

World Bank Perspectives:

Fiduciary & Governance Issues in Latin America & The Caribbean

Stefan Koeberle and Nick Manning

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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%)

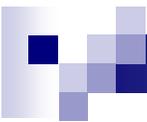




The governance context

- 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

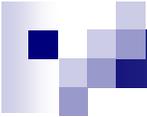




Why governance matters in the region

- 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.

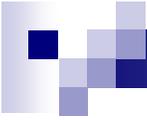




Some stylized early reform stages

- 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.



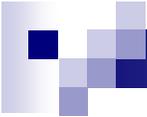
Nuts and bolts of recent reforms

– (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 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



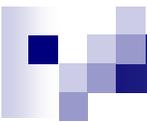


World Bank contribution (2)

■ 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

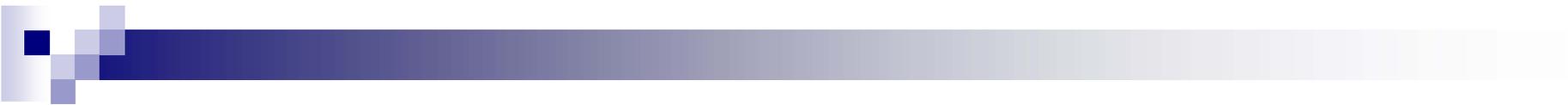




Important to see this in some context

- 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

