World Bank Perspectives:

Fiduciary & Governance Issues in Latin America & The Caribbean

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The Latin America & Caribbean Context

- Significant diversity over 33 countries
  - Size (e.g. Brazil popn. 186 million, Jamaica popn. 2.7 million)
  - Legacy (e.g. Spain, Britain, Portugal, France)
  - Economy (2005 GDP: Brazil US$769 billion, Honduras US $8 billion)
  - Poverty (2001 Poverty Rates: DR 17%, Honduras 64%)

The governance context

- A colonial legacy of a few wealthy families leading to state capture by a few
- Legal systems originate in Napoleonic or Roman law under which codified, prescriptive and procedural formalities take precedence to efficiency
- Triggers for reform have often been scandals or social unrest leading to hasty reforms that merely serve to add more legislation and controls without addressing underlying substance

Why governance matters in the region

- Latin American countries have done well in the present decade: economies are healthier and less vulnerable, thanks to macroeconomic and policy reforms.
- But the region is not doing as well as expected, specially compared to other world regions.

Some stylized early reform stages

- 20s, 30s, 50s: basics imitating US and European welfare
- 60s, 70s: as the role of the state was enlarged "administrative reform" in support of planned development
- 80s: first generation of PSM reforms, the economy was stabilized, the state begun to regulate, but the expansion led to a fiscal crisis

Later stylized stages

- 90s: second generation of PFM reforms, following the OECD model a modernization approach was emphasized- “public administration” shifted to “public management”
- 2000s: behind the crisis of the state in the 80s, there was a crisis of political legitimacy, recognition that management reforms need to address governance problems of broader accountability and inclusiveness.

Nuts and bolts of recent reforms – (1) Public expenditure and financial mgt.

Budget rules:

- cash limits;
- strong rules for fiscal controls have enabled governments to move beyond cash-based fiscal control;
- large efforts, but very limited progress (except Chile), in performance budgeting.

Accounting:

- Relative success of integrated financial management systems to support budget-rule reforms (and move from cash-based controls);
- Little progress on accrual accounting.

Audit:

- Supreme audit institutions have not been particularly effective and are not a reform priority.

Nuts and bolts of recent reforms – (2) HRM

Institutional Arrangements:

- A merit-based regime has been a major reform objective, but has failed signally. Chile and Brazil are the main exceptions.
- A few countries have tried to introduce performance measures to the public service, with little success.
- But merit-based – sometimes performance-oriented – “islands” of reform have been established in various countries.

Nuts and bolts of reform – (3) Public sector restructuring

- Regulatory management
- Decentralization
- Organizational diversification
- Alternative forms of service delivery

Nuts and bolts of reform – (4) Demand-side Reforms

Open Government/Civil Society:

- Citizen voice is increasingly expressed through monitoring, legal activism, and consultation.
- Freedom-of-information legislation is under-developed.
- Ombudsman offices have become effective in protection human rights in some countries, and social entitlements in others.
- E-government is becoming important.

The outcome - limited gains

- The public administration remains weak and a significant obstacle to achieve other second-generation reforms.
- Reform progress has generally been slow and disappointing. There have been improvements in public-expenditure controls (more in aggregate spending controls than in than prioritization or efficiency) and in “islands” of organizational reform.

Some fiscal successes

- Aggregate Fiscal Discipline
  - Significant success with many countries (e.g. Brazil, now adopting fiscal responsibility laws
  - Side effect is that many countries (e.g. Colombia, Guatemala, Uruguay) have limited fiscal space, after debt service and social security costs, for public investment
  - Remaining incidence of off-budget items primarily related to defense or strategic SOEs (e.g. Chile, Argentina, Costa Rica, Paraguay)

But some significant challenges

- Strategic Allocation of Resources
  - Multi-year policy based frameworks are still not the norm
  - Revenue forecasting a particular area of weakness
- Efficient Service Delivery
  - Along with independent oversight the key governance challenge
  - Several contributory factors including:
    - Overlaps or gaps in fiscal decentralization arrangements
    - Civil service arrangements subject to significant political intervention with changes in administration
    - Weak budget execution **information systems**
    - Limited attention to program **performance evaluation**
    - **Inefficient procurement processes** e.g. lack of systemic cost-benefit analysis, domestic preference, inadequate protection for third party rights, resulting in inefficient use of finances

How has the World Bank been contributing?

- At the Country & Sector Level
  - Analytics: expenditure management issues, institutional and governance arrangements, public financial management and procurement arrangements
  - Long Term Capacity strengthening support: WB supports, through policy dialogue and technical or financial assistance all the areas discussed in presentation

World Bank contribution (2)

- Project Level
  - Analytics: reviews of proposed implementation, financial management, procurement and anti-fraud & corruption arrangements.
  - Short Term Risk Mitigation:
    - Enhanced fiduciary arrangements in project design
    - Enhanced oversight by the Bank during implementation
    - Project specific capacity strengthening support that is consistent with longer term strengthening programs underway

Important to see this in some context

- The OECD did not find it easy historically – and is finding it increasingly tough
  - OECD reforms are driven by cumulative expectations of the public service (due process, equity, responsiveness, performance).
  - OECD reforms show an increasing complexity in public-management arrangements - unintended consequences need to be managed.
  - Reforms have been more costly, less productive than hoped

Tentative conclusions

- Must be country driven – either by government or citizens
- Needs a strategic vision that has buy-in of all relevant stakeholders
- Needs to transform the function not merely to fix it – technological solutions, or changes in the law, do not work without an accompanying change in "tone at the top"; appropriate human resource capacity; and government leadership
- Timing is important – mid-way changes in administration impact direction and completion of the program
- Sequencing of reforms is critical – big-bang approaches are not always appropriate, incremental reforms are viable if they adhere to a detailed plan that is consistent with the overarching and long term objective.
- Much to learn from the OECD – but with much caution:
  - need to manage expectations about reform
  - need to carefully review – but skeptically filter lessons from other countries