

CHAPTER TWO

Public administration for development

Abstract

This chapter assesses public administration in Latin America. The region faces many important and common issues such as the quality of civil service, managerial transparency and the high level of centralisation in public administration. In addition, the Latin American state has limited resources to tackle some of the larger goals such as the supply of goods, the fostering of social equity, the delivery of social services, the re-allocation of resources and the stabilisation of the economy. However, Latin American countries are now better positioned than ever to reform their public sector and create states that are able to meet their development needs. This requires proper co-ordination of public policies such as the mobilisation of fiscal resources, the professionalisation of civil service, the appropriate use of new technologies and the mobilisation of diverse public and private actors.

2.1. Introduction

The set of institutions, norms and rules that determine how state agencies and human resources are managed plays a central role in the development of Latin American countries. This chapter assesses public administration in Latin America within the framework of the functions assumed by the state. These functions do not differ much from those of the OECD economies; they include the provision of public goods, the fostering of social equity, the delivery of social services, the redistribution of resources, and the stabilisation of the economy (section 2.2). What differentiates Latin American states from more developed countries is the magnitude of the needs that must be met and the limited resources available to accomplish this task. This creates a substantial and complex challenge. The region also faces other common challenges such as the quality of civil service, excessive bureaucracy, the transparency of governance and greater centralisation than in OECD economies (section 2.3). Policy makers in Latin America should be particularly mindful of the nature of the trade-offs between the short-term costs of addressing these challenges and the long-term benefits of public-sector reform. There are no shortcuts for developing an effective, efficient, transparent public sector (section 2.4).

This chapter confirms that Latin America is now well positioned to reform its public sector and build states that are able to meet their development needs. The economies of the region are growing, the volatility of public finances has been reduced and the burden of debt service is smaller. There have also been significant advances and innovations in public policy in the social sector, in infrastructure and in productive development. The consolidation of democratic institutions and technological development have created new opportunities for improving public administration. This must not, however, lead to complacency or an underestimation of the magnitude of the challenges faced by the countries in the region.

Bearing in mind differences between countries, the creation of states that meet the region's development needs requires special attention to various areas of public policy (section 2.5). The fundamental elements of the reform agenda in Latin America include: *i*) improvements in the mobilisation of fiscal resources, *ii*) a professional civil service, *iii*) the mobilisation of different actors, *iv*) appropriate use of new technologies, and *v*) mechanisms to make government more transparent. Around these elements, mechanisms can be established for inter-regional dialogue that will help disseminate best practices and identify lessons learned. International agencies have an important role to play in the articulation of these networks and in the promotion and dissemination of the reforms.

Fiscal reform is a necessary condition for states to increase the resources they need to fulfil their responsibilities. There are also significant challenges in budgetary management, human resources, access to electronic government systems, information, transparency, and the integrity of public administration. The limited use of evidence in budgetary decisions in Latin America requires the development of new budgetary management systems based on outcomes. This calls for the development of monitoring and evaluation systems capable of generating timely and relevant information on outcomes and adjusting budgetary processes so that this information is used in decision making.

Given that states depend on their staff to perform their functions, Latin America needs to professionalise its civil service. It is important to distinguish between the various functions exercised by state employees and to develop appropriate working arrangements for each function, combining the objectives of merit and flexibility on a case-by-case basis. Appropriate use of new information and communication technologies can help governments shape a more flexible, agile and transparent public sector that has a greater capacity to respond. Information technology must

be considered as a means of communication in both directions, able to facilitate transactions but also offering a space for citizen participation; public administrations must be adapted to achieve this.

At the same time, it is necessary to strengthen the citizens' trust in the state. Solutions encompass a combination of instruments, both public and private, that countries can use to reduce the risk of mistrust in the state, such as declarations of interest, information-access systems and codes of ethics. Latin American countries can also benefit from the participation of different stakeholders and actors in public policy. In order to provide public services more effectively and efficiently, governments can combine their inputs, policies and knowledge with those of other actors, including non-state actors, sub-national administrations and commercial providers of public goods.

2.2. Key aspects of public administration

The increase in the provision of services and transfers has made effectiveness a key element in public administration. The capacity of public administrations to meet commitments set out in the political process and to meet the growing demands of citizens has become a central concern.

Public services must also meet high standards of transparency. Governments are financed with taxpayers' money and must act in accordance with specific restrictions and legal mandates. Modern states are accountable to their citizens for the use of public resources and for the results of their actions. The funding mechanisms of many public services often impose transparency requirements that exceed those of the private sector but that are essential to maintaining trust. Transparency is key to limiting the risk of corruption. The predictability of public interventions increases market confidence, reduces risk premiums, and facilitates compliance with regulations. The increased transparency of modern states is also a by-product of information technologies, as citizens of many countries can now access services online and compare situations between countries.

Efficiency is another important element of public administration. Achieving the same level of public services with fewer inputs will free up resources to address other development deficits. Improved efficiency can also help create public support for state reforms, even those that require a heavier tax burden. While citizens, as voters and users of public services, may deem public services (provided directly by the state or under its supervision) to be scarce and of low quality, as taxpayers they may not be willing to pay the cost of resolving this.¹ As a result, states are under increasing pressure to do more with less, making efficiency a third key element in public administration.

As societies become more heterogeneous, the demands on the state become more diverse. In Latin America, states are responsible for the provision of public goods, delivery of social services, the promotion of social equity, redistribution of resources and the stabilisation of the economy to the same extent as in high-income countries. In recent years, Latin American states have begun to address needs in the areas of environmental protection, economic integration, gender equality and social and productive development. The resources available to perform all these functions are scarce, not only compared to high-income countries, but also to countries with similar levels of development.

Box 2.1. Responsibilities and resources of modern states

Countries rely on the state for the provision of essential public goods, such as maintaining law and order, defence, protection of intellectual property rights and the awarding of contracts. States also fulfil the function of economic orientation by sending signals to markets, offering incentives through the granting of business licenses and permits, and by the regulation of energy, transport, food security and innovation. Education and health are essential public services and state benefits provided for the welfare of citizens. States also promote culture and recreation and create systems that protect individuals from unemployment, disease and poverty in old age.

The allocation of responsibilities for these functions reflects social preferences. However, it seems that differences among states are more a product of the heterogeneity with which they carry out these functions —through direct provision, regulation or incentives to the private sector— rather than the actual scope of government responsibilities, which, surprisingly, are similar between countries.

States developed considerably during the 20th century, becoming major service providers. This trend over the past hundred years reflects an increase in the size of the state. During the past century, expenditures and the number of employees grew from less than a tenth of national income to slightly less than half of national income in most developed countries. In many countries the state was transformed with the consolidation of democracy, the development of a market economy, the creation of the welfare state and globalisation. However, these changes have not been linear, and many countries have faced a substantial redefinition of the role of the state as a result of fiscal constraints, the need for competitiveness and social change. The most notable feature of the transformation of the public sector during the last seventy years has been its massive development as a major service provider. Since this transformation, the interaction between the state and its citizens has become a daily activity.

Expectations and standards for public services are now significantly higher. Even though modern states do more and spend more, it is worth asking if they are providing better services and meeting the expectations of citizens and the business community. Given current fiscal constraints, the answer is not necessarily “more State” but “better State”, focusing on what the state does best and on building trust and sustainable economic growth. These issues are attracting increasing interest from social scientists. Economists and policy makers are also devoting more attention to the public sector economy because of its growing share of national income and its macroeconomic impact.

States are complex organisations that often pursue many policy objectives simultaneously and that are faced with multiple goals and stakeholders. Public entities and organisations, in lieu of running their own programmes, must respond to the mandates and functions assigned to them by the political process through legislation as well as attend the needs of citizens. This is a process that can generate demands, mandates and objectives that are sometimes vague or even contradictory. Public administration must recognise this reality and reconcile objectives with possibilities. Public administration must integrate the diverse nature of modern states that reflects the relationship between networks of different public bodies. The economy of public choice has helped to improve the understanding of the role and functions of bureaucracy, which is able to pursue precise sectoral objectives on behalf of the general interest.

The complexity of the public sector apparatus requires political responses that are modest yet pragmatic, the implementation of systems of checks and balances, the fostering of openness and transparency, and control mechanisms to reduce the risk of corruption and capture. Similarly, co-ordination is necessary so that, with the contribution of different bodies, the strategic objectives of the state can be accomplished and resources, commitments and implementation are aligned to achieve the expected results.

The gap between the need for public intervention and available resources is considerably higher in Latin America than in developed countries. Making the most of scarce public resources is therefore crucial if governments are to fulfil their contribution to development in the region. Whether it is the management of public programmes or the use of private resources for public purposes, public administration is fundamental for states to meet their objectives.

2.3. Challenges of public administration in Latin America

Availability and efficient resource management: Many countries in the region (probably with the exception of Argentina, Brazil and Uruguay) require more fiscal resources to meet the needs of the public sector and contribute more effectively to development. This also requires greater efficiency in the administration and implementation of spending. And in the context of public administration, greater planning, co-ordination and risk assessment is needed to generate sufficient resources. Given that the structure of public policy evolves with the country's level of development, countries may be increasingly challenged to expand services and transfers. This may be implemented within increased decentralisation, but needs to be accompanied by regular monitoring of the volume and quality of services.

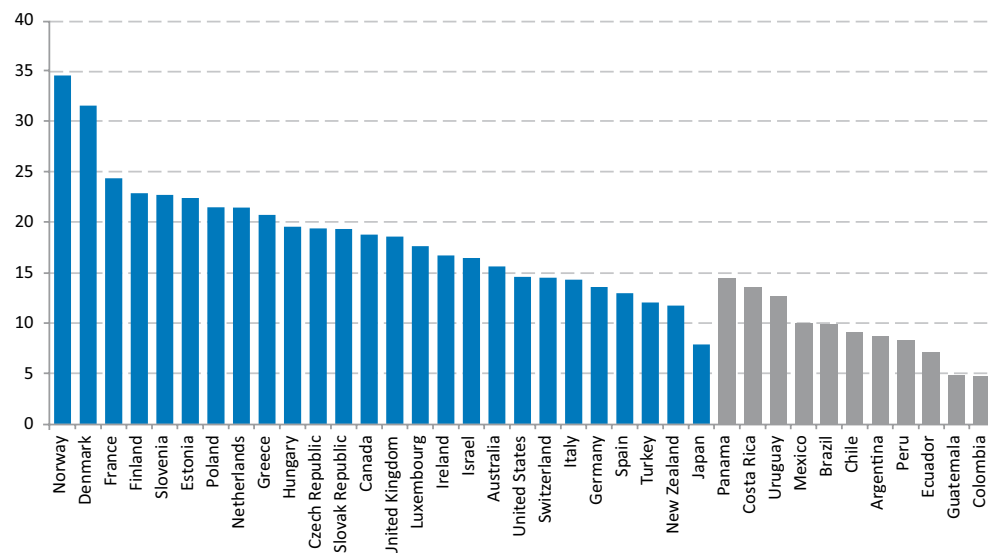
The professionalisation of the civil service: As shown in Figure 2.1., as a percentage of the total workforce, Latin American countries have far fewer public employees than OECD economies. In some countries, the percentage is slightly more than half that found in the OECD economies with the highest levels of public employment. The biggest difference, however, is that the Latin American states are normally pre-bureaucratic, in that they are characterised by the lack of a formal, professional civil service and by a high proportion of political appointments among civil servants. Some countries seem to have developed a highly distorted bureaucracy, with low-skilled workers protected by strict contractual arrangements and managers appointed on the basis of their political affinities. This situation generates levels of job rotation and patronage of little use to the development of public policies that require a high degree of coherence and continuity if they are to be effective. Under this regime, the flexibility that might be necessary to better meet different public needs can easily become discretionary and a source of incoming influences. In many countries the proportion of public employees with high skills and high motivation could be much greater. Some countries such as Brazil, Chile, Mexico and Peru have recently undertaken reforms to establish a highly professional civil service, though they are more the exception than the rule in the region. The reforms in these countries are very recent and still have many hurdles to overcome.

Another indicator often used to identify the size of the state —public spending as a percentage of GDP— shows that the region is behind OECD states. Public spending has increased, but the differences remain substantial, and have even widened in recent years (Figure 2.2).

Centralisation: Latin American countries have a level of fiscal and administrative decentralisation below that of the OECD economies. Municipal spending in Latin America is less than half that of OECD economies as a percentage of GDP (9.5% and 20.6%, respectively), and their revenues constitute slightly less than one third. This reflects significant vertical imbalances. Regional figures are more balanced but with great variations between large federal countries (Argentina, Brazil and Mexico) and smaller unitary states which may not even have a regional administration.²

Beyond its impact on the efficiency of public administration and equity in the distribution of public resources, centralisation seriously limits the ability of citizens

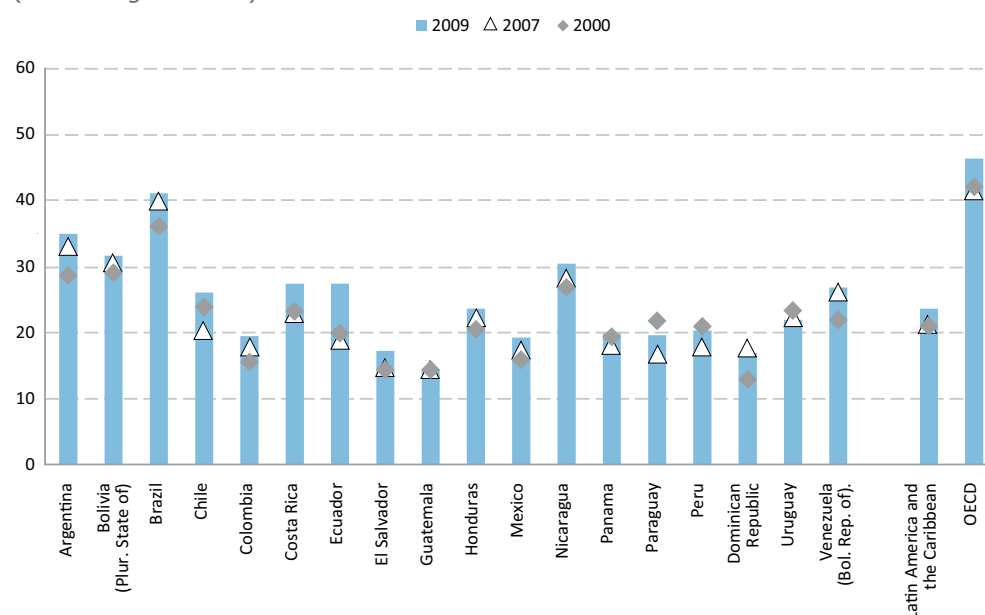
Figure 2.1. Latin American and OECD countries: public sector employment in the labour force, 2008
(Percentage of the labour force)



Note: Data for Finland, Israel, Mexico, Panama and Poland correspond to 2007; France, Japan, New Zealand and Uruguay to 2006; and Brazil to 2003.

Source: Laborsta database (ILO).
<http://dx.doi.org/10.1787/888932522493>

Figure 2.2. Latin America and the OECD: public expenditure, 2000, 2007 and 2009
(Percentage of GDP)



Note: The statistics refer to general government in the case of Argentina, Bolivia (Plur. State of), Brazil, Chile, Costa Rica, Nicaragua and Peru and the central government in Colombia, Ecuador, El Salvador, Guatemala, Honduras, Mexico Panama, Paraguay, Dominican Republic, Uruguay and Venezuela (Bolivarian Rep. of).

Source: CEPALSTA Statistics on public finances for Latin America and the Caribbean and OECD (2011) for other countries.
<http://dx.doi.org/10.1787/888932522512>

to participate in state affairs. If sub-national governments provide a significant part of services required by citizens and the investments of greatest interest to communities, then their lack of resources and powers, as well as their over-reliance on central government transfers, are structural constraints on citizen participation that the government will struggle to overcome.

Lack of transparency and trust: Latin America has been on the path of democratic consolidation since the early 1980s. Democracy as a political system has the strong ideological support of the Latin American population.³ According to opinion polls, satisfaction with democracy increases steadily with ascendance in economic status. However, the middle classes, though in relative solidarity with the tax system and a strong supporter of democracy, are not satisfied with the public services they receive. They are “dissatisfied customers” of the state.⁴ Despite progress in some areas, high inequality, a lack of transparency and poor-quality public services undermine trust in the government and in the social contract in Latin America.

The institutions in the region often suffer from a lack of trust. Trust in democratic institutions, such as the judicial and legislative system, is very low and the degree of satisfaction with local services almost never exceeds 50%.⁵ This can trigger a vicious circle of distrust and weakened legitimacy, which in turn limits the possibility of raising taxes and impedes the provision of more universal services. When people have the means to afford private services, they may come to completely abandon public services, thereby contributing to their stigmatisation. In fact, in Latin American countries, the private provision of basic services in education, health and even security is high compared to in OECD economies.

Comparative international studies suggest that in a large majority of Latin American countries there is a significantly higher perception of corruption than in OECD economies. Whatever the causes, the recent progress made by some countries in the region is commendable. For instance, according to Transparency International, the levels of corruption perception in Chile and Uruguay is similar to the level recorded in European countries such as Belgium, France and Slovenia and only marginally below the levels recorded in the United States and the United Kingdom.⁶

Regulation as a policy instrument: Many countries in Latin America developed their systems of regulation in the 1980s and 90s to adapt to the process of privatisation of public services and state-owned enterprises. During this process, some countries created independent bodies responsible for regulation in the energy, telecommunications and water sectors. However, this wave of reform failed to build a coherent regulatory system. The degree of implementation depended largely on the importance of the institutions responsible for regulation. A common problem for many countries in the region was the imbalance between the power of industry and the fragility of the regulators, who had limited resources and a workforce paid below market wages, as is the case of concessions in transport. In some of the smaller countries in the region, the ability to manage regulations and regulatory processes remains limited, affecting the rationalisation and effectiveness of regulatory frameworks. Thus, regulation as a policy instrument is used less in Latin America—and is often less effective— than in most OECD economies.

2.4. New paradigms and pragmatic responses⁷

The bureaucratic model created hierarchical organisations based on uniform standards for service. The need to improve effectiveness, efficiency and accountability drove many countries to implement innovative practices that would improve public-sector performance. This led to a modernisation of public-management structures and good governance. This caused a change in paradigm, referred to as “new public

management” (NPM), which gave greater autonomy to managers and provided incentives for results-based management. This in turn has led to important reforms including the creation of executive agencies, the introduction of semi-contractual models with central government bodies and performance-related pay. This trend had a major impact in redefining the role of the State, which began to focus less on providing services and more on a leadership role that offered global strategic frameworks for markets. Market mechanisms were also used in the provision of services within the public sector. Strategic and preventive management of human resources served to strengthen the capacity of the State and to enable it to exercise its new functions.

Practice has shown that public administration requires its own techniques and instruments. While the NPM model shifted the emphasis in public administration reforms and governance, it did not always provide a clear response to the needs of public administration and often failed to address transparency in governance. Moreover, the NPM model focused on efficiency, sometimes at the expense of effectiveness. The need to create institutions and procedures intrinsic to the state to minimise trade-offs and face new challenges became apparent. As a result, the second wave of reforms emphasised the evaluation of results and sought to strengthen the link between the key processes of public sector management (budget, human resources management, audits) and results, with a particular focus on accountability. The role of regulatory reform increased in importance as it began to be recognised as an instrument of policy implementation. For instance, OECD economies introduced a system of checks and balances to define new rules as well as extensive mechanisms for updating and filtering existing regulation in the interest of consistency.

Fiscal consolidation has increased the pressure on public administration. The crisis has affected the balance between the State, markets and society, and has led governments to assume greater responsibilities. The current priority is to improve the capacity for strategic outlook, collective commitment and flexibility of resources to achieve greater coherence in policy action and recover sustained long-term development. Countries rely more than ever on a culture of performance. This makes it necessary to improve competitiveness and expand the range of options in providing services in order to improve public sector efficiency and promote greater participation of users in the design and delivery of public services.

The spread of new technologies has opened the window to new opportunities. Technological change has provided new tools to manage information and improve communication – two basic elements in the provision of public services. This requires innovative and effective solutions in collaboration with citizens and businesses. The public sector must become more agile and improve its productivity without additional costs while relying more on e-government, telematics in government and the strategic management of human resources. New technologies also provide opportunities to transform the public sector into a “transparent entity” that facilitates citizen participation and improves the provision of services focused on users’ needs.⁸

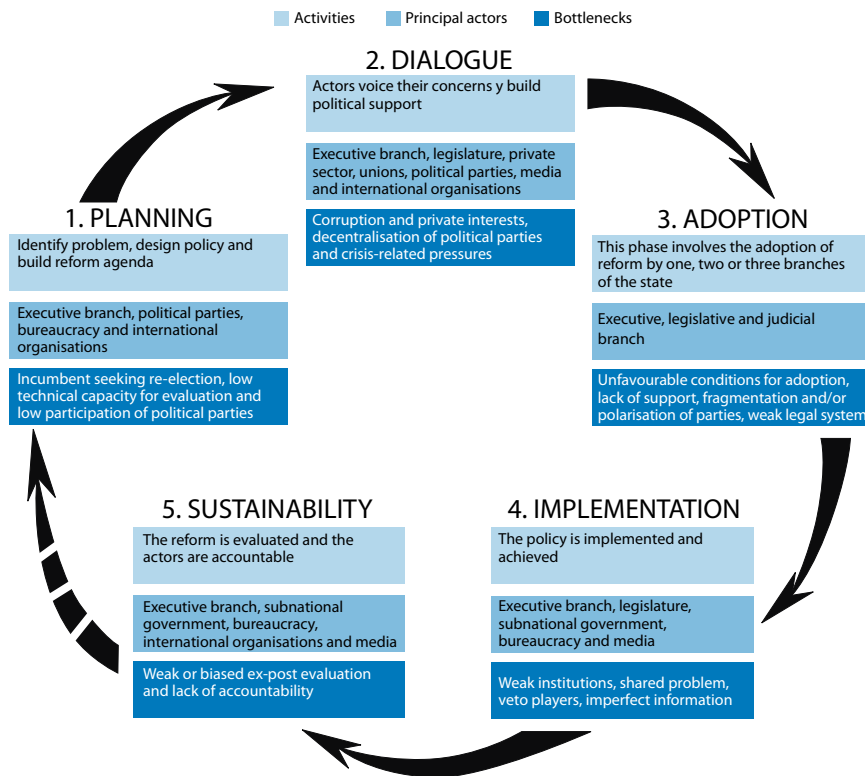
Latin American countries are now better positioned than ever to reform their public sectors. The countries of the region weathered the financial crisis well thanks to prudent decisions taken in recent years. For this reason, they now have the financial strength and credibility needed to undertake long-term reforms. The three Latin American G-20 countries – Argentina, Brazil and Mexico, enjoy the privileged position of participating in the construction of a new economic order and forming part of a group of countries that seek excellence in policy making (Box 2.2).

To create States able to meet development needs, Latin American countries do not necessarily need to follow the same path travelled by today’s developed countries. The last twenty years in Latin America have left a legacy of experiences that constitute a good basis for learning and to continue advancing. It is important to avoid the reproduction of management tools without taking into account institutional differences. It is necessary to learn, adapt and innovate.

Box 2.2. The process of reform in Latin America

It is important to study not only *what* practices should be adopted to foster development, but also *how* these reforms are achieved. This is the dilemma of the process of reform, which can be best understood terms of a “reform cycle” in five phases: *planning, dialogue, adoption, implementation, and sustainability*.¹ Although these phases do not always unfold in a sequential pattern, it is useful to distinguish between them to assess the relative strength of each player and reform efforts and avoid pitfalls in the future (Diagram 2.1).

Diagram 2.1. The stylised reform cycle: stages, main actors, and bottlenecks



Source: Dayton-Johnson J., J. Londoño and S. Nieto-Parra (2011).

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In the *planning* phase, the actors identify the problem, design the policy and build the reform agenda. In Latin America, this stage tends to be a creative and disorganised process. Executives have a near monopoly in the formulation of policy proposals, and only occasionally receive input from other actors. Regarding political parties, the low levels of party institutionalisation and high party fragmentation have created clientelistic, weak and short-lived political parties. Non-programmatic parties present challenges for reform planning, as policies will lack *ex-ante* planning and consistency over time. Co-ordination failures can be improved by promoting an increased participation of technical agencies, international organisations, and political parties. The technocracy of bureaucracy improves the quality of the *ex-ante* evaluation and the design of reforms, while international organisations help identifying the bottlenecks in the reforms and disseminating information on different country experiences.

¹ See Dayton-Johnson, Londoño and Nieto-Parra (2011) for an analysis of the cycle of reforms in Latin America.

Box 2.2. (continued)

Once designed, there is generally an inclusive and comprehensive dialogue between the stakeholders of a reform. This provides a space for public deliberation and debate, which helps build political support for the reform. In some Latin American countries there have been recent efforts to improve party discipline. Additionally, recent administrations are taking advantage of media influence on public opinion by using “strategic communication” and “news management” techniques to increase public support for the reform. Indeed, presidents have reinforced a direct communication with the public. However, excessive pressure by the media and the public opinion to reform adversely affects the quality of policies, as incumbents might prioritise high-visibility in reforms.

The socio-economic context and the organisation of the reform agenda are key elements in the *adoption* phase. The reforms are adopted by the three powers of the State, although the involvement of different branches depends on the reform in question. The Latin American experience confirms that the economic context affects the chances of adopting policy reforms. In general, crises beget reform — though not necessarily of a structural nature — and launching a “package” of reforms can aid in the correct adoption of policy. The end of millennium crisis triggered fiscal responsibility and transparency frameworks (e.g., Argentina in 1999, Brazil in 2000, Colombia in 2003, Mexico in 2006, and Peru in 1999) and well-designed structural balance fiscal rules (e.g., Chile in 2001, and Colombia is in the process toward approval). In the financial policy-making front, some Latin American countries improved the regulation and supervision of financial systems in the aftermath of the banking crises of the past decade (e.g., Colombia in 1999, Peru in 1999, and Uruguay in 2002). Additionally, leadership and a high degree of legitimacy of the incumbent are crucial at this stage.

Once the policy is adopted, it must be executed and implemented in the *implementation* phase. On the one hand, the executive branch is responsible for implementing the approved policies, while the legislative branch monitors, reviews and investigates in detail the activities of the government. However, the power of interest groups, weak institutional structures, coordination failures between sub-national and national governments, and soft sub-national budgetary constraints have led to policy obstruction in Latin America. This distorts the overall quality of policies and increases the national deficit. Fulfilling its role as watchdog, the media exposes bad policy implementations, rendering actors accountable for their actions. Thus, the wide gulf between *de jure* reforms and *de facto* implementation serves to encourage Latin America to make significant institutional changes in the policy making process.

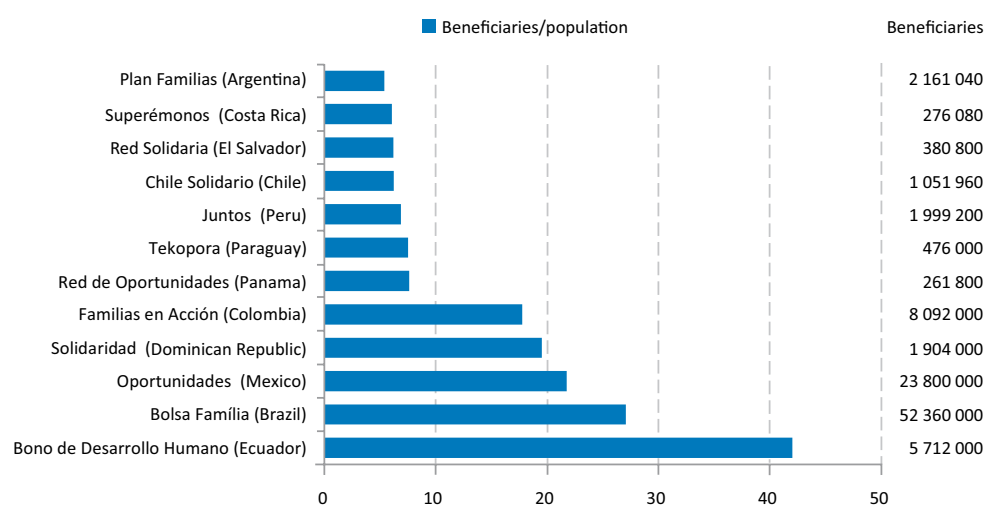
Ex-post evaluations of reforms must improve the *sustainability* of policies in Latin America. From a political standpoint, sustaining a policy is difficult because it challenges policy makers to maintain the policy until it has proven successful, and to prevent its reversal by the following administrations. Evaluations can help to sustain reforms that bear fruits beyond the political cycle and to facilitate changes to make policies more effective by learning from the implementation process. Increasingly in Latin America, independence in *ex-post* evaluations has been guaranteed by technocracy and international organisations, allowing for greater accountability and enhancing the legitimacy of the State throughout the policy making process. In spite of this, there is still room for improvement.

Source: Dayton-Johnson, J., J. Londoño and S. Nieto-Parra (2011), “The Process of Reform in Latin America: A Review Essay”, *OECD Development Centre Working Paper*, No. 304, Paris.

Latin America has been a pioneer in the field of public policy, especially in social sectors. Latin America also pioneered programmes that provide conditional cash transfers to poor households as an incentive to adopt certain patterns of behaviour that would improve their living conditions, opportunities and social capital. After almost a decade since their introduction in many Latin American countries, conditional transfers are now being implemented in Africa and Asia. As shown in Figure 2.3., the degree of coverage varies by country, though a significant percentage of the total population can benefit, as is the case of the current programmes in Ecuador, Brazil and Mexico, among others.

Figure 2.3. Latin America: coverage of selected conditional cash transfer programmes

(Beneficiaries as a percentage of the total population)



Source: Johannsen, J., L. Tejerina and A. Glassman (2009), Conditional Cash Transfers in Latin America: Problems and Opportunities, Inter-American Development Bank, Washington, D.C. <http://dx.doi.org/10.1787/888932522531>

Due to fiscal constraints, many reforms sought to mobilise private resources in order to increase the efficiency and coverage of public policies. The countries of Latin America were early proponents of the creation of social investment funds, public-private partnerships, subsidised schools and private social protection systems. These initiatives were meant to bridge the wide gaps in the financing and management capacity of public policy by incorporating the private sector on the supply side. While not all of the experiences were successful, they have left a legacy of teachings that constitute a good base for further improving public policies. The three main conclusions from these experiences are: *i*) private provision does not absolve the authorities of their responsibility in developing these policy areas, *ii*) public service delivery by private providers raises a number of problems between principals and agents that should be properly solved with incentives and effective monitoring, and *iii*) public-private partnerships and other systems with external involvement should be evaluated according to the same principles as other elements of public policy.

The experience of OECD economies shows that there are no shortcuts nor is there only one path to developing an effective and transparent public sector. The road to public sector reform is long, rocky and requires prolonged cumulative efforts. Too often, political candidates promise sweeping changes in the public sector through very simple measures. And many governments come to power with the promise of starting public sector reform from scratch, dismissing the work of their predecessors.

However, Latin American countries should be willing to continue on the path that has been set, aware that public reform will not be the product of a single government or leader, but the constructive work of many political actors and stakeholders.

In this process, policy makers should be aware of the many obstacles they will face, evaluating the costs and benefits in the short- and long-term. The centralisation of power is a good example of this. Due to the weight of presidential systems and the need for strong leadership to escape the crisis, Latin American countries have tended to concentrate decision-making power in a few actors in the executive branch. This is especially true in the area of fiscal management, where the balance of power between the executive and legislative branches largely favours the former. Even in countries where parliament has the final say on approving the budget, as in Brazil, the executive branch can substantially amend the budget during its execution and alter expenditure items. These provisions may have contributed to fiscal discipline, but have also introduced a high degree of discretionality, which could lead to abuse. Some authorities may also become particularly vulnerable to influences or pressures. Such risks could be mitigated by joint decision-making and by holding authorities more responsible for their decisions.

Policy trade-offs will not be resolved only with legislation —however well designed it may be— but with modifications to the very functioning of public institutions. To achieve this, it is necessary to go beyond local solutions and reform the systems of public administration, or develop others that are more appropriate. Systems need rules to function, but they are also characterised by a series of incentives and institutional structures that determine human behaviour.

Well-structured public administration systems can generate the main asset for governance: trust between the state and society. Distrust is a persistent element in the relationship between citizens and the state in Latin America. Special interests are likely to influence legislation, regulation and administration, but distrust can extend to basic state institutions like the judiciary, the legislature and the police. Distrust is very harmful for public administration not only because it makes the relationship between public agencies and the state difficult, but also because it increases the transaction costs with the government. Policy trade-offs must be carefully monitored with special attention to how institutional systems could overcome them, while at the same time increasing trust in public institutions.

2.5. Policies to improve public administration

Without infringing on the role of the market, the state needs to occupy a central role in the response to development needs and should focus on various areas of public policy. These include: *i*) improving the mobilisation of fiscal resources; *ii*) professionalising the civil service; *iii*) engaging several actors; *iv*) making appropriate use of new technologies; and *v*) promoting mechanisms to make government more open and transparent.

The development agenda of the region presents various challenges to the state. In order to confront them, the State needs the support of its citizens and a long-term vision that can guarantee a certain level of political, social and technical continuity. Five fundamental challenges can be identified:⁹

- The State must guarantee a stable macroeconomic environment capable of dynamising economic growth.
- The State needs to play an active role in promoting changes to the productive structure. This should incorporate technical progress and promote consistent policies for the reduction of productivity lags between sectors and between levels of the productive structure.

- The State needs to play a key role in reducing regional disparities regarding productive capacity, articulation with market and access to services, and move towards decreased inequality of well-being. In order to rationalise the diversity of institutions and actors involved in territorial development, agreements for territorial cohesion must be established to harmonise regional and local development efforts from the top and the bottom. Reversing regional inequalities will inevitably contribute to surmounting inequality nationwide. This highlights the need for public policies that rely upon coordination between different levels of regional disaggregation, contributing to the promotion of greater regional equality.
- The State needs to promote active employment policies that will protect against the contingency of unemployment, close wage gaps in the interest of equality, and increase participation and employment rates. Active policies are needed to improve the quality of jobs and the capacities of the workforce, as are policies regulating the minimum wage, productive support and protection of the informal sector.
- The State should intervene more boldly in the social sector, so as to guarantee better access to welfare and capacity development for the most vulnerable and thus close the gap in this area. Moreover, the state plays a defining role for social protection and promotion, an area where the design and implementation of a universal basic social protection system (basic income security and health) should be explored. Such a system could generate or maximise non-contributory social pension mechanisms, increase the offer of cash transfer programmes, formulate policies to reconcile paid and unpaid work and facilitate women's access to the labour market.

These proposals must be examined in light of the level of resources available to public administrations in the region. The level of public spending is conditioned by capacity for tax collection. Taxes constitute a decisive policy area for increasing the financial capacity of the State to proactively promote development and social equality, as proposed in this report. It is also necessary to study governance of natural resources. At least in the case of many South American countries, the rise of raw materials should motivate a debate on the use of income derived from the exploitation of natural resources.

2.5.1. Expansion of fiscal space and better resource mobilisation

Without additional resources, many Latin American States cannot meet the expectations of society or their global commitments. The functions of the State are already very diverse and will continue to change over the coming years. Some countries will become more urbanised, and others will see substantial demographic changes, such as an increase in life expectancy, requiring governments to make the challenge of providing better living conditions for the elderly a priority objective. The expansion of secondary education will generate more demand for higher education. The empowerment of women will limit the role of families in caring for the elderly, children and people with disabilities. In order to carry out all the functions resulting from the development process, States will need additional resources.

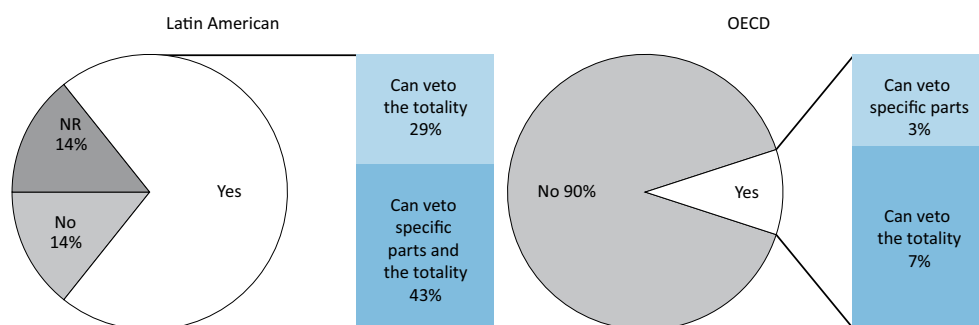
Public administration of finances also plays a crucial role in this area. The recovery of a proper budget process in the region has been significant. The budget process has been transformed into the main instrument of control and allocation of public expenditure, a characteristic lost during the years of heavy indebtedness and high inflation. Progress in terms of planning and multi-year investment allocation is notorious. The resource allocation function has been reinforced with the recent development and consolidation of public-investment and programme-evaluation systems. It is positive that the capacity for medium-term macroeconomic and

fiscal planning has been restored in the region. Both planning and multi-year programming in the public sector, based on strategic objectives, represent an opportunity and necessary condition for the promotion of sustainable economic and social development. Efforts to control public finances and short-term budget programming in a volatile environment are therefore in the process of defining development strategies and goals.¹⁰

Despite the strong improvement in fiscal performance since 2000, countries in the region still have an extensive agenda of budgetary and fiscal-space improvements to increase effectiveness and efficiency in resource allocation and transparency. Budgets suffer from institutional rigidity and high volatility, which undermines public spending management. The fiscal space objectives should not contradict the objectives of redistribution and economic efficiency in fiscal reform.

A comparison of budgetary institutions in Latin American countries and OECD economies reveals that in Latin America there is a greater centralisation of authority and greater restrictions on the executive body when modifying the budget (see figures 2.4a and 2.4b).

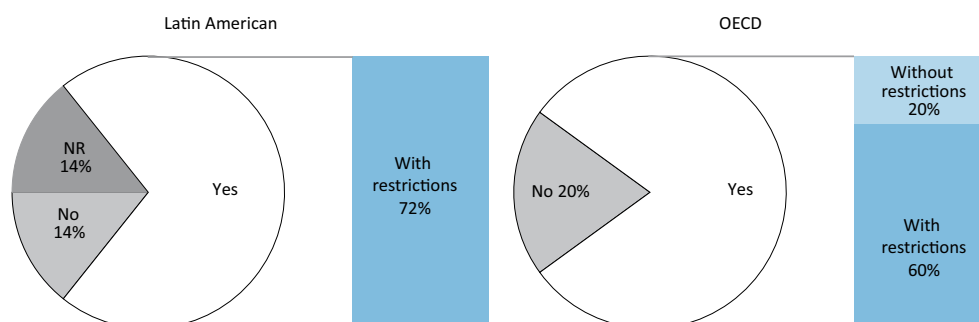
Figure 2.4a. Latin America and the OECD: does the executive body have veto power over legislation?



Note: The Latin American countries covered in the survey were Argentina, Brazil, Chile, Costa Rica, Mexico, Peru and Venezuela (Bolivarian Republic of).

Source: OECD International Budget Practices and Procedures Database, 2005 and 2007. <http://dx.doi.org/10.1787/888932522550>

Figure 2.4b. Latin America and the OECD: can the executive body increase spending after the budget is approved?



Note: The Latin American countries covered in the survey were Argentina, Brazil, Chile, Costa Rica, Mexico, Peru and Venezuela (Bolivarian Republic of).

Source: OECD International Budget Practices and Procedures Database, 2005 and 2007. <http://dx.doi.org/10.1787/888932522569>

The limited use of evidence in budgetary decision-making requires more in-depth budgetary management with result-oriented objectives. Only a minority of countries in Latin America perform a thorough analysis of the economic assumptions of budgetary data and annual evaluations of their long-term fiscal projections. In the area of legislation, parliaments generally have no specific technical support to assess the executive body's budget proposals, which can foster clientelism. Strengthening decision-making and analytical capacity in the ministries of finance and in line ministries in Latin America can help push through reforms that are centred more on the adoption of management decisions based on transparent evidence and less on detailed budgetary control. This must be part of a change in mentality to secure the effectiveness of fundamental budget reforms, such as the creation of medium-term budgetary frameworks, expanded flexibility in ministries that execute spending plans, and implementation of fiscal responsibility laws that lay the groundwork for budget and spending transparency.

Result-oriented objectives for budgetary management should take into account the particular challenges and institutional frameworks of these countries. Because governments in Latin America focus more on programmes and investments compared to OECD economies, budgetary management should strengthen ties with strategic planning, investment programmes and more intensive use of outcomes assessment. Consequently, the challenges are to move forward in developing shared, cross-cutting objectives, promote comprehensive, strategic and institutional planning, and establish performance and management agreements for key public bodies.¹¹

2.5.2. From public employment to the professionalisation of the civil service

As service organisations, governments depend heavily on their workforce to meet their mission. This especially applies to public employees who represent the state in the exercise of statutory powers, and whose behaviour, therefore, cannot be based solely on efficiency but also on transparency and fairness. Public employment reform in Latin America is a major challenge that requires a break with the history of patronage and the politicisation of public administration. This challenge is not alien to many OECD economies that over the past century have created a civil service with similar goals.

A good starting point for policy makers in the framework of civil service reform is to have a clear idea of what is expected of public sector employees and what motivates them. To solve the problems in the public employment sector, many countries in Latin America have begun to use modern management tools such as performance-related pay, schemes for senior public administration levels, and executive agencies. However, it is important for policy makers to ensure that the use of these instruments is justified by the nature of the problem and by the reality of the countries where they will be applied.

Before designing reforms and specific instruments, policy makers should distinguish between at least four categories of public employees: professional bureaucrats, service providers, public officials and support staff. In order for these categories to function efficiently, a variety of provisions are required that should be included in the legal and contractual framework of public employees. Because the reality in Latin America shows many discrepancies in this regard, a restructuring of labour agreements should play a leading role in reforming the public sector.

In order to boost the skills and capacities of civil servants and to achieve the goals of the institutions for which they work, it is essential to understand their principal incentives. Studies indicate that public-sector employees are not necessarily motivated by the same factors that motivate private-sector employees. Many people are attracted to the civil service because of the nature of the position or the contribution it can make to their professional development. While this cannot be used as an excuse to reduce pay, it does suggest that an incentive programme

should encompass issues such as strategic planning, outcome assessment, training, feedback, recognition and professional mobility, at least to the same extent as compensation systems and performance-based pay.

The central pillar of human resource management in the public sector should be to establish a strong link between corporate objectives, responsibilities and recognition. To achieve this, there must be consistency from entry to exit (hiring, work scheduling, evaluation, compensation, promotion and departure). This needs to be supported by an ongoing study of employee motivation and market conditions. Preference should therefore be given to the process and its institutionalisation, which is unusual in Latin American states.

2.5.3. Inclusion of other actors

In order to provide public services more effectively and efficiently, governments can combine their inputs, policies and knowledge with those of other actors, including non-state actors, sub-national administrations and commercial providers of public goods. Government support helps to introduce incentives to increase efficiency, expand user options, facilitate access, and find new ways to improve the quality of and proposals for public services. Partnerships with private or non-profit entities that offer risk-oriented and innovative thinking can create alternative routes to innovation in public-sector organisations.

The use of market mechanisms in public administration is increasing, although there are marked national differences. This phenomenon is driven by the need for governments to ensure their operations are profitable. Some market mechanisms, such as vouchers, set as their main objective to expand the options for service users.

Information on the use of public services provided by non-government providers is limited. The two Latin American members of the OECD, Mexico and Chile, rely much less on outsourcing than other OECD economies. With outsourced goods and services at 22.9% (Mexico) and 31.1% (Chile), these two countries are well below the OECD average of 42.8% (see Figure 2.5).

This may be an opportunity to open new avenues for innovation in public service delivery through greater use of market mechanisms and partnerships. In addition, low levels of public spending in most countries could provide new opportunities for public-private partnerships aimed at attracting more private capital and expertise and better risk management.

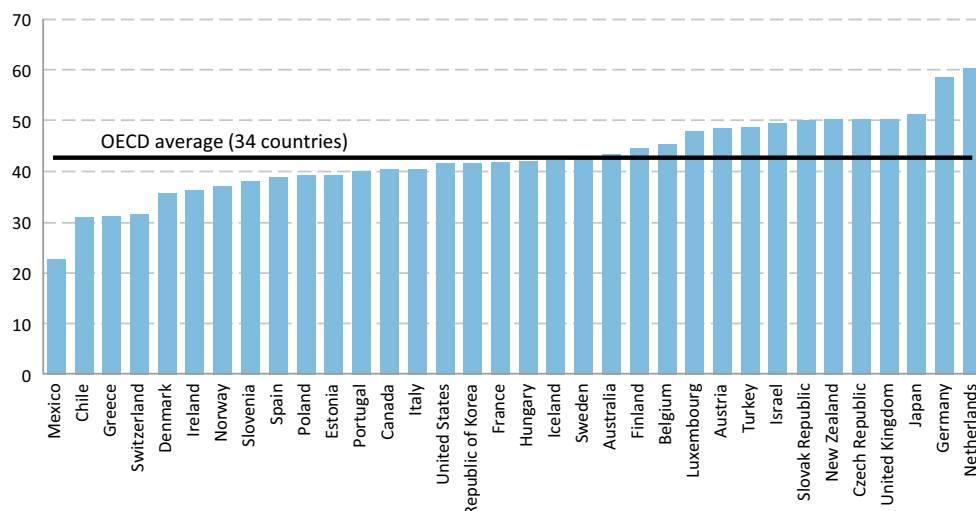
Public-private partnerships are complex instruments that require a range of competencies on the part of government. For example, there should be a solid system to evaluate the profitability of the public sector, and for this purpose there should be transparent, coherent guidelines on non-quantifiable elements. It is also necessary to classify, evaluate and assign risk to those most able to bear it. In addition, strong budgetary and accounting practices are needed. This perhaps requires specific administrative competencies, such as units dedicated to public-private partnerships.

By adopting a market mechanism model, governments in the region face significant challenges in management, especially in its divided role as recipient and provider of services. Latin American governments should ensure that they have the capacity to determine which services and management skills they need to acquire. This requires new technical skills and a complete change in mindset in the public sector. Furthermore, the use of market mechanisms—in addition to traditional government provision—raises questions regarding accountability, transparency, regularity and access to redress mechanisms by society.

In addition to market mechanisms, there are other forms of partnership with citizens and civil society that can contribute to the incorporation of public input and facilitate effective implementation. The evaluation of these types of activities remains a challenge, although there are examples in some Latin American countries that can

Figure 2.5. OECD countries: outsourced production in the public sector, 2009

(Percentage of total public costs)



Note: Data for Australia, Korea, Japan, New Zealand and Russia are from 2008.

Source: National Accounts Statistics Database (OECD). The figures for Australia are a combination of the IMF's Government Finance Statistics' database and national accounts provided by the national statistics agency (Australian Bureau of Statistics).

<http://dx.doi.org/10.1787/888932522588>

help assess new approaches. For example, Brazil has established a partnership between government, public entities, civil society and private-sector organisations to improve water supply in the north-east of the country. Civil society organisations have adopted joint decisions on social issues during the process of integration of the San Francisco River with the river basin of the north-east. This has led to the incorporation of issues related to health, education, sanitation infrastructure and irrigation into the socio-economic impact study and has helped to mitigate local resistance to the project.

2.5.4. Using new technologies to improve dynamism and responsiveness

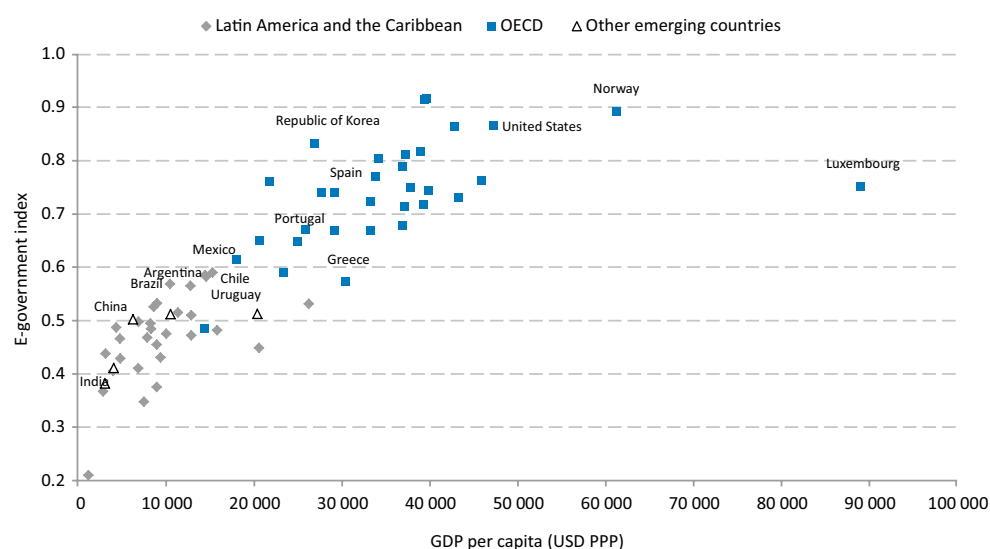
New information and communication technologies can help a public sector be more flexible, dynamic and transparent. If Latin American countries make full use of the potential of new technologies, they can reduce the gap with developed countries. Because these technologies often require new structures, additional benefits could be obtained with more user-focused administrative machinery. This is part of a paradigm shift that involves the technological revolution already taking place, opening up new opportunities to accelerate the pace of development.

Over the past ten years, most OECD economies have developed strategies and infrastructure for e-government. This is a moving target, given that mobile technologies already have the potential to generate a second wave of innovative approaches that can advance a dynamic and mobile public agenda.¹² The goal is to improve access to information, reduce paperwork and facilitate the delivery of services. E-government is not just limited to the computerisation of existing processes, but also seeks to transform the administration, ensuring that citizens and users have easy access to public services, while the administrative machinery re-organises and streamlines internally to take full advantage of new technologies. The main objective is to avoid

overloading the user by requesting the same information multiple times and to use public records that are inter-connected.

In general, the development of electronic administration is linked to the dissemination of information and communication technologies (ICTs), the development of telecommunications infrastructure —such as mobile phones and devices) and access to the Internet. To date, countries in the region have developed infrastructure in line with capacity, but new improvements will only be possible in a context of increased economic development. The strategies to bridge gaps in this area will need to take into account wide income disparities, and consequent issues related to the digital divide and support to disadvantaged groups.

Figure 2.6. Latin America and the Caribbean, OECD economies and other emerging countries: e-government index and per capita GDP, 2008



Source: UN e-Government Survey 2008 for e-government index and database, World Development Indicators of the World Bank for GDP figures. <http://dx.doi.org/10.1787/888932522607>

The implementation of an ambitious agenda for e-government requires countries to act on several fronts. They must strengthen public-sector capacity to promote the spread and use of new instruments, modernise public services, foster the use of peer platforms, introduce legal and regulatory changes to facilitate electronic processes —such as electronic signatures— and certify procedures for the verification of users. E-government also has the potential to strengthen democracy and the rule of law; for example, through electronic voting and e-justice.

Some Latin American countries have played an active role in this area. E-government opens a window of opportunity to the region. Mobile services make some of the new technologies available even for the lowest income groups. However, access to broadband Internet remains fundamental to more advanced applications in e-government, such as interactive transactions with large sectors of the population.

Some examples from the region encourage optimism in this regard —Argentina, Chile, Mexico and Uruguay have developed significant e-government infrastructures that are comparable to those found in some OECD economies.

Box 2.3. Mobile technologies for good governance and connected societies in Latin America

Brazil: The SMS employment information service (CELEPAR) notifies job seekers registered with the government about job vacancies they are eligible for; in addition, it sends a notification 24 hours before the time of the interview.

Mexico: In Mexico City, the SMS broadcasting system sends information alerts to citizens in the area about weather hazards, rain, low temperatures, possible disasters, emergency locations and contact numbers.

Furthermore, the citizens of Mexico City can express their concerns directly to the mayor through ESCUCHA DHM. Through this service, citizens can send complaints about government services, projects and civil servants, as well as voice their opinions on new policies, ask questions about new programmes and report on possible acts of corruption and illicit enrichment.

Bolivarian Republic of Venezuela: During the 2006 presidential election, about 8 million voters used SMS to find their polling stations. 7.8 million of the 16 million registered voters used the SMS application. The National Electoral Council also used SMS to inform 350 000 electoral witnesses where and when to receive their training.

Source: Adapted from OECD (2011c).

2.5.5. Improving trust in the public sector through open and transparent governments

Transparency consists of making government information accessible to the public and subject to the scrutiny of society. Consequently, making government information accessible to citizens so they can review, analyse and, if they wish, use it as a sanctioning mechanism is a democratic practice. This promotes accountability, providing the public with information on what the government is doing.

Information regarding the allocation of resources and the results of their investment is a necessary condition for transparent government action. The Open Budget Survey implemented by the International Budget Partnership (IBP) is an international reference in this field. It is an independent and comparative survey of budget transparency and accountability, based on a questionnaire that evaluates public access to budgetary information, social participation in the budgetary process, and the capacity of supervising institutes to request explanations from the executive branch. Recent IBP data (2010) reflects important differences between countries. Despite major steps forward in budgetary transparency, the countries of the region continue to face an important challenge in this field.

Access to and the use of public information are changing the way in which citizens interact with their governments. This interaction adds value to public initiatives and contributes to decision-making by communities and political authorities.¹³

The consequences and the impact of this recent evolution are unknown, but will surely go beyond the mere simplification of administrative procedures and more transparent administration. Within this framework, the most pressing challenge will be how to direct the benefits of this gained openness towards the citizen, in a real and concrete manner.

It will also be fundamental for countries in Latin America and the Caribbean to monitor the risk of corruption. Rather than one single remedy, there is a whole range of instruments, both public and private, that countries can use to reduce risks. This requires multidisciplinary approaches that facilitate access to information and

transparency, promote the dissemination of information and streamline internal regulations by eliminating concentrations of power and margins for discretion. It is essential to have a satisfactory level of transparency throughout the procurement cycle to minimise the risk of fraud, corruption and mismanagement of public funds. These tools are resorted to internationally and their use is spreading in the region.

Evidence from the region shows that countries are already taking steps to increase transparency and strengthen integrity, such as in the case of Brazil, Chile, and Mexico. For example, Chile's government is proactive in disseminating information. The government encourages the publication of budgetary documents and audit reports and publishes lists of public officials and their salaries. In addition, they make public the names of beneficiaries of social programmes. The country uses different publishing channels, including portals and websites.

Box 2.4. Improving integrity in public administration: the case of Brazil's Federal Government

During the past decade, the federal government of Brazil has adopted a series of measures to improve integrity and prevent corruption in public administration. The actions include: *i*) increased transparency and citizen participation in public policy, *ii*) the introduction of a system of internal control in the provision of services based on risk, and *iii*) the incorporation of high standards of conduct for civil servants.

Transparency and citizen participation in public policies has increased through the free distribution of up-to-date information on public spending in government programmes via the *Transparency Portal*. This has been complemented by the obligation of all federal government agencies to publish information about the services they provide, ways to access them and the standards that can be expected through Citizens' Service Charters. Moreover, citizen participation in monitoring public policies has been facilitated by an expansion in the number of ombudsman units (*Ouvidoria*), from 40 in 2002, to nearly 160 in 2010.

Public administration is introducing internal control mechanisms in the provision of services based on risk. For example, they have strengthened *ex ante* and *ex post* controls for agreements concerning the provision of public services by civil society organisations and the use of federal government credit cards to purchase off-the-shelf goods and for services.

Codes of conduct and other guidance materials, such as orientation courses for public officials, have been published to promote high standards of conduct. In addition, actions have been taken to actively monitor the conduct of civil servants through forensic auditing techniques to identify potential conflicts of interest and situations of unjust enrichment. The federal government has also improved the quality, speed and impact of internal investigations of violations of integrity and administrative misconduct.

Source: Adapted from OECD (2011).

Chile and Mexico, which spend between 5% and 6% of their GDP on public procurement, have also taken steps to publish information on this activity on their main government websites. The countries of the region also rely on structures of checks and balances, which include the offices of the controllers-general. Chile is in a fairly advanced stage given that it publishes justifications for the awarding of tenders, and allows for the online tracking of recruitment spending, activities which are carried out by only 59% and 32% of OECD economies, respectively.¹⁴ Mexico also has a website, updated in June 2010, which offers most of the national information on procurement with the objective of increasing the number of possible

transactions. The country also allows online monitoring of procurement spending. In Brazil, the federal procurement portal and the federal portal on transparency in public administration are examples of sites that provide information to the public, although they do not yet function as one-stop shops. Brazil, like Chile, also allows for the public tracking of procurement expenditure. The next step is the obligation to disclose conflicts of interest of senior decision makers.

Notes

1. OECD (2010).
2. De la Cruz, R., C. Pineda and C. Pöschl (2010).
3. In all countries of the region, a large majority of citizens claim to support democracy. The widespread perception in all countries for which ECLAC data is available is that a significant level of democracy has been reached. (CEPALSTAT 2010)
4. See OECD (2010).
5. Data taken from the “Americas Barometer” of the Latin American Public Opinion Project (LAPOP).
6. See Transparency International’s Corruption Perceptions Index 2010 (www.transparency.org/policy_research/surveys_indices/cpi/2010/results).
7. This section is largely based on OECD (2006 and 2011b).
8. Many of these key points are reflected in the recent conclusions of the ministerial meeting of the OECD Public Governance Committee, held in Venice in 2010 (www.oecd.org/governance/ministerial2010).
9. CEPAL (2010).
10. ILPES (2011).
11. Martner (2008) and ECLAC (2011).
12. OECD (2011c).
13. Naser and Concha (2011).
14. OECD (2010).

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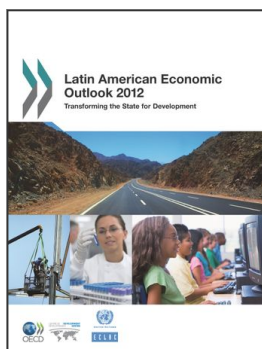
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