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TOWARD A MORE EFFECTIVE STATE  
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## P R O C E E D I N G S

MR. TALVI: Good afternoon. Thank you very much to all of you for coming today. I would like to thank you, Pablo, my good friend and colleague, Pablo Sanguinetti. He's the chief economist of the CAF, the Development Bank of Latin America. Not for Latin American, but it's fully owned by Latin American countries. We are very proud that (inaudible) Brookings Global Series, Economic and Social Policy Initiative. It's a pretty slow name, but here around we know it as ESPLI. We are pretty proud with the close collaboration that we have with CAF, and we are looking forward to maintaining it in the future.

I would like to thank our discussants, Mathew Taylor from American University and Jorge Luis from the World Bank for sharing with us your insights. And a very special thanks for Elaine Kamarck who is a very appreciated colleague here at Brookings and an extremely knowledgeable person with a lot of international experience. She was telling us about that right now in the, what you call government --

MS. KAMARCK: Innovation.

MR. TALVI: Innovation, exactly. Which is very closely related to what Pablo is going to present. In fact, if I were to have to summarize in one sentence or one expression what are we going to by talking about today, Pablo, I think that the devil is in the details. Because we can design very good policies on paper. In fact, I'm not very worried about the design aspect because, in fact, we have CAF, we have the IDB, we have the World Bank. They know a lot of government technology. They know a lot about best practice, so they can really help the country making a good design on paper.

But the best decision policy on paper, if you don't have the government agencies and institutions that are prepared to implement them then the possibility that they will fail, it is very large. Moreover, even if you implement them, if these policies are not, and Pablo's going to talk a lot about this, properly evaluated according to predetermined outcomes in order to have a feedback process by which you learn from your mistakes or from your success. If you don't have that feedback, even a well-designed policy that is implemented might fail simply because you are not actually evaluating it properly and creating the feedback of information that is necessary in a dynamic way to make the policy eventually successful. Because as these are not policies, complex things that do not necessarily generate instant success or you get it right in the first round. You need a lot of iterations in order to get it eventually right.

And one aspect that I think through experience, I mean, that evaluation is not only the fact that you need the capacity to be able to perform it. Sometimes it is the outcome driven kind of performance is very resistant. In education that is very obvious. Any initiative that would evaluate in an objective way, performance, is highly resisted by the establishment. So these are, even in cases where you are prepared to do it, sometimes the politics or the progress it gets in the mill to make it difficult to gain.

So I think what's important and what's not in building the capacity to design, to implement, and to evaluate, and how to get there is what we are going to be discussing today. Therefore, I mean, let us get ready for a very interesting discussion. Thank you very much. Pablo?

MR. SANGUINETTI: Thanks, Ernesto. Thanks, Julio, for arranging this and thanks to all the discussants. I'm really looking forward to be here, and you guys also to be here. For us it's very important to not only produce these documents, but also discuss these with people (inaudible) in the policy area. Coming to Brookings, for us, is always a pleasure.

So today we are talking about in more effective states capacities for the signing, implementing, and in writing private policies. As Ernesto was already saying, indeed, here we want to focus not only on the policy debate about what to do in the sense that if you want to build infrastructure it's better to do it just by the private sector or do it through a private/public collaboration of PPS. You open up your country, you have to, you know -- the level of (inaudible) into a level where you want to bring in foreign debt investment, what type of policy to do that. Beyond policy, there is an issue of designing the specific initiative, public initiatives, implementing them and learning about what you are doing, so to improve in the next round what you are doing. It is needed. We want to look at those capacities of countries that would love to do that. Okay?

What policies do you think of? That's why we are here. Let me start with a couple of stories. The first one is not from Latin America, it's from Asia. In the middle of the 90s there was a diagnosis about the quality of vocation in rural areas of India. The diagnosis was very awful in the sense that there was a huge difference on the quality on the test, on language, on mathematics that students were getting compared to urban areas within India. So the government, beginning in 2000, set up a very ambitious program in which they built new schools in those rural areas. They trained teachers for those

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new schools. They changed the (inaudible), so that much more closer to interest in this world area.

So they said, well, huge program. And for that it takes all the experience of the World Bank and all the best practice all over the world. They got a lot of money. They gave more money to the budget of the schools, etcetera, etcetera. Well, in the middle of the 2000s, let's say 2007, they went out to the field to evaluate the program. And even though they found that most children were at school, except the location increased, the schools were there, were built. They were new. Teachers were trained. When they go up to test the students to see how much higher was the learning prepared to the moment they previously went to schools the result was basically zero. Zero. No change whatsoever in what children learn in this new school's new plans.

Let me tell you a story about Latin American now, Colombia. At the beginning of 2000, Columbia set up a very ambitious program to learn computers for teaching language in high schools. So they purchased a lot of computers, like 40,000 computers that were distributed in 40,000 schools. Teachers were trained in terms of how to teach language with these computers. You know, the development of new programs, the computer program for that, etcetera, etcetera.

Again, in 2007/2009 there was an evaluation of that program and they found no result in the test scores of children in language. So here are two examples of some policies that, in principle, are well-designed with money, with resources that some part of the implementation was good, and still, you know, they don't get the expected results. So that's why we think about this issue of state capacity is too important. We want to know about what part of the design, the implementation, or maybe the leveling about what happened in those programs failed, so that they don't get the respective results.

We think that an effective state and here we started with the big concepts. You know, what is state capacity? What is an effective state? I mean, you know, you guys, many of you may be political scientists, you know, an economist, a narrow-minded economist, so you may say, you know, huge things, capacities about governance, about democracy, about civil liberties. So it's huge. Well, as economist we take a very narrow point of view. We will think about state capacity in terms of providing a state that is effective at providing public goods. Okay? It does it in an effective and efficient way. That's how we will define state capacity.

For that, what are the abilities that the state needs to do that efficiently and effectively

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provide public goods? Well, you may say that there are like 10/15 abilities. Well, we will summarize them in four issues. The first one is, of course, to have a high quality bureaucracy. Many public goods are very intensive in, you know, in workers, in public employees. Think about the location. You need a lot of teachers. Think about health. You need a lot of nurses, doctors, so you need a high quality bureaucracy.

Second, of course, you may have the best teacher, the best doctor, but the teacher needs pen, blackboard, well, no, that's old style, but doctor's need medicine, so you need inputs to provide those public goods. So assistant of public procurement is key. Third, civic engagement or citizen participation. You may say, but this is outside the public sector or in, you may say. Well, no, you will see. The idea is that you need the engagement of the people that receive those services. They could provide information. They could provide external control so that they give incentive to these public employees to this bureaucracy to perform.

Fourth, you want to have people engaging with the public suppliers of public good. You need to give this society good information, you know, so that when they approach other public services they approach them well-informed. So the policy discussion about why that policy failures are not have to be informed. So that way you need at the public sector you need this monitoring, evaluating, and learning system.

But you need those not only for, you know, somehow help the citizenship to control the public employees, but you need also with the public sector you need that these guys still -- you know, the bureaucracy use the information that is produced when you supply public goods. There are a lot of (inaudible) information that is very rich. Many times this information not's used to, you know, to monitor the firm, the evaluate the firm, and produce feedbacks. So these are the four elements of I would say, state capacity. Of course in the Q&A you may have ten more, so let's stop that there.

So I'm going to discuss a little bit about the four pillars of state capacity that I just mentioned. The first one about bureaucracy. So the message here is one element that could help you to have a good high-quality bureaucracy and incentive to attract the right people to the private sector and give them incentives once they are in the private sector is to have a waste contract that links these wages with career development, responsibilities, technical attributes, and effort.

So to have a high quality workers you need people that have, of course, the capacity that

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is required for the job. You know, you are working in terms of health you need doctors, nurses, etcetera. Second, you need people with integrity, honesty, okay? They manage public resources so this is key. Third, motivation. Here in the book we try to provide new evidence about this idea that public employees many have, like, we call pro-social motivation. Let's say altruistic ideas. You know, usually, you don't go to the public sector to become a millionaire. There are some few exceptions, okay? But usually you don't.

So this thing of motivation for the public is important. We measure that for public employees in Latin America. Of course, there are measures for all over the world. Why is motivation important? Because, for example, when you measure that this is positively correlated with, for example, the decide or the willingness to provide effort at work, for example. It's also positively correlated with less tolerance for corruption. So to identify people that have some kind of high level of public motivation by a process of motivation its many things.

Now, once you have the people with capacity, intelligence, motivation in the public sector you want to give them incentives to perform. So that's why, for us, we think this is important in the sign of a labor contract that does two things. First, attract the people with those features, and then once they are in the public sector give them incentives to perform, to work.

So now I will give you three features of the, let's say, which contract for public employees in Latin America that could not play this role. In the sense that could give the wrong incentives, okay? The first one, less wages. Let's compare wages between the public sector and formal private sector in Latin America. The first thing that we noticed is that on average public employees, for the same level of location, age, and gender, public employees in Latin American earn 20% higher than formal private employees. That's a lot.

Well, this is a feature that is not only in Latin America. All development countries are the same. Like, for example, in France, they earn 7% more, 7% not 20%, 7%. We can discuss this, why is this so in the Q&A. But one thing that maybe that could be a problem is that this differential goes down as employees have more level of vocation. So when a public sector employee has, say, 17 years of schooling. Let's say they complete university degree they could earn 6% less in the public sector compared to the private sector. So this could be a feature that could, you know, discourage highly

located people to go to the private sector.

The second fact that could also be a problem to attract the right people to the private sector. Let's think about now not the level of wage one time, let's talk about the wages along the career paths which is also important. So here, like, we are comparing two occupations. One is a (inaudible) which has a low demand in terms of human capital, and one occupation which high demand in terms of human capital, professional scientist. By comparing here, we are measuring here the differential in each occupation of the wage once you enter, and the wage when you have, let's say, 10 or 15 years' experience. So it's like we are looking at how much wage goes up with experience in each occupation.

So you see that for the low human capital demanding occupation, admittative support, it's three times higher. A person with 20 years' experience is almost three times higher than a person that just entered the job. There's no different between private sector and public sector. But for the high skilled job you see that there's a big difference between the private sector and the public sector. You can earn 5.5 times after 20 years of experience in the private sector compared to 4 times in the public sector.

So the idea is not only that for the high qualified people the level of wages could be low at one moment in time or better in the private sector is that the wages throughout your career path is much more flatter in the public sector compared to the private sector. And again, this could be a problem.

Not only that, if going up in the career path in the public sector depends less on what you do on your effort, as this evidence seems to suggest, this, again, could show again problems of people for choosing the private sector to work. Here we have this date they're coming for an hour survey that says that for a female (inaudible) does not increase my chance of promotion. Forty one percent say that in the public sector, and it's much less lower in the private sector, 30 percent. So going up on the ladder on wages and responsibilities the private sector is less meritocratic we say in the public sector compared to the private sector.

On the third issue that also could destroy incentives to work in the public sector is related with the fact that, in general, in the public sector we have less use of wages that are at least, in part, tied to performance. So this is around about 22 percent of the public sector compared to 30 percent in the private sector. We have to be very cautious about this point because there are good reasons to think that, you know, in the public sector pay by performance is less sprite. Because, of course, it's much more

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difficult to measure output in the public sector. Think about, you know, when you work in a foreign affair office in a country, you know, how to measure performance. I mean, the number of treaties that a country firms. Maybe some other occupation like teaching or health you can measure that. So there are good reasons to think about that, okay? To have this difference.

Anyway, all these features of the public sector wage contract in Latin America we see that generates a little bit of lower satisfaction with promotion and wages in public employees. Two out of ten are dissatisfied compared to one out of ten in the private sector. Okay? Why we care about the satisfaction, you know, when we wage and to promotion, etcetera because we found in our survey that this lower level of satisfaction is positively correlated with things associated with delivering effort at your job. For example, you are less willing to help others, you are less willing to stay until late, maybe it's not good. I don't know. Less willing to assume your responsibilities, but less willing to participate in training. This is important. Okay?

So so far I give you some basic features of the wage contract of the private sector in Latin America that could imply some distortions and could affect satisfaction with your job and, you know, they decide to make effort, etcetera. You may say this is nice, some descriptive information, but it's not that strong evidence in the sense of (inaudible), you know, we economists think about that all the time. Maybe it's a waste of time. But anyway, so for you guys that are scientific minded people we try to provide more strong evidence about this, running a couple of experiments using our subway. We did this subway, you know, 10,000. Actually we surveyed 10,000 families in Latin America with all these questions, and we just decided to run this information experiment.

So first off information, we divided the sample, you know, randomly into two. To one group we give this information, we tell the people that actually in their cities people with average level of vocation get a higher wage in the public sector compared to the private sector. But people that with higher vocation earns more in the private sector. Then we ask them, if you had to look for a job in the next six months. Where would you look for it? In the public sector or the private sector?

So the result of this kind of experiment, information explains, we get that the high performing employees, meaning with people with a high level of vocation are less attracted to work in the public sector. Interestingly, there are some heterogeneous result in terms of this motivation issue that I



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said at the beginning. For example, people with low levels of vocation, medium or low levels of vocation, and less motivated for private sector would to the public sector, so you don't want to have those guys. The only thing, you know, you are safe here only with the highly motivated people that are highly located. So they're highly located that are highly motivated they still will go to the private sector. So this is not so bad.

We ran a second experiment that I don't think I have time to go into the details, but in this second experiment with 6,000 families in six cities we divide the sample, again randomly, in two. To one group we give them now information about this fact that in the private sector it's not common to have your wage tied to some level of outcome performance. This is less common in the private sector. So then we ask the guys later in the survey, if you had to look for a job would you do it in the public or the private sector? We found that people that are high skilled people and those that are willing to provide higher effort are less willing to go to the public sector. So this, again, could be a problem.

Okay. Well, I don't have to go through this. I don't have time. Sorry, but I don't have time. Ten minutes, okay. So the idea is to have a high quality bureaucracy we have to look at wage contract, good design of wage contract that has to do two things. First, attract the people with the right features, and the right features are not only vocation, but also motivation, you know, and be willing to accept effort. Second, to do that, you have to make a lot of effort on recruiting things. Maybe when you do recruiting you, again, you don't know how they look for the level of vocation or your experience in the job, but you measure, for example, the thing of motivation.

But, of course, the third thing to do it is training, provide training. As I said to you before, people with certain features will take much more opportunity of this training thing, so that's why it's important who you look for. Okay?

Let me go now to the second ability or capacity that we should think is important to efficiently and effectively provide public goods. This is related with public procurement. Here the message is more competition and transparency to buy better. So you know that for the public sector to be a machinery that work you need, of course, input, not only good people. But, of course, the private sector is a very important buyer of many things in many countries. So the idea that you manage public money to buy things that are important it could give, you know, room for waste or even worse, corruption.

So, of course, this procurement system has to have some kind of counter mechanism embedded. So all of this is important. In the chapter we provide evidence about how out letting these mechanisms had helped to reduce prices to avoid direct (inaudible) of the state with private entities, etcetera. But you have to (inaudible) excess of content. I mean, you are totally crazy about, you know, corruption, and you, of course, you want to avoid that. You put a lot of count, a lot of rule, etcetera. That could be a problem too because, you know, police could get scared about being, you know, prosecuted, being judiciary, etcetera for things that maybe are not their fault. You know? Of course in Latin American nowadays we have a little bit established of that. A lot of politician, I will say, which is caught. Which is okay, so this was not a thing to say.

Okay. Anyway, buy you know you may have no corruption. That's good. But maybe you may have no public goods because no one wants to sign anything. You know? So how to avoid this kind of trade off that excessive control is okay, but too much of that could make privatization of public goods, you know, take a lot of time, etcetera. We think that introducing competition and transparency is the way to issue that kind of difficult balance. Okay? Why? Because this thing of a competition and transparency could give you external control that could complement the internal contract. It's very difficult to write out a contract to avoid all possible and say that there are ways that, you know, public employees could get money in their pockets. It's very difficult.

So, you know, there's not such an optimal contract. So for doing that it could help to have an external contract, and for that you need more information, more competition. So here in the book we show some examples about how introducing competition mechanisms like reserve options together where prices have helped it. How do use wage pages to, you know, as a mechanism to buy inputs. For example, in Mexico, there is this wage policy. We call it compronet which has been very successful. In Chile we have Chile Compra. You know, you centralize all the (inaudible) of many, many small entities, public entities like school districts, etcetera, and you put more, you know, imagine that. It allows you to compare prices. It allows you to, all of suppliers, whatever they live, in other places, in other regions, to post their offers. So it gets transparency and competition.

This will help it to fight, in some cases corruption. Because Mexico was just using that as some, you know, they do that. The other thing is, of course, you have to use once you do this kind of

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outlet you have to publicize this information. In Brazil, nowadays very famous for many things, they have done this outlet among municipalities on public procurement. Those municipalities that were identified with the wrong doing you see afterwards the mayor was kicked out through elections. So that helps too.

Let me go to the third capacity. We call it effective civic engagement. If you're going to use a (inaudible) citizenship to help you to (inaudible) you need to organize people to get, first, information and ways of participation that helps you to control the public sector, and, you know, helps you with implement transparency. Okay? Now, so promote citizen engagement to enhance (inaudible). This is important.

Now, I should tell you this will help you with the (inaudible), but also very important, sometimes when you launch a new program, a new policy you're not totally sure about, you know, the result that you will get. So we challenge that. For example, in the case of this problem in Colombia to use computers to teach language. It's a new thing, experimenting with that. So you are not totally sure about whether the program will be successful, and so you need a lot of short-term insights or suggestions from the beneficiaries of the services. So that way it's also important, citizen participation. But then you have to organize that. The market will not do it. The market will not do it. We are talking about institutional issues, and here all you guys political sides no better than me. That this is not done by the market.

So what about citizen participation in Latin America? Very high participation in terms of voting, but when we go to more direct participation or interaction between public service providers, citizenship very low. For example here is some information about if people sign any petition last year, 20% in Latin America, in U.S. and Canada it's much higher. Here it's information within cities also, a very low level of direct participation between providers of public goods. For example, (inaudible) on citizens.

So why do people not participate? Well, making people think that, you know, making a complaint to a local government, to a private sector provider, or a public firm, whatever is not going to change anything. So this is one reason. The second is to participate sometimes it makes a lot of cost because you have to find the place where you're to do your claim, you know, you have to maybe write a thing, follow the bureaucratic steps to do that, so costly. Third, sometimes you don't know where to do that, so you don't have information.

So how to turn participation? Well, maybe now with the evolution of texts that could help you, a lot. So we're looking for how much (inaudible) Latin America in 25 cities use texts as a way to interact with their citizens in terms of providing public goods. So we make sure, firstly, they have a website. So four out of five of these 125 cities have a website with some information about what services they provide, etcetera. Now, three out of five they put more information on brochures, so how you make a claim, etcetera, explaining you things.

Now, two out of five allow you to do transactions, claims, public budget information. Just one of those ten they have this thing of social network that you can actually interact directly with any local authorizing. In the sense that you send a message to the major saying, you are a very nice guy or saying I don't like you. One important thing. So just one out of ten. So this revolution of texts and e-government e-Latin America is just a (inaudible). I mean, we have a long way to go.

I don't have time to do this. Let me go now to the last thing which is monitoring, evaluating, and (inaudible) section. So why do you need this, first of all, to give people more detailed information about how the services are run? That's okay. But more important than that, you want to give information on how the services is working to the guy who's in the frontline. So maybe the doctor who is, you know, in the hospital in a rural area wants to know how many patients he attends per month. How many of these guys say that the service was okay? You know, information that is important. Of course, the private sector when they do this and they run this they generate this administrative information. The problem is that is not used. So here is why we're going to monitor and evaluate (inaudible), okay? Policy learning is the key to strength (inaudible).

So in the region of the world some good news about this, because there have been (inaudible) so some specialized institutions to do that. Like for example, Carnival in Mexico. Now, many of these countries, in some of these countries, these (inaudible) have a relationship that covers a high proportion of the public budget. I mean, Chile is almost 100 percent. They have in their budget, like, performance tied indicator for each line of the budget. So it allows you to get a more oriented (inaudible) private sector.

Third, they have a special legal framework that says what should be part of the monitoring (inaudible) authority to use. Fourth, of course, you have to have a good, statistical, so

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(inaudible) capacity started by having (inaudible). And some governments, let me tell you, coming from where I'm coming, it's not obvious. Okay? Fourth, research should be available to the public. Fifth or sixth, gladly, I have no more time.

(inaudible) important because we want all this information through the (inaudible) relationship to help to improve public management. Many times this is done. This isn't a work page, and it's just useful for the public, for the community, but it's not used by the guy who's a frontline public servant to improve his management. Many times when you talk about evaluation public employees get very nervous. Because it's like, you want it used it to sack me. I mean, to fire me. No, no, no. These guys, these public employees should think about this as a tool for improving what he's doing. So that way development is important.

I don't have more time, so I will finish going back to the story we have at the beginning. Asia, India, so I told you that there was this program for improving allocation in rural areas in India. It was a lot of money, new schools, training teachers, so I still didn't get the expected result. When they do this evaluation in 2006 they found one issue related to implementation that was a little bit overlooked. What was that?

Well, before the program 48 percent of teachers didn't go to school 48 in up go 100 times. So 48 percent of absentees. After the program, the absentee rate was the same, 48 percent. So you have very good teachers. They trained teachers in the home. I mean, not the schools. So this is very important. So you see how one important thing regarding implementation was let's change this was somehow it was overlooked. I mean, you have covered, for example, paid these guys a little bit more. You know, pay by performance to go to school. You may have, for example, a more internal system that tells you rapidly who is going and who is not. Or empower parents so that the parents will look at that, you know, be aware of that and put a complaint to the local authority, etcetera.

In the case of Columbia. Well, the evaluation date in 2007 shows that 42% of the teachers that were trained to use the computer didn't use it actually. Didn't use it. So, again, this is another thing of implementation. To change the way you do things, you know, it's not just teach you how to do new things. You have to be (inaudible). You have to have a psychological new, you know, way to do things. You see, it's much more than just telling you what to do.

So somehow this doesn't happen. So, again, we have to look at those things because as Ernesto was saying, the devil is in the details. Thank you very much.

MS. KAMARCK: I want to thank Pablo for this very interesting introduction and talk. This is a topic dear to my heart because many years ago I worked on this topic with the American government running a little program called Reinventing Government for the Federal Government. Since then, I've worked around the world in government capacity issues. As Pablo was talking I was struck by both the similarities and the differences. The problem, of course, in the U.S. government and in many developed countries is exactly as Pablo pointed out; at the top of the wage scale the government's got problems retaining talent. They're just simply not competitive.

In procurement, however, most of the developed countries, including the United States have the opportunity problem. They have excessive controls, and the excessive controls mean that you get the horror stories like \$700 hammers at the Department of Defense, and you get -- my favorite is a Learjet for the military requires this much paperwork and a Learjet for a private sector, like Donald Trump or something, requires this much paperwork. So the developed countries have gone in the other direction in terms of procurement. Although, there's a lot of progress on this around the world.

Most of the people in the developed countries do do their governmental transactions online. There's huge progress on that. Whether it's Spain, whether it's England, the U.S. almost everything is online. But as in Latin America, almost no one is using this effectively to communicate with elected officials. That has not happened in the U.S. either, and I'm not quite sure what this is about. But the links between the public and the administrative state, not to mention the elected officials, have been difficult.

Finally, this business of learning. The U.S. government isn't very good at learning either, but they have an advantage that is missing in most developing nations which is they have a reliable statistical operation. The Bureau of Labor Statistics, whatever, they have real statistics, and real statistics help other people evaluate the government, even if the government itself isn't willing to evaluate the government.

I've called all of these things the infrastructure of modern government. I'm a political scientist, but for the economists here we know how important infrastructure is to the economy. Right?

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Well, I think the way to think about the work that Pablo's been doing, and his group has been doing, and the work that everyone up here does is create an infrastructure is as important, if not more, to a modern government as it is to a modern economy.

So with that, I'd like to introduce two distinguished discussants for today's panel. To my immediate left is Jorge Silva. He is a public sector specialist from the World Bank. To his left is Matthew Taylor, an associate professor of American University. If you could each take a couple minutes to talk about Pablo's presentation and expand on it I'd appreciate it. So you want to start with Matthew? Okay.

MR. TAYLOR: Thank you very much and thank you, Ernesto and Julio, for the invitation. Congratulations to CAF and to Pablo. This is really an impressive report that covers just an amazing amount of terrain. I think, from my perspective, is just fascinating because this is a field where we haven't done enough work and much more research is needed.

I'm a political scientist and the joke, of course, is that political scientists are bad sociologists who want to be bad economists. The reason I make that joke is to make the point that I think is important in sort of framing this report and its importance which comes out of sociology. Pablo touched on this, but I think that it's important, perhaps, to touch on it a little bit more. The concept of the Bavarian-ness. The concept of Bavarian state capacity which includes meritocratic recruitment, predictable long-term careers has been very closely correlated with economic growth and better development outcomes.

But the reason that that functions that way has a great deal to do with social norms. That is, that merit based hiring, long term career, *esprit de corps*, corporate coherence, all of that contributes to creating an environment in which bureaucrats or civil servants, whatever we want to call them, internalize shared norms and internalize organizational norms and sort of organizational goals. That creates a structure that is unprecedented in human history when it emerges in the, we can say the 18th Century, 19th Century.

You know, I think that this point about the sociology of bureaucracy is very important because it does make the connection between these kind of amorphous rules of bureaucracy and economic type outcomes with are organizational incentives to individual bureaucrats that nonetheless, add up to better long term performance by organizations. So as a political scientist I feel like I can make this link between sociology and economics. But as a political scientist I also have to just go and mess

everything up and muddy the waters a great deal here.

Let me just suggest that I think that this report is wonderful because it really give us a starting point for really muddying the waters in a wonderful number of ways. The first thing I would say is simply that the more that I've worked on state capacity the more shocked I am at the lack of empirical research that's out there. The empirical work on state capacity there's not as much dialogue as there should be across disciplines. There's not a lot of great data. And so I really congratulate CAF for putting together this report which included survey evidence. Also, it does a wonderful job of summarizing a lot of the literature and, I think, sets the stage for future research.

But having said that, in muddying the waters I'll point to a couple of different things that, perhaps, future researchers could be thinking about. The first is simply the inconstancy or the varieties of ways in which we should be thinking about state capacity and the role of bureaucrats. Hiller Soifer and others have pointed to the path dependence of state capacity in Latin American, and the way that it, you know, there's been very little change. If you look at state capacity in many countries at the turn of the 20th Century, of the 19th to the 20th Century and compare it to the turn from the 20th to the 21st Century there's an extraordinary path dependence there.

A second issue that the report raises, but I think we should, perhaps, draw more attention to is how state capacity varies not just across states, but also within states. Either because of the week territorial reach of the state which is something that we see in Latin America and a number of countries. Or because different agencies, as in Brazil, are known as Islands of Excellence or, perhaps, laggards of some sort.

Then, in that same vein, I would just point out, I've been doing some comparison in my own work, of the U.S. and Brazil, and without any value judgment about the federal bureaucracy in those two countries, I would point to the fact that the logic by which civil services function is enormously different. And so in particular, looking at the wage data that you put up there, wages in Brazil are significantly higher than they are in the United States, but in both countries if you're well-educated staying in the civil services past, you know, a certain number of years isn't, perhaps, the most rational decision from an economic perspective. We have to explain it, I think, because of shared norms or commitment to the bureaucracy.



But the other thing that I wanted to raise with that comparison is the fact that the logic for entering the civil service and leaving the civil service is very different in the two countries. And so we see that in the United States, for example, in the Treasury Department, people come in. They spend a few years and they leave. Other cohorts of bureaucrats stay in the whole time, and most people who leave frequently come back late in their career after working in private sector. We don't see that in Brazil. I just wanted to raise that as a way of thinking a little bit about how the political system and the overall logic of the state may lead to conclusions that are not undiversifiable across the entire region.

I'm glad that you mentioned your work in the U.S. government and I think you made reference to the new public management, what we all know as --

MS. KAMARCK: What we call it.

MR. TAYLOR: Yeah. You know, this have fallen somewhat out of favor, but I think the basic insight of new public management, if I can summarize it in a rather crude way is the Goldilocks' story. Right? The Goldilocks story of new public management is really that all of the things that we think are good in controlling the bureaucracy are good up to a point. Pablo made reference to this in his presentation. But if you go too far on any one of them you unduly constraint the bureaucracy or you may create other incentives that are quite negative.

So I just want to touch on a few of those. The first, of course, is political autonomy. Going back 50/60 years to the work of Bendix and others like him who are drawing, of course, on Vabre, 50 or 60 years prior to themselves. What you see is a longstanding debate on whether political autonomy helps or hurts. So on the one hand, political control ensures that the state bureaucracy responds to political directives. But on the other, it hurts because, and I'm repeating myself here, it makes the state respond to political directives. So, you know, I think either one of those is bad, and so there's this Goldilocks moment in the middle.

The second, which Pablo also mentioned, is the formalism of the rules that we impose of the state bureaucracy. You know, this is also your point about how many forms you have to fill out. This is, of course, also the thesis of Francis Fukuyama's new book on the decay of institutions. That at some point, the excessive formality that we impose on a state in order to reduce discretion and reduce civil service discretion gets in the way efficiency.

In Latin America, the literature points to the fact that in addition to that, it may also permit patrimonial practices or client holistic practices to get hidden behind a veil of impersonal bureaucracy. Getulio Vargas' famous phrase, for my enemies the law, for my friends everything. Right? I think that's a good sort of expression of that.

Third, incentive pay, and here, you know, the report spends a good about of time on this, incentive pay for performance that is. I think that this is, of course, a great way of mobilizing people, but there's an enormous principle agent problem in the public sector. In the Chilean case I remember reading about what happened when they introduced performance pay in the federal civil service. Many agencies were getting to 98 percent, 99 percent of civil servants receiving performance pay. They can't all be doing that good a job. So, you know, I think that this is one of these tradeoffs.

I also think, going back to the sociologist in me, the bad sociologist. But there's also, I think, a different personality type that is interested in civil services careers. And so I wonder about the results of the survey. I mean, I just think that it doesn't necessarily mean that civil servants are lazy. It just means that they may be more risk adverse than the typical private sector entrepreneur and we expect that in a society, right?

MR. SANGUINETTI: Of course.

MR. TAYLOR: And so your survey indicates this, but I wonder if the interpretation might be slightly different.

Then, in terms of citizen oversight, I really like your decision to look at what motivates participation in the report. But I also wonder what we can say about the information available to these citizens that do participate, and how interested they are, and how self-interested they are. You know, going back to my Master's studies of public policy I remember, you know, Loie's famous argument about the different types of policy, and the types of politics that they generate. You know, he makes the point that distributive policies have very different politics from regulatory policies or redistributive policies. And so this is also very significant, I think, and we might want to use the false cognate from Portuguese. We might want to problematize this.

So let me just conclude with a final point, and that has to do with the dependent variable that I think is of interest to all of us which is the effectiveness of policy. In the report, the report uses the

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term efficiency, but I think that future research might try to go further and think about what Pablo Heriberto Moto has called the distinction between efficiency, efficacy, and effectiveness. Your antidotes about India really go to this.

So if we think about what efficiency is, efficiency is processes. How do processes work? How do they happen? How did the policy go? What inputs did you put in and what kind of outputs did you get out? In terms of efficacy, what we're thinking about is what happened? What was the quality of the process that was implemented? So, you know, did we get what we anticipated? Did we get better attendance by teachers or by students? Then finally, and this is where nobody has made the empirical connection, I don't think, effectiveness. At a broader level, how does state capacity contribute to ensuring that policies actually have the long term effects that we would like them to have?

These seems to me like the big gap that empirical research needs to cover. What difference does it make, and we tend to ask this about public policies, so how do school absenteeism programs work? But we're not thinking about what that does in terms of better education outcomes. So congratulations and thank you.

MR. SANGUINETTI: Thank you, Matthew.

MS. KAMARCK: Jorge?

MR. MENDEZ: Thank you. First I want to thank Pablo from CAF for inviting me to provide these remarks today. Thanks a lot, Pablo. I very much appreciate the opportunity to share reflections and governance and the role of the state in Latin America. First, I would like to commend CAF for this phenomenal report. The capability of the state to effectively design and implement public policies are center stage, especially given the recent events in Brazil and Panama. This report is a welcome contribution.

The report's focus on learning at intrastate level and among states, it contains useful benchmarks for comparing the states that will make it a lasting reference for anyone seeking to better understand them. Today, I want to devote my time to make three remarks that relate the report to my professional experience. The first one is about neglected differences at the intrastate level capacity. The second one is related to learning, and finally I'm going to offer some thoughts on the ability of the state to solve complex problems by presenting an example in both the Columbia procurement agency, (speaks

Spanish).

On intrastate capabilities, the state consists of many sub units, provinces, municipalities, (inaudible), to name a few, with varying capacities. And the different between them are often neglected, or worse, bundled to simply fight complexity. Capabilities across the sub-units vary widely. While some institutions within the states, such as the Central Bank of Treasury often have good physical and human infrastructure, other state institutions, such as in the Justice Center may be literally falling apart at the seams.

Tribunals all over Latin America operate in (inaudible) conditions. They rarely present reliable data and/or this is not available to the public. Should the CAF report have covered institutions of the judicial branch? It most likely wouldn't have had access to reliable statistics.

A second thought on learning. As the report rightly indicates, the state capacities are not a static, but a dynamic concept, and the difference is what we call the meta capacity to learn. The report ends with this message. I quote. "This institutionality of learning should respond to the fact that despite a great variety of context and realities in which the presence of the status apply. There is a sea of knowledge in the policy experience itself that can help shorten the path to share equitable well-being." End of quote.

But how does this learning occur? How do lessons learned in one context apply to another? How do lessons, for example, in competition law in Columbia and foreign policy debates in Argentina or Paraguay, are lessons learned there easy, difficult, or impossible to implement elsewhere? This is where I found the report at its most assertive. Institutional knowledge from the intrastate level is very different than knowledge from outside.

The report also states, the (inaudible) of learning leads to improvement in the evaluated policy. This condition, more by the political environment, institutional frictions, the weight of diverse interest groups that may have created in relation to the intervention. This is not an excuse to (inaudible) lessons or any ability to improve. But they're reality to the reform. I believe that institutional knowledge is, for the most part, local. International comparisons are useful as signaling devices and for academic publications, but learning happens locally because it involves not just formal, but also informal interactions. This is something that the narrative of international best practices lack.

A third point on procurement. I pay particular attention to the section on public procurement. A subject in which I've been recently working in Columbia. Overall, I found it insightful and representative of a wider phenomenon in which (inaudible) is slowly starting to change the nature of the discussions. Where antidotal evidence is being replaced by hard data. Data is being collected at an unprecedented rate, and will change the trajectory of procurement reforms for the better.

Nevertheless, public procurement lies at the heart of much broader and more difficult problems at the intrastate level. Looking at procurement in isolation misses the bigger point. Let me elaborate on this idea with one example. Columbia Procurement's Agency, enthusiastic director, asked us to study why there is so much direct contracting in Columbia. More than half of all government contracts are directly procured at the central level. At the sub-national level, more than two-thirds. Why most contracts are procured this way? Are norms being violated or conveniently circumvented?

The explanation that we found was somewhat obscure and complex with one key difference. We back it up with data. Without boring you with the details, we combine millions of contracts with budget data and civil service data and found that loose and inconsistent definitions in the law coupled with structural deficits of civil servants and budget inflexibilities have prompted the development of a salient formal sector within the state. An army of professional service contracts. In some government agencies there was one contractor of every two civil servants, in 2014.

A myriad of exception to rules allowed different sectors to optimize their labor demand between contractors and civil servants. In a country where one of every two workers is part of a formal labor market, and where some of the largest known wage labor costs exist who could be surprised to learn that the state also reflects part of this national reality? Direct contracting turned out to be more a problem of laboring formality and budgetary infelicities than one of procurement law or corruption.

Neglecting this link could lead one to think that somewhere down the road the right procurement reform will solve the issue. That's wrong. Without the concerted effort involving Treasury, procurement, and the civil service, a real solution would not be reached. These are the real problems a state faces, interconnected and impossible to solve in isolation.

Finally, for us to build problem solving capabilities at the interested level we need to go (inaudible), definitions, (inaudible) sight indicators, and best practices, and actually create much more and

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better data. Larry Summers recently remarked in a speech he gave at the World Bank that data collection is the ultimate public good. Reliable, useful data is what distinguishes solid evidence-based policy. But generating data of the operation of the interested level is difficult and costly because the openness and transparency of such data may affect powerful groups with vested interests.

I would like to state more worry about creating information, tidying up, and codifying its everyday activities than recombining them in evermore created but meaningless composite indicators. The states need to spend more effort in producing better data. I'll leave a last time on naming and shaming with composite indexes. CAF has produced a very useful report. These will become part of our ongoing conversation on how to improve institutions. Thanks a lot, Pablo. Thanks a lot, Elaine. Thank you.

MS. KAMARCK: Thank you, Jorge. Okay. I'd like to go right to audience questions, if I could, because we're running out of time. Why don't we start with the gentleman here and we'll move around.

QUESTIONER: Thank you. My name is Juan Philip Brazilian from Columbia. I wanted to thank you for your interventions, and I wanted to ask about the role of politicians, our much beloved political class in Latin America. Because there's a certain progression here where politicians get elected with the help of powerful groups with vested interest, as you said. And then the politicians usually have access to appointing the so called, (speaks Spanish), so they get to, you know, appoint people in local institutions. Right? I'm talking more about the public institutions of the sub-national level in the regions outside of, in my case, Bogota, and then once they're in place they're usually close to a certain political group or a certain powerful group, and then they use the mechanism of direct contracting or, you know, they just like work around the legal framework to, for example, maybe have one bidder, only one bidder instead of doing it directly.

Then that money that's supposedly spent, you know, for services does not get spent well. Then that leads to citizens being disenchanted with public institutions, and then not engaging with the public institutions. So my question is about what, for example, could you think are some measures that could be taken to improve this institutional capacity at the local level in terms of either preventing public politicians from appointment the leaders of these local insurances freely or improving the contracting

process so they can't give the contracts in charge of service provision to this?

MS. KAMARCK: Thank you. Pablo, do you want to?

MR. SANGUINETTI: Thank you very much. Thank you, Matthew, Jorge, Elaine for your comments. Well, let me start with this last question which is very difficult. I mean, on the point (inaudible), okay. So here I sort of summarize some state capacity that things are very important to effectively provide public goods. I answer one of your questions.

You see the title. The title was an effective state. We don't call it an efficient state. Because as, you know, taking the idea for the new public management (inaudible) we are thinking of state in terms of results. How much the state through public services change, refer of people change, development, etcetera. So we are more oriented or research oriented (inaudible), so that's why the notion of effectiveness. So not only do we do efficient then we're low cost. We want what they do, they have impact.

So the question is, you know, if you have a lot of politicians that use the state just as a political machinery, you know, to higher politically oriented public employees. Of course, they use public procurement to finance campaigns, etcetera. It's slight like your debt. I mean, nothing of these things are going to be applied. So somehow to do any of these you need some political guidance, political motivation. The guy that wants to change things. You might say, so if all our politicians are just awfully motivated Latin America should be in a very bad state. We are not even though recent news is not that good.

In the sense that you see in so many questions, like Peru is doing a huge reform in terms of civil servants. For example, teachers. Mexico, they did the same also with teachers. Many countries are starting doing these reforms, and sometimes the interest of the politicians coincide with the interest of the citizenship. For example, right now, as you have a moment of a scarcity of resources, how this private sector should accommodate to these new areas? Well, one is to cut expenditure, the other two increase taxes. The order is to prove effectiveness, so some provisions will try to take this agenda and, you know, help them to do a better job. I don't know. I didn't answer your question, but.

MS. KAMARCK: Great. Ernesto? Thank you.

MR. TALVI: Since all of you somehow or the other mentioned the same stylized fight.

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You put a lot of emphasis too, Elaine. Why is it so difficult to retain talent in the public sector? Why talented is not remunerated in the way it should be? Second, why do you think we see in Latin America very few outcome-oriented evaluation systems? And why, and this is a very interesting concept I heard from you Elaine, that the U.S. has very good information, and although the U.S. doesn't do a very good job in evaluating itself, others do a good job on the basis of the data collection and evaluating the government.

In many of our countries we collect good information, but we are very opaque in actually sharing the information. So we don't want to evaluate ourselves, and at the same time we don't want to share the information that would allow others to evaluate this. I would like to ask you whether, because nobody mentioned that, whether very powerful workers unions in the public sector, and does this have anything to do with all of the above?

MS. KAMARCK: I'll start that. First of all, the United States does not have powerful public sector unions. It probably has the weakest public sector units in the world, so that's not the answer.

I think the answer goes back to a professional civil service, and a very long history and culture of statutory protections of the civil servants. So the Bureau of Labor Statistics has a methodology, people quarrel about the methodology and say that it is has political consequences here and there. But the bottom line is they adhere to their methodology, and they put out labor statistics that are pretty reliable.

The way I used to bring this home to my classes at the Kennedy School was I would end this discussion of statistics on why doesn't President Obama get to cheat? This was during the 2012 election, unemployment was really very high. It was a big problem for him, but he could not go out and say, oh no, no, no. Unemployment's 3 percent. It's not 6.5 percent, 7 percent, right? And the reason is that there's too many institutions, but a central government institution.

A lot of this is culture, but a lot of this is law. Donald Trump is sort of laughable. He's going to fire everybody. If the President of the United States walks into the Bureau of Labor Statistics and says I don't like your numbers. I'm firing you. What happens? Well, it goes straight to court. He doesn't firm them at all. Okay? Now, that has this complete insulation. There is really serious insulation of many



American political civil servants, and British, and Australian, and Canadian from politicians.

It produces good outcomes in terms of honest statistics. It also, however, has its problems. Okay? Because, in fact, in many of those countries, Britain and the United States I know the best, a lot of times the politicians get elected to do one thing, and the bureaucracy just says, oh no you don't. And, in fact, they often win. Okay? So I mean, I think that there is a real -- it was interesting that Pablo began with this question of the civil service. That a professionalized and politically insulated civil service, in general, does more good than harm. Although, there are some problems with it. So that would be my short answer to that.

MR. SANGUINETTI: And let me tell you, coming from Argentina which, you know, without any judgment. At some point we have a political system that tried to do those things.

MS. KAMARCK: Oh, yeah. Oh, yeah.

MR. SANGUINETTI: Change statistics, change (inaudible). You see there were limits. There were limits. The they worked. I mean, of course there was a lot of public sector opponents, but still over there some guys in the public sector that were, you know, hired by some of these rules to be motivated, process of motivation. That their job was, you know, to public sector, not to do politics. That at some point said, okay, no, no. This is not my job description. And they stop it. And they denounce (inaudible).

So you see, the question is many times politics, of course, can make things wrong in the sense that you want to do those things. But even you have some of this stuff, a little bit of that. People, at some point, but a barrier on the abuse and etcetera. We have very important examples in our country. So once you get to a certain level of middle income and some level (inaudible). I'm not talking about Africa, okay? This couldn't even stop a Parliament that was to politicize everything and go beyond the limits, and we have very nice examples of that.

So I would say the other way around. A bureaucracy that has been built on some of these principles, at some point, could motivate, you know, division from politics or could stop division of politics. So this is something that we should think about.

MS. KAMARCK: Other questions? Yes, back there.

QUESTIONER: Shouldn't since these problems are challenges which -- the challenges

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that you have just mentioned, and especially Professor Taylor identified those. Shouldn't they make some best practices, check lists for the countries? Because this problem does not exist only in Latin America. It exists in Caribbean. It exists in some Asian countries except Singapore. It exists in Africa, virtually every country of Africa. Shouldn't there be a checklist by the World Bank or IDB of those institutions which have some government support that they much change for the good? That there should be a checklist of 20 items for institutions, so the institutions are strong. Twenty items for, maybe, how they qualify for loans in future from the World Bank and all? And then, perhaps, you will have a model country. Within each region, shouldn't there be a model country like Singapore? Maybe somewhere in Africa it created a model country so that everyone can start following up on those?

MS. KAMARCK: Jorge, you want to react to that?

MR. MENDEZ: It's a little bit to what I mentioned, my talking points. But basically, I mean, of course in the World Bank we have a number of indicators. A lot of those indicators are used for different purposes, but I would say that indicators are -- but, like, a general tool for having an idea of a particular topic performance of a particular area in countries. But we shouldn't really think that what indicator said is the exact reality of the situation in the country. I could say that, I mean, you really need to know more about the local situation and go to the places to actually have a grasp on what you need to do there.

MS. KAMARCK: Can I give you a perfect example of this? I was thinking of this when you were talking before. I find myself in my consulting often doing things that I never thought I would do. So I was in a country that you know well, doing some work with the new president and his team, and they explained this problem of many, many, many contractors in the government. And so the first reaction was, well, you've got to get rid of the contractors, you know, because they're mucking up the civil service.

Then they explained something that you couldn't see from a report which is that the contractors were young and educated. And the civil servants were old and uneducated. And that if you, in fact, got rid of the contractors you would basically stop the government from working. So, you know, this would happen to me time and time again. When we did Reinventing Government in the Clinton administration we were always trying to get rid of the inspector's general because we thought they were an impediment to management. And yet, I can't tell you how many developing countries I've been in

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where I've said, you know you ought to have an inspector general. So this is to Jorge's point that, yes, there are checklists, but you really do have to be on the ground and understand a little bit of the context of each country.

MR. SANGUINETTI: Yes. Much more difficult.

MS. KAMARCK: Yes.

MR. SANGUINETTI: It's okay. I mean, you may say this country have a, like, bureaucracy having that respect some basic, you know, basic principle of meritocratic. Okay. They may look like that, but things on the ground could work very different. So you have to go there and understand the setting, incentives, and why people go around the law, so it's more than that.

MS. KAMARCK: I think we have time for one final question. Yes, sir?

QUESTIONER: Hi. Good afternoon. My name is Michael McCarthy. I work at American University's Center for Latin American studies. I really enjoyed the conversation. I guess this question really is for Pablo. I haven't had an opportunity to read the report, but what struck me about the discussion and, in particular, your presentation was the lack of discussion or lack of emphasis on the fact that it isn't that -- we have a good understanding of what we want from a state. It's getting there that is the problem, right?

The story is really one of developmental issues, right? And state effectiveness is ultimately a story a state building and how you get there. So what does your report have to say about that issue? Because it's not so much that we lack an understanding of what the state should look like at the end of the day, you know, as the discussion has suggested. But what are the stories about how you get there? And what are the variables that are relevant there? Because it seems to me that in order to really advance on this front we need to tell the story in real time which means considering political variables, as some of the other people mentioned in their questions. Thank you.

MR. SANGUINETTI: Very good point. When we talk about the progress it has to have some incentives and, you know, some set of features. Your wage contract to have, you know, to give you that. Of course you can improve that. You can reform that. But again, as you said, we have to learn about that. So we want to put in mechanisms to learn whether once you give a little bit of an incentive, let's say by performance, is that working or not? Maybe we get the wrong level, very small or too big, or it

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was difficult to measure. So that's why we say the learning thing is very important to do exactly that. To set in motion a dynamic thing in which you learn from what you are doing.

The first thing that you had to emphasize is bureaucracies have to learn of themselves. This is within the job within the job description of the state. So if you get the policy, not that good. This is not to, you know, to kill yourself. I mean, it's part of the learning mechanism. But the government has to set a (inaudible), so people who understand that. So a kind of partial thing is let's say the location of things in Colombia.

You know, you publicize that maybe, you know, the title in the newspaper, they're going to do that. You know, it was inept. No, you have to say, okay, we do evaluation, and we realize that some teachers don't have incentive to do that, but all the teachers (inaudible) because of their experience that using computers to teach language is not good. It's not good. That's okay. So we learn something from that. You see?

So we have to think about the private sector how it learns and also the public learns from that. And to set this kind of agenda is kind of different from the agenda that sometimes, you know? international multilaterals we do. They say, you should do this, this, and this. No, no. No, no, no. You should learn from what you do. That's the only thing that you should do. Learn from your mistakes. Everyone makes mistakes. The wrong this is you don't learn from that. That's a (inaudible) thing.

MS. KAMARCK: Great. I want to thank Ernesto and his Center for putting this program together. Pablo, congratulations on a great report.

MR. SANGUINETTI: Thank you very much.

MS. KAMARCK: Matthew and Jorge, thank you for joining us this afternoon.

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