



## **Rapporteur's Report**

# **II Workshop on public policy instruments based on behavioural economy**

**Social Development**

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# **C O N T E N T S**

<b>I.</b>	<b>GENERAL INFORMATION</b>	<b>1</b>
<b>II.</b>	<b>DEVELOPMENT OF THE WORKSHOP</b>	<b>2</b>
	<b>Session I. Introduction to Behavioural Economics</b>	<b>2</b>
	<b>Session II. Case studies</b>	<b>4</b>
	<b>Session III. Interaction with experts</b>	<b>6</b>



## I. GENERAL INFORMATION

1. The [II Workshop on public policy instruments based on behavioural economics](#), organized by the Permanent Secretariat of the Latin American and Caribbean Economic System (SELA) and the Inter-American Development Bank (IDB), through the Behavioural Economics Group, was held virtually on 10, 11 and 16 August 2022. This training activity corresponds to Project B: Capacity building for the regional public sector, Programme 1, Social Development Area, of SELA's *Work Programme for 2022-2026*.
2. The objectives of the workshop were as follows: i) disseminate the concepts and instruments necessary to carry out better public policies in the region, focused on the fight against corruption; ii) show successful cases of the implementation of policies based on behavioural economics; and iii) carry out a practical exercise to address case studies involving the design of a public policy based on this tool.
3. The workshop's theoretical session on 10 August was attended by 77 representatives of the public, private and academic sectors from 13 countries in the region: Argentina, Bolivia, Chile, Colombia, Dominican Republic, Ecuador, Guatemala, Mexico, Nicaragua, Panama, Peru, Uruguay and Venezuela. It was also attended by participants from the United States. It should be noted that this was an open session.
4. In the practical sessions, held on 11 and 16 August, the participants were selected due to the limited number of places available, in order to ensure that the sessions were carried out in a participatory, dynamic and satisfactory manner. These sessions were attended by 26 and 20 participants, respectively, from Bolivia, Colombia, Dominican Republic, Ecuador, Guatemala, Mexico, Nicaragua, Panama, Paraguay, Peru and Venezuela.
5. The trainers were Nicolás Ajzenman, Assistant Professor at the Sao Paulo School of Economics-FGV and affiliated researcher at the Institute of Labor Economics IZA; Deborah Martínez, Senior Research Associate in Behavioural Economics at the IDB Research Department; Lina Díaz, Behavioural Economics Consultant at the IDB Country Department of the Andean Group (CAN/IDB); and Indhira Ramírez, Behavioral Economics Research Fellow at the IDB Research Department.
6. The opening remarks were delivered by the Coordinator of Economic Recovery of SELA, Mr. José Miguel Rovira, on behalf of the Permanent Secretary, Ambassador Clarems Endara, and Mr. Carlos Scartascini, Leader of the Behavioural Economics Group and Head of the Development Research Group at the Inter-American Development Bank (IDB).
7. Mr. Miguel Rovira then stated that behavioural science has proven to be very useful in the design of clear and effective public policies, as it incorporates the notion that we are irrational agents into traditional approaches, by considering the cognitive limitations that exist in the decision-making process. He added that the recognition of cognitive biases can help detect systematic errors in public decision-making, which opens up a range of possibilities for policy-makers as well as researchers. He also indicated that the application of behavioural economics can lead to inexpensive and painless ways of encouraging citizens towards new ways of acting and thinking.

## 2

He then pointed out that, according to the World Bank, in the future behavioural information units will benefit from artificial intelligence, machine learning and virtual reality in the same way as they have benefited from advances in open data and e-government. Finally, he expressed SELA's willingness to continue working with the greatest enthusiasm in these enriching and necessary experiences for the region.

8. Mr. Carlos Scartascini noted that this course would present the advances in behavioural economics so that participants would have an approach to this topic through interaction with the different trainers of the workshop. He stressed the importance of the practical sessions, which would allow participants to take time to think and identify their uses in their projects and lives.
9. He expressed the relevance of this type of training carried out with SELA and recalled that the IDB's Behavioural Economics Group makes available to the general public a free online course, which he said would be a good complement, giving them more capacity to understand behavioural economics and more tools to apply it on a day-to-day basis. He also offered a link to a document recently published by the IDB, entitled *Pequeños Empujones para América Latina y el Caribe* (Small Nudges for Latin America and the Caribbean), which explains some 40 projects developed with governments in the region, in which behavioural economics tools were applied to improve public policies. Finally, he expressed his gratitude to SELA for organizing the workshop and to the participants for their attendance.

## II. DEVELOPMENT OF THE WORKSHOP

**Wednesday, 10 August 2022**

### Session I. Introduction to Behavioural Economics

10. The training was given by Prof. Nicolás Ajzenman, whose presentation aimed to explain the conceptual foundations of behavioural economics (BE) and its application in public policy, to present corruption from a behavioural approach and to answer the following questions: i) what is behavioural economics? ii) how does it differ from the standard economic model? iii) what is its importance in the implementation of public policies? iv) what tools are used in behavioural economics? and v) do corrupt governments generate dishonest citizens?
11. His presentation focused on highlighting that sometimes we are not rational beings, which he proved with his various practical examples, and that such behaviour makes us detach ourselves from the classical theory of economics and behavioural economics to emerge. He showed the difference between *Homo Economicus* and *Homo Sapiens*, and how our preferences, thoughts, beliefs and environment alter our decisions. In this sense, he said that understanding how people make decisions facilitates the implementation of better and more effective policies.

12. In his presentation, Prof. Ajzenman explained the following ideas and concepts, on which he made some reflections:
  - a) Although people are not 100% rational when making decisions, irrationality and deviations or errors can be predicted and included in the models we have of how people make decisions. Based on this certainty, public policies can be designed to incorporate the way people make decisions, which will make them more realistic and potentially more effective.
  - b) Irrational decision-making can be explained by the fact that thinking is difficult and energy-consuming. In this regard, sometimes people make fast decisions (fast thinking) by thinking less, automatically, unconsciously, effortlessly and with less energy demand, but subject to frequent errors or biases. Other times, people make slow decisions (slow thinking) in a controlled, reflective and conscious way that requires more energy and is less subject to errors.
  - c) Behavioural economics studies the most common cognitive biases in decision-making, i.e. systematic deviations from rational behaviour, and incorporates them into decision-making predictions. It also offers valuable principles for programmes to be designed around the actual psychology of individuals, thereby increasing the likelihood that their decisions will be in line with public policy goals, without limiting the choices available and without trying to change the nature of human behaviour, but rather by redefining the context of choices.
  - d) Common cognitive biases include present bias, endowment effect, limited attention, cognitive fatigue or overload, social norms, overconfidence, overoptimism and loss aversion. These biases were addressed through practical examples.
  - e) One of the most commonly used tools of behavioural economics is the nudge, which is a small intervention to modify behaviour and incorporate biases into public policy.
  - f) A nudge "is any aspect of the decision architecture that alters individual behaviour in a predictable way, but without prohibiting choices or affecting economic incentives." It does not represent a mandate and is not mandatory.
13. Regarding the relationship between corruption and behavioural economics, he stressed that it focuses on the cost-benefit calculus. People rationalise or balance the risk associated with the likelihood of being caught and being socially and legally condemned, and the economic, personal or political benefit of the dishonest practice undertaken.
14. Understanding why some people are corrupt and others are not makes it possible to think of some kind of intervention that positively influences behaviour contrary to the decision that leads to the commission of this crime, for which personal values and norms are relevant elements at the time of decision-making. People learn what is right or wrong by observing what others and their leaders do (social norms bias).
15. Corruption breeds more corruption, given the perception of norms and their day-to-day transmission. Corruption of leaders and public cases of corruption (perceived as norms of dishonesty) incentivise the phenomenon in the rest of the population.

## 4

**Thursday, 11 August 2022**

### **Session II. Case studies**

16. The objective of this session was to introduce the implementation of public policies based on behavioural economics. To that end, Deborah Martínez provided examples of the use of behavioural economics in public policies, showed successful cases of its application in the region and explained how behavioural economics tools are used to improve public management.
17. She recalled that "behavioural economics uses insights from the fields of psychology, economics and observations of people's actual behaviour to improve the design of public policies, systems, products, services and communications."
18. Among others, the trainer referred to the following aspects associated with behavioural economics in terms of the design and implementation of public policies:
  - a) Environment or context can play a major role in decision-making, even more so than personality, values and reasoning. In fact, biases are accentuated by context and result in behaviour.
  - b) Context includes: social context, urgency and time, physical environment, state of mind, scarcity of resources, and presentation of things.
  - c) The intention-action gap refers to the intention that, at a given moment, an individual has to do something, but does not do it, such as wanting to work out. Thus, by not acting in accordance with the intention, the so-called intention-action gap is generated, i.e. the space that occurs when an individual's (personal and cultural) values or attitudes do not correlate with his or her actions. Understanding and overcoming this gap is very relevant in the context of behavioural economics, because those people who are in the gap are the most likely to be susceptible to receive nudges to engage in desired behaviour or conduct.
  - d) She recalled that the most common behavioral biases include: status quo, cognitive overload, social norms, overconfidence, optimism bias, loss aversion, availability and representativeness heuristics, discomfort factors and present bias.
  - e) She referred to the definition of nudge given by Mr. Ajzenman in the previous session and added that in order to count as a nudge, the intervention must be cheap and easy.
  - f) Some behavioural tools to build nudges in interventions include: i) social norms (what is expected from people); ii) message salience; iii) default options, which are easier to follow and do not require an effort to decide otherwise; iv) commitment mechanisms; v) reminders; and vi) planning tools, which are based on the fact that a person is more likely to do something when a plan is made for it

19. She highlighted that, in the last decade, the IDB has incorporated insights from behavioral economics for the construction of projects, dialogue with countries and the design of public policies in Latin America and the Caribbean. Cases that are collected in the publication *Pequeños Empujones para América Latina y el Caribe*.
20. Among the problems that the IDB has helped counteract in LAC, using behavioral science, are the following: i) more women getting mammograms; ii) citizens saving water; iii) more children receiving vaccinations; iv) people saving for retirement; v) more men getting colonoscopies; vi) more children finishing school; and vi) people paying taxes.
21. The work methodology developed by the IDB is structured as follows: i) Definition (understanding the context and defining the problem and the behavior to be changed); ii) Diagnosis (mapping behavioral barriers, recognizing the context and selecting the barriers to be addressed); iii) Design (identifying potential solutions, designing treatments and defining evaluation strategies: indicators and methodology); and iv) Evaluation (carrying out pilots, evaluating results and, if applicable, scaling up).
22. She raised some public policy challenges that have been addressed, such as: i) extreme poverty among older adults is very high; ii) doctors prescribe drugs that are not evidence-based; and iii) HPV vaccination rates are below target levels. In this regard, he showed the case of the HPV vaccination process in Colombia, highlighting the target population and the behaviour to be changed. Based on this, she used the methodology developed by the IDB to address this problem.
23. Next, trainer Indhira Ramírez showed how the methodology can be applied to reduce corruption in contracting public services, using the case study of the School Feeding Program (PAE) in Colombia.
24. At the end of the session, participants were sent a survey and support material to complete a task, which consisted of identifying a problem and the behavior to be changed and using the methodology for the design of a public policy through behavioural economics.

## **Tuesday, 16 August 2022**

### **Session III. Interaction with experts**

25. In line with the previous session, the objective of the third session was to introduce the implementation of public policies based on behavioral economics. On this occasion, the trainers were Deborah Martínez, Lina Díaz and Indhira Ramírez.
26. The session was developed through the resolution of practical exercises carried out by the participants in working groups, who had the opportunity to apply the tools of behavioral economics in a given case study. It was also a space for participants to show and complement their assignments or projects.

**6**

- a) The first group, led by Deborah Martínez, focused on fiscal issues. The behavioral problem selected was "high delinquency in the payment of water bills among low-income users." The challenge was to reduce the percentage of users with overdue bills. To that end, the designs selected focused on sending personalized invoices (collection notices), including comparisons with those neighbors who comply with their payments; sending reminders and personalized messages.
  - b) The second group focused on the area of transparency and corruption, and was guided by Indhira Ramírez. The behavioural problem identified was the fact that "public servants do not report acts of corruption." The challenge was to ensure that officials could make their complaints securely and anonymously. The selected designs were grouped as follows: i) creation of mechanisms for making anonymous complaints; ii) campaigns to disseminate information on these mechanisms and their benefits; iii) publication of statistics on the number of complaints handled; and iv) design of ways to follow up on complaints while maintaining anonymity.
  - c) The third group worked on the issue of citizen participation under the leadership of Lina Díaz. Its behavioural problem was "Low attendance at participatory budget workshops" and the challenge was to increase the attendance of workers belonging to the organized civil society to the mentioned workshops. In order to achieve its objective, the selected designs focused on sending letters and mailings from the municipalities to the civil society groups, including signatures and official details about the contributions; dissemination of videos about the workshops; infographics explaining the agendas and the importance of participation. In addition, participation was also encouraged through the sending of membership forms and confirmation of attendance at the workshops.
27. To close the event, Mr. José Miguel Rovira, on behalf of the Permanent Secretary, Ambassador Clarems Endara, made a summary of the different days of the workshop and contributions, highlighting the importance of using the tools of behavioural economics to improve the design of public policies and the decision-making process of citizens. He concluded by thanking the trainers and the participation of the workshop attendees.
28. Mr. Carlos Scartascini noted that the IDB's Behavioral Economics Group seeks to improve decision making, recognizing that when faced with a problem there are different doors or paths that lead to different solutions; the challenge, he added, is to identify the door that leads to the fulfillment of objectives and the implementation of appropriate public policies. To that end, he pointed out the importance of spaces such as the one provided in the workshop to determine the door that leads to decisions that result in more appropriate public policies. He also answered some of the participants' questions. He concluded by thanking SELA and reiterated the willingness of the IDB's Behavioral Economics Group to continue carrying out joint activities.