 2014.

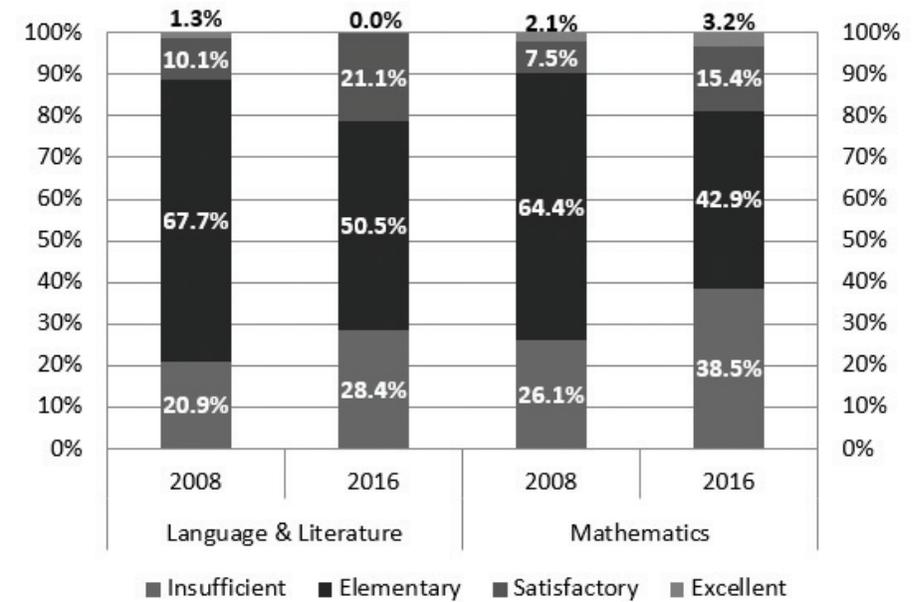
Figure 2: Average Test Scores for the Major LAC Economies on the Grade 6 LLECE Standardized Regional Exams for Mathematics, 2006 and 2013



Source: LLECE, *Primera Entrega de Resultados: Tercer Estudio Regional Comparativo y Explicativo (TERCE)—Comparación de Resultados del Segundo y Tercer Estudio Regional Comparativo y Explicativo*, UNESCO, 2014.

Figure 3: Results of Standardized National Exams in Language and Literature and Mathematics, 2008 and 2016

(Proportion of students by learning level, aggregate results for Grades 4, 7, and 10)



Source: Author's calculations based on data obtained from: MINEDUC, *Resultados Pruebas Censales SER Ecuador 2008*, (Quito: MINEDUC, 2008); INEVAL, *Evaluación SER Estudiante Ciclo 2015-2016*, student-level databases for Grades 4, 7 and 10, (Quito: INEVAL, 2016).

Note: The 2016 exams were scored out of 1000 points. The learning levels are determined as: Insufficient (less than 700 points); Elementary (700-800 points); Satisfactory (800-950 points); Excellent (over 950 points). The 2008 exams were scored based on a Gaussian distribution, with an average of 500 and a standard deviation of 100. Thus, although each exam cohort has a slightly different distribution, in general the learning levels are Insufficient (less than 400 points); Elementary (400-600 points); Satisfactory (600-700 points); Excellent (over 700 points). Despite the change in the methodology between 2008 and 2016, the learning outcomes consistent with the learning levels are broadly equivalent.

new *Plan Decenal de Educación del Ecuador 2016-2025* is yet to be finalized, recent policy initiatives have demonstrated the government's commitment to measuring educational quality and learning outcomes; strengthening accountability; and implementing merit-based selection, promotion, and compensation for teachers and administrators. These commitments are summarized in the National Plan of Education Evaluation 2013-2022, which comprises annual standardized national assessments of student learning, the performance of teachers and administrators, and the management of schools. The government's commitment to improving the quality of education is evidenced further by the institutionalization in 2012 of the National Institute for Educational Evaluation (INEVAL in Spanish), an autonomous agency responsible for the comprehensive evaluation of the national education system.

1. STUDENT LEARNING

To strengthen accountability between education providers and citizens, results from annual standardized student exams are now published at the school level. INEVAL conducts standardized exams in mathematics, language and literature, natural sciences, and social studies for grades 4, 7, 10, and 13 (the final year of secondary school). A substantial amount of international research has shown that reducing information asymmetries between service providers (teachers and administrators) and clients (students, parents, and the community) regarding the quality of education provided by schools can improve learning outcomes by helping end users to hold teachers and administrators accountable for their efforts and outcomes, and to lobby government for greater or better public support for their schools. Since February 2015, INEVAL has published school-level average

scores from the grade 13 exams, and average scores adjusted for the socioeconomic characteristics of the student cohort of the school. Starting in 2016, INEVAL also published school-level results of a questionnaire that summarize students' perceptions of the school environment, study habits, educational expectations and family involvement, and school satisfaction.

Ecuador will also take part in the PISA international standardized exams for the first time in 2017, and will again participate in the LLECE regional standardized exams in 2018. These exams will provide further opportunities to publicly evaluate the quality of education in Ecuador compared to international and regional standards.

2. EDUCATIONAL INSTITUTIONS

INEVAL is also implementing the *Índice de Desempeño Institucional* (INDI, Index of Institutional Performance), a composite index of education quality that will be used for planning and monitoring school performance. Learning from Brazil's experience with the Index of Development of Basic Education (IDEB) and Chile's experience with the National System for Performance Evaluation of Subsidized Educational Establishments, INEVAL has developed INDI—a composite index designed to provide a standardized and transparent way to track school performance. The index includes four dimensions: *internal efficiency*—a measure of student flows (promotion, retention, and dropout rates); *student learning outcomes*—student performance relative to national standards; *school climate*—a measure of the classroom environment, school environment, and the institution's linkages to the community; and *equality*—a measure of the dispersion of these variables within each institution. The results of the first national evaluation using the INDI are expected in mid-2017. The

INDI is expected to perform a similar function to Brazil's IDEB, with authorities using the index as a resource to set school performance targets, monitor progress, and identify underperforming schools for remedial support.

However, the INDI school rankings will not be made public. One significant difference between IDEB and INDI is that it appears the latter will only be available to government ministries and education administrators, and will not be shared with parents or the community. Harvey Spencer Sánchez Restrepo, the executive director of INEVAL, explained in an interview with UNESCO in 2013 that, "The INDI is confidential, and targets are set based on each institution's prior results, so as to avoid competition between schools and to ensure that the index will only rise when improvements are collective—something that involves constant work by students, parents, teachers, and school management personnel" (author's emphasis).

Whether or not to publicize the INDI results is an important question that could be considered as part of the new Ten-Year Education Plan. Research has identified several potential shortcomings of greater access to information—such as elite capture, perverse incentives for teachers and administrators (e.g., teaching to the test), and that random variation in results ('noise') can lead to erroneous conclusions regarding performance and resource allocation. Concerns about these potential issues may be the reason why INEVAL is planning not to publicize the INDI school rankings. However, in light of the potential benefits of strengthening accountability and facilitating comparison between schools, it appears an open question as to whether Ecuador should be attempting to "avoid competition between schools" or to encourage it. Consequently, the choice of how broadly to publish the INDI is an important one, and

one that could be discussed as part of the new Ten-Year Education Plan.

3. TEACHERS AND ADMINISTRATORS

Consistent with international best practice, in 2013 Ecuador introduced a new multi-pronged method for teacher selection. There is substantial evidence that observable teacher characteristics—such as experience, education, and IQ—are poor indicators of teacher quality. Consistent with top performing education systems such as Singapore, Finland, and South Korea, in 2013 INEVAL introduced the *Quiero Ser Maestro* ("I Want to Be a Teacher") selection process, which comprises two phases. In phase one (35 percent weight) applicants are evaluated based on their professional title, work experience, training courses, and publications. In phase two (65 percent weight) the applicants complete a series of exams (logical reasoning, knowledge of pedagogy, and psychometric testing), and demonstrate their teaching ability in a simulated class. As of the end of 2015, 25,905 new teachers had been employed via the new process.

Ecuador has also implemented a new mixed-method teacher evaluation system that—for the first time—allows for merit-based promotion and compensation. The new methodology comprises a 35 percent weight for "internal evaluation" and 65 percent for "external evaluation." The former includes a self-evaluation, as well as evaluations from peers, administrators, parents, and students, and an in-class assessment of the teacher's pedagogical practices. The latter includes a written exam on the teacher's subject specialty and a simulation exercise to gauge the teacher's leadership, classroom management, and instructional techniques. In the first half of 2016, 53,625 teachers undertook the evaluation, of which 29.1 percent achieved the required standard—

making them eligible to receive a higher professional category and remuneration. Approximately 65.3 percent of teachers were required to undertake 330 hours of remedial training in their subject specialty. The final 5.5 percent will undertake remedial training and will retake the evaluation. Those who fail the evaluation for a second time may be dismissed.

A recent study by the Ecuadorian Ministry of Education and the Inter-American Development Bank has identified specific teaching practices that can strengthen student-learning outcomes. The study included a rigorous evaluation of student-learning outcomes and cognitive development based on teacher effectiveness, where the latter is defined by the teacher's performance on the Classroom Assessment Scoring System (CLASS), an instrument that evaluates teachers on three dimensions: emotional support, classroom organization, and instructional support. In the United States, better performance on the CLASS has been associated with improved student learning outcomes. The Ecuador study yielded some important policy implications. First, the evaluation confirms that students with more effective teachers (higher CLASS scores) learn more, and that teachers' observable characteristics are largely uncorrelated with teaching effectiveness. Second, teachers who perform better on the CLASS raise the learning level of *all* their students (this is important, as previous findings have found that education interventions often have heterogeneous effects, and in some cases have had negative effects on some students, even when the average effect was positive). Finally, having a teacher with a CLASS score in the 95th percentile improves test scores of children from the poorest families by a magnitude equivalent to students whose families have received 18 months of the *Bono de Desarrollo Humano* cash transfer. These results suggest that teacher train-

ing designed to improve teachers' CLASS scores could substantially improve student learning outcomes in Ecuador.

The new Ten-Year Education Plan provides an opportunity to consider how to maximize the impact of these ongoing reforms and new evidence to improve learning and teaching effectiveness. The classroom environment in Ecuador is clearly undergoing significant change. The following three factors: the publishing of school test results; the new processes for teacher selection, promotion, and compensation; and new evidence regarding effective teaching practices, place new pressures on teachers, but also provide important opportunities to improve teaching quality and learning. However, to maximize the impact of these developments, teachers and school administrators will require information on their performance—and the performance of their students—and adequate physical and methodological support to improve/adapt their methods of engaging with students. Determining the most appropriate and effective method(s) to provide this information and support to teachers will require close collaboration and a process of iteration and adaptation to find what works. The new Ten-Year Education Plan provides an important opportunity to begin this collaboration and to establish a broad framework for strengthening teaching effectiveness and student learning outcomes.

International Reserves: How Vulnerable Are We?

By Pilar Navarro and Gabriel Villamizar



Pilar Navarro is an economist from the Universidad Central de Venezuela and the Instituto de Estudios Superiores de Administración (IESA) hydrocarbon management program. For more than five years she has worked as a researcher and analyst in the economic research department of Ecoanalítica (Venezuelan economic and financial consulting firm) where she has participated as author and coauthor of multiple reports on the Venezuelan conjuncture; following the economic, social, and political reality of Venezuela, with emphasis on the impact of government policies on the national economy. She currently a senior economist at Ecoanalítica and is a columnist for web portals such as Prodavinci and Infolatam.

Gabriel Villamizar is an economist from the Central University of Venezuela and holds a master's degree in finance from IESA. He has experience in the fields of corporate finance, strategic and financial planning, and economic research, and has held the position of macroeconomics professor at the Andrés Bello Catholic University. Gabriel has actively participated in the evaluation of investment projects for public infrastructure, and advised on the valuation of thermoelectric and hydroelectric central plants, extra-high voltage transmission lines, gas pipelines, electricity substations, and environmental cleanup projects.



ABSTRACT

Over the past decade, Venezuelan policymakers have carried out a policy that promotes the use of the international reserves to undertake social investments. In the last three years Venezuela has been facing lower commodity prices, suffered a foreign currency revenues cut, and has made use of their reserves.

A brief analysis, using the import coverage indicator and the reserves-to-external public debt ratio, tells us that the

present situation of the Venezuelan economy's external accounts has all the potential risk factors that, according to the International Monetary Fund (IMF), have preceded a balance of payments crisis in other countries.

International reserves are one of the most important tools when it comes to formulating any economic policy. Together with solid, credible policies, an adequate stock of reserves can help reduce the likelihood of a balance of payments crisis occurring, and maintain the stability of the financial system.

It is common for countries to build up reserves in order to strengthen confidence in their local currency, back the implementation of monetary policy, intervene in the foreign exchange market (to reduce its volatility), have available a margin of maneuver in the event of external shocks, and accumulate wealth to be used by future generations.

Over the past decade, Venezuela has carried out a policy that promotes the use of the international reserves to undertake social investments based on the opportunity cost of maintaining a high level of reserves. At the same time, up until 2013, policymakers took advantage of an upturn in gold prices to make use of the liquid reserves without total reserves posting a significant drop.

NOT EVERYTHING THAT GLITTERS IS GOLD

In November 2016, a report by the World Gold Council (WGC) stated that at the close of third quarter of 2016 (3Q2016), 65.1 percent of Venezuela's international reserves consisted of gold (consolidated figures). This put Venezuela seventh among countries with the highest proportion of their international monetary reserves in gold, as seen in Table 1, after the United States (75.6 percent) and Germany (70.1 percent), among others. In absolute terms, Venezuela had 188.9 tons of gold in its international reserves (a 47.7 percent drop compared to 3Q2015 figures), ranking it 26th among the countries with the highest monetary reserves in gold in the world and first in Latin America.

While having one of the largest reserves of gold in the world could look like a positive sign, that is not always the case. Taking into account the level of total reserves, Venezuela dropped to 62nd in the world at the close of 2016. Its ranking gets worse when the liquid reserves are taken into account, dropping the country to 77th in the world and close to last in Latin America (see Figure 1). Not only is Venezuela among the countries in Latin America

While having one of the largest reserves of gold in the world could look like a positive sign, that is not always the case.

with the fewest reserves (economies such as Peru and Uruguay have smaller economies than Venezuela, but have more reserves), it is part of a group of countries in the world that, affected by lower commodity prices, have had their foreign currency revenues cut and are having to use their reserves. That is why, in 2016, reserves posted a drop of 32.2 percent in value. This trend is expected to continue in 2017.

TELL ME WHICH COUNTRY YOU ARE AND I'LL TELL YOU WHAT RESERVES YOU NEED

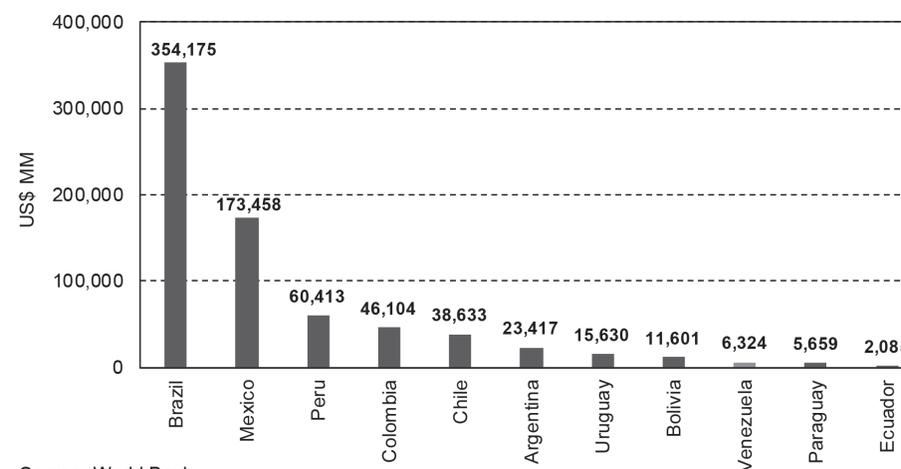
The Venezuelan economy is not diversified (97 percent of exports and foreign currency revenues is linked to oil) and highly dependent on imports (30.4 percent of aggregate demand is covered by imports). When an exchange control regime with an overvalued official exchange rate (VEF/US \$10.00) for the majority of imports is maintained, and macroeconomic imbalances that encourage capital flight persist, it is necessary to have a size-

Table 1: Countries with Higher Proportions of Gold in Their Internal Reserves (September 2016)

	Proportion (%)	Stocks (tons)
Tajikistan	82.7	14
United States	75.6	8,133
Germany	70.1	3,378
Italy	69.1	2,452
France	65.4	2,436
Cyprus	65.3	14
Venezuela	65.1	189
Netherlands	64.5	612
Greece	62.9	113
Portugal	62.4	383

Source: WGC

Figure 1: Operational Reserves for Latin American Countries (2016)



Source: World Bank

able cushion of foreign currency available. And that applies equally in times when oil prices are high.

The adequate level of reserves depends, then, on the specific needs and characteristics of each economy. According to the criteria of the IMF, Venezuela can be classified as a limited market access economy due to the low level of its issues in the past three years, the low rating of its debt, and its limited capacity for obtaining loans on the international market.

WHAT IS THE OPTIMAL LEVEL?

Maintaining an optimal level of reserves allows an economy to maintain a precautionary fund to reduce vulnerability to external shocks and abrupt movements of capital. In modern economic literature, considerable efforts have been made to identify the adequate level of reserves for economies with less mature markets.

Traditional balance of payment models have been widely cited and have the advantage of being relatively intuitive, simple, and transparent (although at the same time partial and limited in scope). In addition to the traditional models, there is also the import coverage indicator and the reserves-to-external public debt ratio.

WE ARE NOT COVERED

The coverage indicator (total reserves-to-imports) tries to show the sustainability of imports over the long term in the event of external shocks that would lead to a reduction in foreign currency revenues. For a port economy such as Venezuela's, the coverage indicator is extremely important. It posted a maximum of 21.6 months of imports in Quarter 1 in 2004, but today it is way below that value.

According to data from the Banco Central de Venezuela (BCV), the coverage indicator showed 5.8 months of imports in Quarter 4 in 2015, and, according to our

estimates, thanks to a significant cut in imports, it was at 7.3 months of imports in 2016 (see Figure 2), an increase of 27.1 percent compared to 2015.

There is no agreement in the literature, or among economists, with regard to what would be the optimal level of the coverage indicator; based on studies for economies with fixed exchange rates and large fiscal deficits like Venezuela's, it should be between nine and twelve months of imports.

THERE'S A REASON WHY THEY'RE TALKING ABOUT DEFAULT

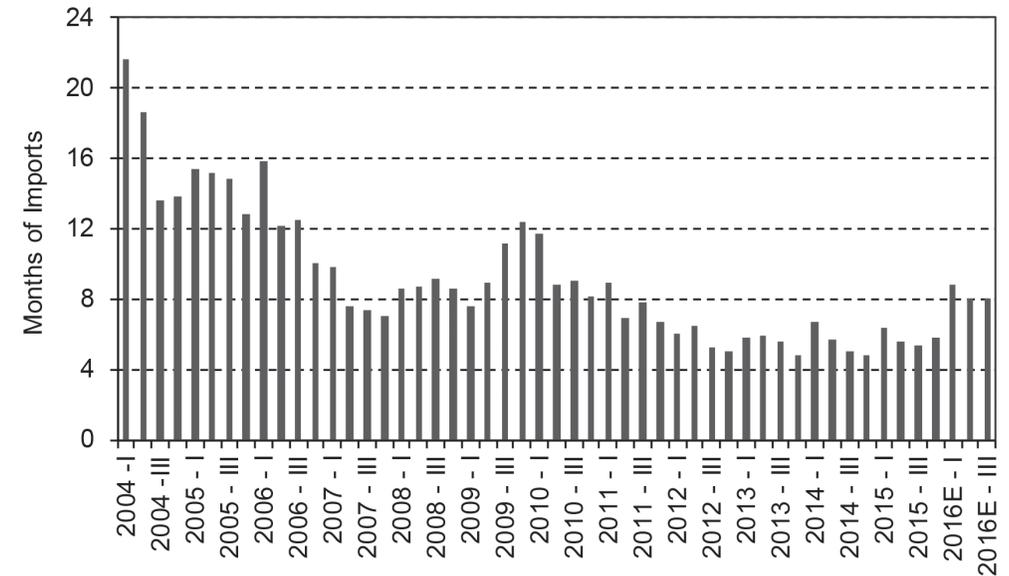
Another indicator that is widely used to estimate the optimal level of international reserves is the proportion of short-term debt that can be repaid from the reserves. This has been widely used as a crisis risk indicator for countries with restricted access to external financing. This metric is particularly relevant for a country that has to honor heavy financial liabilities in the short term and performs a key role in any evaluation of reserves adequacy.

The Greenspan-Guidotti rule is the most widely accepted and used standard for emerging markets, and proposes that a country's reserves should be at least equal to its short-term external debt (maturity of one year or less), which implies a coverage of 100 percent. As can be seen in Figure 3, this ratio has been deteriorating significantly since 2013. In 2016, the coverage was 66.7 percent and this ratio is expected to continue deteriorating to 106.3 percent in 2017.

COMBINING METRICS

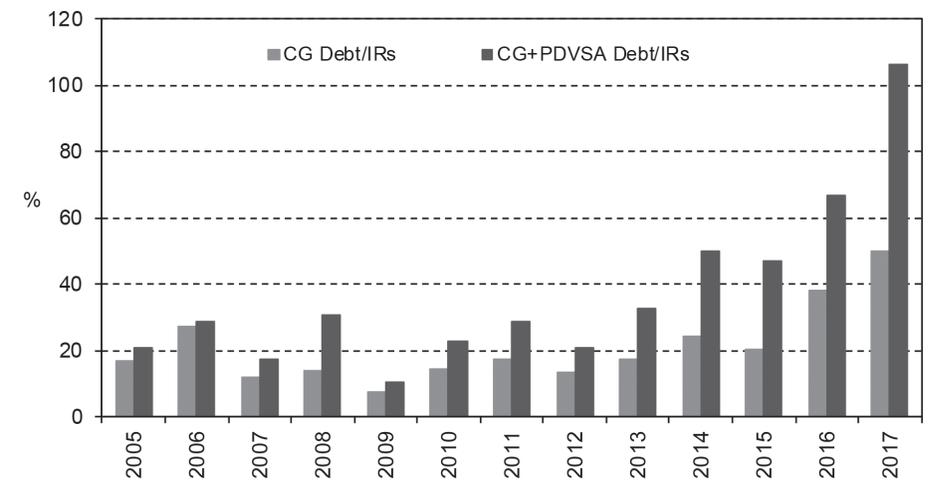
Academic efforts have been made to find indicators that make it possible to measure the adequate level of reserves as accurately as possible, which have resulted in new methodologies such as optimal re-

Figure 2: Venezuela's Coverage Indicator (2004-2016)



Source: BCV

Figure 3: Venezuela's Short-term Debt (% of Total Reserves)



Sources: BCV, MEFBP and PDVSA

serve models developed to integrate cost and benefit considerations. That was how the expanded Greenspan-Guidotti rule was created, which consists of determining what proportion of short-term debt and current account deficit (which should also be covered in episodes of external shocks) can be financed with the international reserves. The intention of this indicator is to reflect the full potential need for 12 months of financing (see Figure 4). According to the Venezuelan consultancy firm Ecoanalítica, current account forecasts, and applying the Greenspan-Guidotti rule, we estimate that Venezuela will need to have available some \$13,244 million in international reserves in order to meet the financing needs of the deficit on the current account and the short-term debt in 2017.

THE RISKS ARE LATENT

Other methods—such as the estimation of a Reserve Adequacy for Emerging Markets (ARA EM) metric—for determining the optimum level of reserves have resulted from experiences of past balance of payments (BP) crises (in Russia and Brazil, for example) where there was pressure on the balance of payments from multiple sources, which suggests the need for a metric that encompasses a broad set of risks.

It is for that reason that the IMF suggests taking into account four components that reflect potential sources of risk for the balance of payments: 1) factors that

could affect export revenues; 2) metrics that determine potential capital flight; 3) redemption of short-term debt; and 4) other liabilities that have to be paid.

An analysis, even a brief one, of all of these components tells us that the present situation of the Venezuelan economy's external accounts has all the potential risk factors that, according to the IMF, have preceded a balance of payments crisis in other countries.

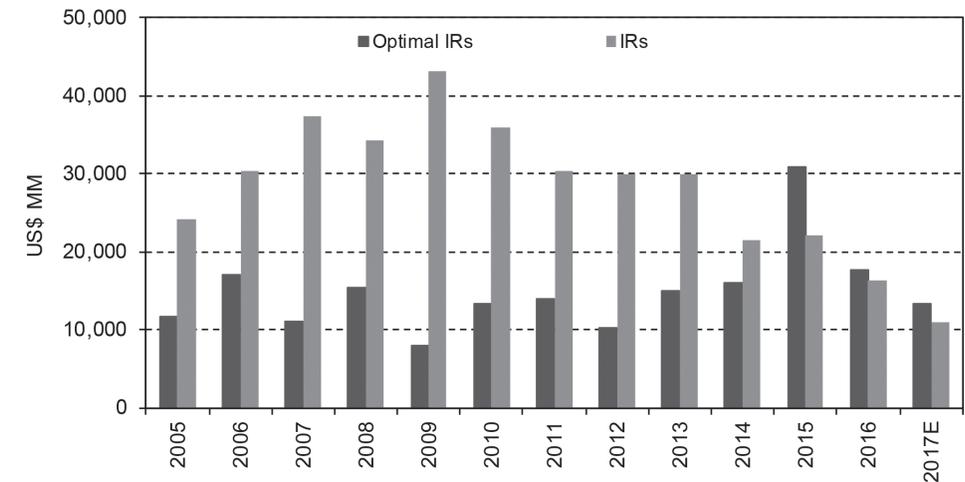
MORE RESERVES ARE NOT THE SOLUTION TO EVERYTHING

It is obvious that any increase in the level of the international reserves will help to improve the indicators, which are important warning signs with regard to the sustainability of the balance of payments. However, it should be noted that it is not enough to have more reserves available and that achieving an adequate level of reserves does not guarantee coverage in the event of future shocks.

We share the IMF's position that it is necessary to consider that Venezuela's reserves needs could change in the next decade and that it would take time for the stock of external assets to adapt to the new requirements. For that reason, it is necessary to have alternative mechanisms in addition to the accumulation of assets in order to cope with external shocks. The most viable option: having available lines of credit granted by international financial institutions.

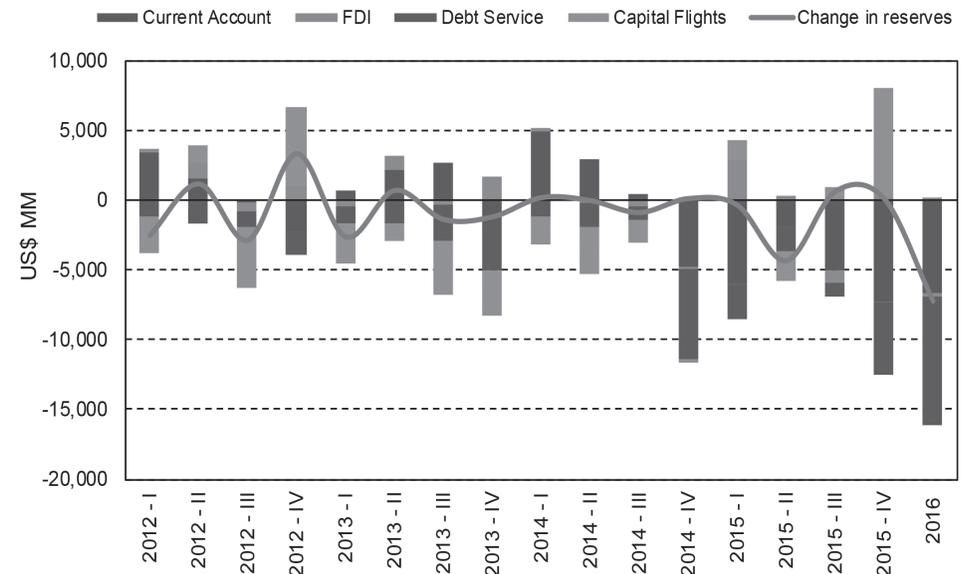
An analysis, even a brief one, of all of these components tells us that the present situation of the Venezuelan economy's external accounts has all the potential risk factors that, according to the IMF, have preceded a balance of payments crisis in other countries.

Figure 4: Expanded Greenspan-Guidotti Rule for Venezuela



Sources: BCV, MEFBP and PDVSA

Figure 5: Venezuela's Determinants of Changes in International Reserves



We consider that, even though the Venezuelan government has demonized multilateral financing—this generally goes hand in hand with implementing economic adjustment measures that have a considerable negative social impact in the short term—due to the fact that the government should implement adjustments on the monetary, fiscal, and foreign exchange fronts. While this would probably be recommended by any international lender, it would be best to count on financing that will be cheaper than the conditions currently being offered by the debt market.

Last of all, while accumulating reserves in a situation where oil prices are plummeting is practically impossible, we will probably continue to see reserves below their optimal level. The government could take advantage of this complicated moment to implement a series of policies that would allow Venezuela to mitigate the risks posed by external shocks in the medium term, thus reducing the need to accumulate a large amount of reserves, and avoid finding itself in such a complicated situation as the one Venezuela is currently facing.

Local Participation and Mining Conflicts: The Policy Implications of the Recent Case Law of the Colombian Constitutional Court

By Beatriz Botero Arcila



Beatriz Botero Arcila is an SJD candidate at Harvard Law School. Her research focuses on the interaction between the legal architecture of local government law and economic development.

ABSTRACT

In 2016, the Colombian Constitutional Court gave local governments the power to veto mining projects in their territory. This paper presents the background of these decisions and discusses the policy implications. It argues that the present situation calls for a much-needed legal reform, one that includes spaces of inclusive and real participation for local governments in mining policy, protects the country from international arbitration investment lawsuits, and guarantees the sustainability of development projects.

I. INTRODUCTION

Mining conflicts are widespread among Latin American countries, and Colombia is no exception. The rise in mining conflicts is related to the expansion of the metal mining frontier in the last two decades, and to the high social and environmental impact of mining activities. The places where mining reserves are located overlap with environmentally and socially sensitive areas, such as water resources, peasants' lands, or indigenous peoples' sacred territories. This creates social unrest and unleashes protests, legal actions against the projects, and sometimes even violence. According to OCMAL, the observatory for mining conflicts in Latin America, there are over 200 mining conflicts in the region right now; at least 14 of those are in Colombia.

This article examines the policy implications of the recent jurisprudence of the Colombian Constitutional Court regarding the right of local governments to participate in the decisions on the extraction

of natural resources in their territories, which arose in the context of mining conflicts in the country. After a series of decisions between 2014 and 2016, the court effectively changed the balance of power in the decision-making process regarding the authorization of mining activities in a given territory: where mining was an exclusive competence of the central government, the court has now stated that local governments have an effective veto power. This paper argues that adapting to this new jurisprudence calls for a broad reform in the national mining policy. Mining policy should be more inclusive and democratic, and it should also protect the country from international arbitration investment lawsuits and guarantee investors' rights. This may diminish the overall quantity of mining activities, but it may make the whole industry more sustainable as well. The hope is that the whole region can draw valuable lessons from this process.

II. MINING POLICY: CONSTITUTIONAL AND LEGAL FRAMEWORK

Mining activities increased significantly in Colombia—as in most of Latin American countries—over the past 50 years. Overall in the region, mining activity jumped from 2.4 billion tons in 1970 to 8.3 billion tons in 2009. In Colombia, there was an increase by 6 percentage points of the gross domestic product (GDP), moving from 2 percent of the GDP in 1970 to 8 percent in 2013, which is higher than both the agricultural and industrial sectors' shares. In 2012, mining represented 21.3 percent of the Colombian total exports and 2.3 percent of the nation's income. By 2013, 9,400 mining titles had been granted, covering 5.6 million hectares. Of these titles, only 3,760 had started exploration activities and they alone stood for 2.1 percent of the national territory.

Mining policy should be more inclusive and democratic, and it should also protect the country from international arbitration investment lawsuits and guarantee investors' rights.

Additionally, it was estimated that there were around 19,000 requests for a mining title at the time, covering over one third of the overall continental national territory. This expansion of mining activities was facilitated by a legal framework that provides for a special status for the extraction of natural resources. According to the Colombian Constitution, “the State is the owner of the subsoil and of the natural and nonrenewable resources,” and it is also in charge of planning their exploitation.

As mining titles vastly proliferated, a centrally-planned mining policy conflicted with local communities' interests, who saw mining activities as a threat to their way of life, to their traditional agricultural and social activities, and to the environment. This was aggravated by the fact that the Colombian mining policy has little real space for local participation, just like in many other Latin American countries.

In Colombian mining policy, an investor must complete two main stages to obtain the right to explore a mining site, neither of which significantly involves local governments. In the first one, an interested party requests a concession in a given area for a given mineral to the National Mining Agency. If the requested polygon is not in a protected area—such as a national park or a city—some formal

requirements are met, such as attaching an Environmental Protection Plan drafted according to guidelines by the environmental authority. If indigenous communities are not present in the area and the requested polygon has not already been granted to another person, the mining title is granted to the interested party.

The second stage is obtaining an environmental license. At this stage, the concessionary must pay for a caution and provide an Environmental Impact Assessment (EIA) and an environmental management plan. These are evaluated by central agencies and if all of the formal requirements are met, the license must be granted within 5 months—a short period of time to assess them properly. This stage includes an audience open to the public where interested parties can participate, but since it is only a procedural step, local authorities feel that their input is not really taken into account. As reported, the only reason why a title is denied is because the title is located in a protected area.

III. WHY IS PARTICIPATION IMPORTANT IN ENVIRONMENTAL DECISION MAKING? THE COLOMBIAN CASE

Contrary to the Colombian legal framework for mining policy, the literature on development projects and international law broadly addresses the importance of public participation in environmental decision making. It highlights the importance for sound environmental decision making because it includes local knowledge, which increases the probability of adding environmental and social values to the policy-making process. This feature improves environmental quality for the people who are generally affected by environmental policy decisions, but it also soothes opposition to the projects, which benefits the investors as well. Accordingly, documents of international law on sus-

tainable development address the importance of the participation of cooperation of local authorities because they

construct, operate and maintain economic, social and environmental infrastructure, oversee planning processes, establish local environmental policies and regulations, and assist in implementing national and sub-national environmental policies. As the level of governance closest to the people, they play a vital role in educating, mobilizing and responding to the public to promote sustainable development.

Local governments in Colombia argued against mining policy in their territories because they were not included in mining policy planning. They attempted to challenge the national mining policy by strategically using their local powers to regulate the uses of the land in their territories and the protection of water basins. Indeed, even though the Colombian constitutional framework leaves little doubt about the central government's power to plan the extraction of natural resources, it also gives local governments “autonomy for the management of their interests,” to arrange for the development of their territory, and to regulate the uses of their land. The law also states that local governments must take measures to provide for the environmental and public health of their territories, and the constitution itself maintains that citizens have a right to a healthy environment and to participate in the decisions that affect the environment.

Local legal opposition to the extractive industry focused on arguing that even though local governments had no jurisdiction over the subsoil, they did have jurisdiction over the soil. They attempted to exclude mining via direct challenges to mining legislation, via their local territorial plans, and calling for local referendums—named public consultations—in

which the citizens of a given locality were asked to vote for or against the execution of mining projects that could pollute their water basins and soils. As there is still no way to access the subsoil without affecting the soil, the argument went, local governments were competent to intervene in the decision-making process to determine whether mining would be done in their territory by regulating the use of their water and land.

IV. WHAT THE CONSTITUTIONAL COURT SAID

In this context, the Constitutional Court issued two key decisions in 2014 and 2016. In the C-123 sentence in 2014, the court examined the constitutionality of a provision of the Mining Code, which explicitly prevented regional, sectional, or local authorities from excluding zones from mining activities in their territory beyond those that—like natural parks—are excluded by law from being potential mining sights. In this first decision, the court argued that the provision was not unconstitutional as long as it didn't constitute an absolute ban. The court declared that the provision was constitutional under

the understanding that during the process by which activities of mining exploration and exploitation activities are authorized, the relevant competent national authorities must agree with the corresponding local authorities, on the measures required to protect the environment,

specially, the river basins, on ensuring the economic, social and cultural development of its communities, and protecting the public health of the populations.

This started a new debate, in which the question was whether or not this “effective participation” entailed a veto power for local governments. This question was answered in 2016. In decision T-445, the court revised a case in which a lower tribunal had denied the local government of Pijao, a small agricultural town, the possibility of excluding mining from its territory through local referendum, after over 20 titles had been granted in its territory without any kind of consent by the local government. The court said that even though this particular referendum was unconstitutional because of the way it was phrased, such a procedure to exclude mining from a local government's territory was indeed possible. The decision relied on the earlier C-123 decision of 2014 and on the argument, raised by the local government, that since mining activities affected key issues, which were the competence of local governments, the decision had to be taken with their consent.

V. FINAL REMARKS

Two main difficult issues arose after these two decisions. First, royalties obtained from mining activities in Colombia are redistributed to municipalities all over the country to fund broad public services. Granting localities that have other

sources of economic development—like agriculture—the power to block profitable mining projects will potentially harm the overall national capacity of effectively providing public services. Second, referendums that successfully block large-scale mining projects once the titles have been granted may end up in international investment arbitration procedures against Colombia.

Despite these shortcomings, it is worth noting that the attempt of communities and localities to exclude mining from their territories is not unjustified. These communities are resisting a policy that they find invasive, damaging, threatening to the environment, and that is being planned without their consent. The situation is paradoxical: even though mining activities are development-enhancing activities that attract foreign investment, they often disrupt local socioeconomic, public health, and environmental needs. They are essentially disrupting the life of the same communities that the development strategy is supposed to help.

This situation calls for a significant reform in Colombian mining policy. Local participation and engagement are important and it is in everyone's best interests to make local concerns and suggestions part of the policy-making process. Doing so ensures the consideration of valid and up-to-date environmental and social concerns. Not including local participation may harm the country's development policy overall, as social unrest also discourages and prejudices private investment. As it stands today, local participation can only take place once mining titles are granted, and the situation is still unsuitable given the threat of international arbitration lawsuits after the property rights of developers have been secured.

Participation should take place at earlier planning stages, when the relevant authorities are defining the authorized location for mining activities. Commu-

nities should be engaged early on, so that approved investment projects are planned in such a way that they contribute to local development, so that projects have a stronger safeguard vis-à-vis local opposition, and so that the national government—by not violating any of the local government's rights—can be protected from engaging in investment disputes, thereby benefiting all of the stakeholders involved. This requires an urgent and substantive legal reform, one that should have been done a long time ago.

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