

# Public Management Reform: should Latin America learn from the OECD?

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The opinions expressed and arguments employed in this report are the sole responsibility of the authors and do not necessarily reflect those of the OECD, the World Bank, or the governments of their member countries.

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## I. Introduction

In the last twenty years both the OECD and the countries of Latin America have been preoccupied with a vision of modern techniques of public management which can deliver better, more relevant, and simply more, public services despite tight fiscal constraints. Different as the two groups of countries are, the OECD experience has been held up as a model for Latin America. OECD reforms and the rhetoric surrounding them have had a substantial impact on the discourse and decisions on reform in the countries of the region. Many a specialist and politician have believed that “modern” management could catapult countries towards OECD standards of public service. Yet we have now entered a period of reassessment of the OECD experience itself - how much have the OECD countries converged on a new model? What has changed? At what cost? Are the changes permanent or cyclical?

It is therefore an appropriate moment to take a fresh look at the OECD experience and what this means for Latin America. A large literature, academic and practitioner, has looked at the OECD experience, while the literature on Latin America, though not sparse, is substantially less complete. Based on this literature, the paper will look at the reform experience of the last two decades, first in the OECD, then in Latin America. Then it will consider each group of countries in a structured, parallel, and self-contained way, first looking at the pre-conditions for reform, second eliciting the objectives of reform, third characterizing the actual reforms undertaken, and finally making some judgments about the consequences, intended and unintended, of these reforms. The actual reforms undertaken are considered along five technical dimensions: public expenditure management, human resources management, the structure of the public sector, alternative service delivery and demand side reforms. Lastly, the paper will evaluate some lessons and implications and what is it that the Latin American countries should, and should not, take away from the OECD experience.

The paper gives particular attention to the Brazilian experience in Latin America. While Brazil is seen as a more advanced country in Latin America in terms of public administration, it still faces many challenges relative to OECD comparators.

This paper advocates a prudent approach to drawing lessons from OECD countries public management reform experiences for Latin America. It argues that, while broad common reform trajectories can be discerned among OECD countries, and while there is undoubtedly much benefit in sharing technical reform approaches, reform strategies need to be tailored to each country’s specific situation.

This paper also covers public management at the center of the public sector. By public management we mean the machinery for policy implementation (government agencies, civil servants, financial management systems, and the procedural rules that underpin these), rather than the machinery of policy making (legislative bodies, cabinets, appointed officials, and so on). In the real world, policy-making and execution feed off each other and are difficult to separate. This is all the more so in Latin America where, because reforming the whole of the bureaucratic apparatus has proven so difficult, governments have often combined more narrowly targeted administrative reforms with specific policy reforms. This approach is less evident in the OECD.

Looking at public management reforms always throws up a problem of evidence, even in the OECD, where study is more advanced. Management is difficult to measure, so reform results are difficult to quantify. And at worst, we have to make do with rhetoric - often provided by the framers of the reform - about the intended reform results. Inevitably, this paper reflects this general weakness of the field. All too often we are

reduced to generalizations based on limited - and mostly qualitative - information about reform experiences over the last couple of decades.

## II. Reforming Public Management in OECD countries

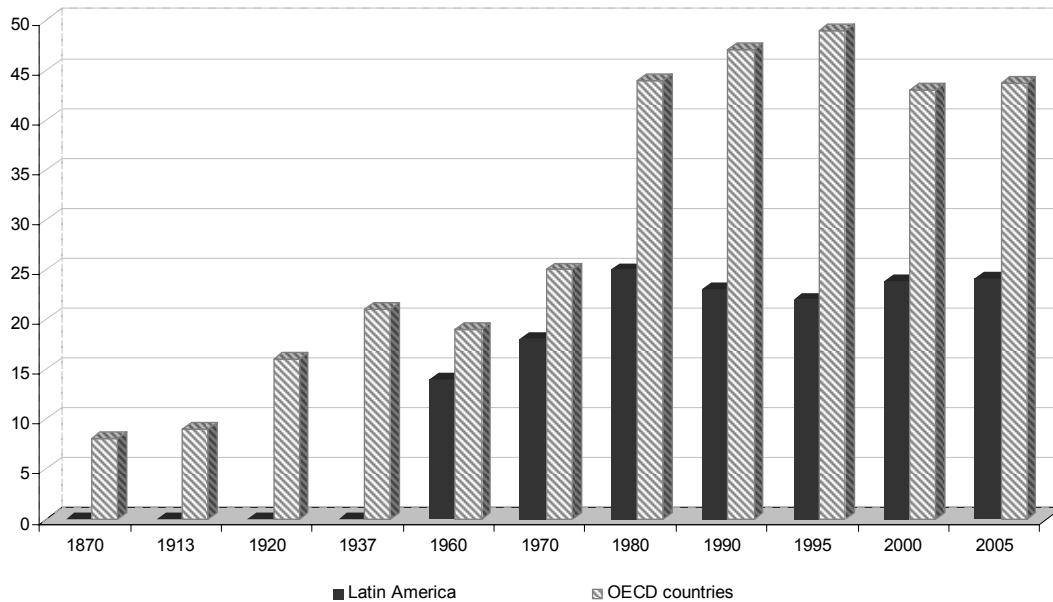
### 2.1. The context

The context for the wave of public management reforms during the past two decades is set by a story of unprecedented growth of the public sector, by the varying degrees of malleability of institutional arrangements in OECD countries and by the traditional sources of legitimacy that have shaped public administration in the past.

The last 100 years have seen an unprecedented growth in the tasks of the public sector and in the complexity of expectations placed on public servants. Public management has been subject to constant changes, but developments in OECD countries during the past three decades have particularly responded to citizens' and politicians' changing expectations with regards to the scope of government activities and to the way government operates.

Government in OECD countries is bigger today than at any point in history (see Graph 1). The historical growth in the public sector leaves public administrations little choice but to adapt. The growing demands on the public service pose inevitable organizational challenges as the responsibilities of civil servants can outstrip their capacities, the structure of public organizations has become exceedingly complex and difficult to coordinate, and the growth in internal and external regulation is said to have led to a culture of risk-aversion. Of course, the development of information and communications technology is part of the challenge. It provides instruments that, through ever more sophisticated measurement and information systems, solve problems of organizational complexity, but also contribute to them.

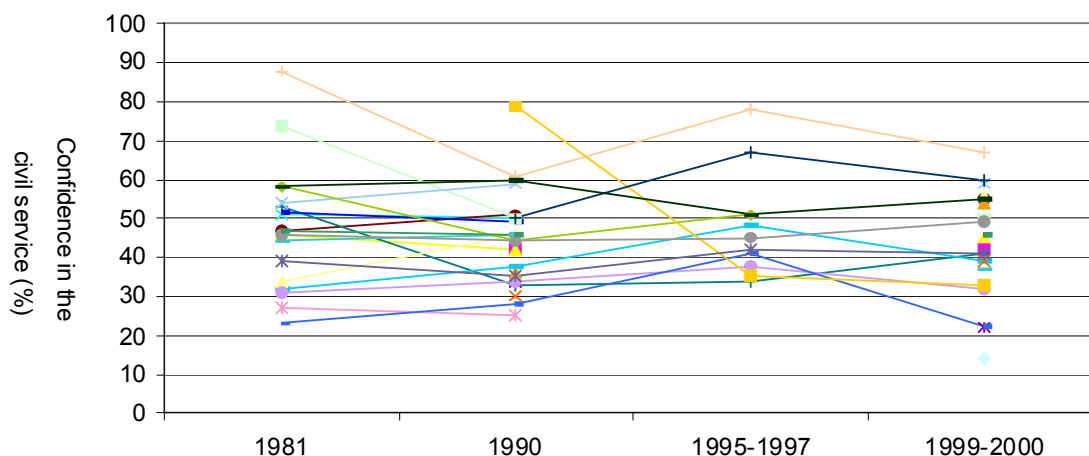
**Graph 1**  
**General Government Expenditure as Percent of GDP in OECD and Latin America, 1870-2005**



Source: 1870-1990: (World Bank: 1997), Figures 1 and 1.2; 1995-2005: OECD.Stat - National Accounts, and Clements, Faircloth, and Verhoeven: 2007, Figure 2.

Despite many concerns about confidence in the government over the last 30 years, there are no clear trends (Graph 2). Trust in the government remains reasonable.

**Graph 2**  
**Confidence in the Civil Service in OECD countries**



Source: cd-rom; ICPSR 2790, World Values Surveys and European Values Surveys, 1981-1984, 1990-1993, and 1995-1997, 1<sup>st</sup> ICPSR version, February, 2000

We can outline some characteristics of OECD countries:

- *Reasonably homogenous group of countries:* The OECD comprises a more homogeneous group of countries than Latin America with respect to size and economic diversity. The OECD has 30 members and a total population of 1.2 billion.
- *Relatively malleable institutional arrangements:* Evolutionary reform paths have been, and still are to a large extent, determined by the very different characteristics of OECD countries' administrative systems, with differing state structures and administrative cultures. The early reformers within the OECD (primarily Australia, New Zealand and the UK) are characterized by somewhat malleable institutional arrangements and with a distinct administrative tradition.

The malleability of administrative systems strongly depends on the nature of the executive and the structure of the state. Single-party majority governments are particularly well positioned to drive through complex reform programs that would create tensions within coalition governments. Horizontal co-ordination of public management reforms across government is easier if there is a powerful central agency which can act as reform driver. States that have divided authority vertically between levels of government (for instance Germany, Belgium, USA, and Canada) tend to be less able to drive through comprehensive and uniform reform programs than unitary systems (for instance New Zealand, UK, the Netherlands, France). However, the lack of uniformity in federal systems can also be an important asset as sub-national government entities units can provide a natural testing ground for a variety of reform approaches.

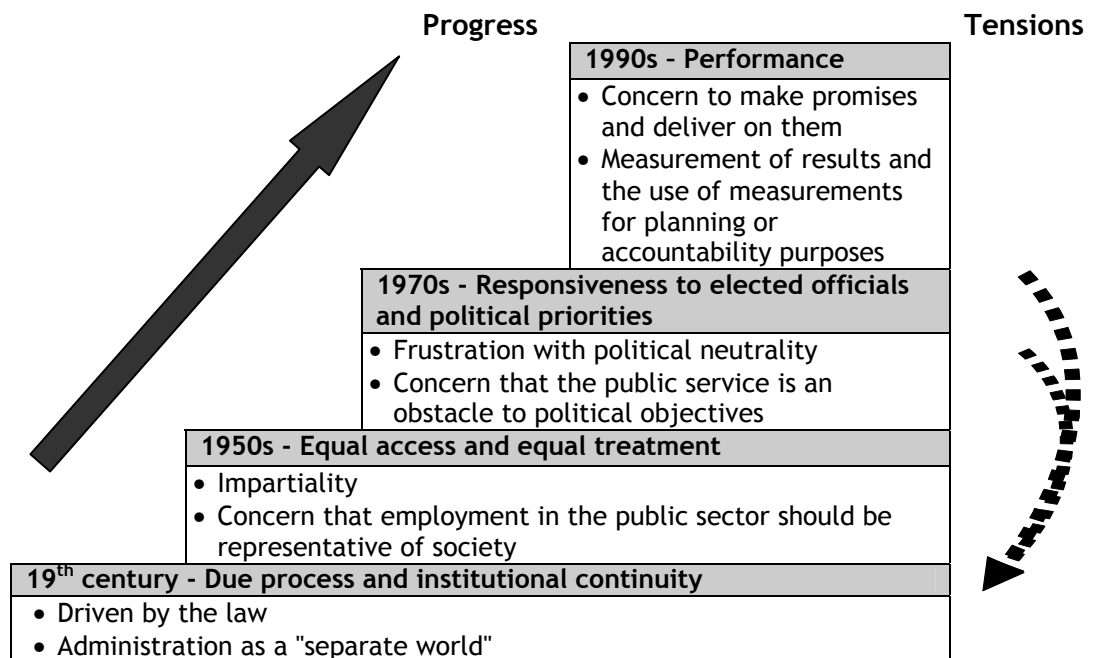
Different administrative cultures strongly determine reform paths. The traditional Germanic and Scandinavian "Rechtsstaat" cultures imbue their civil servants with a profound sense of the importance of preparing and enforcing laws to maintain the integrity and continuity of the state. Consequently, such administrative cultures tend to provide some legal rigidity: management changes often require legal amendments and civil servants are inclined to feel justified in resisting rapid

changes, because they regard preserving the existing procedures and institutions as a crucial and legitimate concern. By contrast, the Anglo-Saxon "public interest" tradition attaches much higher value to pragmatic and flexible decision making for the public benefit. This tradition appears to be peculiarly compatible with more radical reform efforts. The Napoleonic tradition is in many ways similar to the Germanic, although it has become identified with greater centralization.

- *Significant foundations of legitimacy in place:* The 19<sup>th</sup> century rise of the "administrative state" created the need for administrative legitimacy. A more complex service-providing machinery could only be maintained with more widespread political support.

Stylistically, four key stages can be distinguished in the way in which the public administration has gained its legitimacy in the OECD (Figure 1). The different approaches have to be seen as cumulative rather than successive, complexity increasing as one pile on top of the other and as additional constituencies take an interest in the functioning of the public sector. They outline a change from a due-process public service that is primarily expected to serve as an apolitical bulwark of institutional continuity in the 19th century towards a public service whose performance and responsiveness to political leadership and citizens' expectations gain increasing importance. Each institutional development introduces tensions with the gains made in the earlier reforms. In effect, the earlier foundations of legitimacy are shaken by later institutional construction work. Most particularly, the hunt for responsiveness and performance through the development of quasi contracts and the introduction of individualized incentive packages for civil servants is in some tension with the administrative uniformity and the somewhat "blind" due process of the 19th century reforms.

**Figure 1**  
**The Deepening Basis for the Legitimacy of the Public Service**



Source: Authors

The concern for due process and institutional continuity emphasized the role of public service institutions as a quasi-constitutional constraint on political institutions, ensuring their adherence to constitutional and legal requirements. Thus, the 19th century saw a wave of meritocratic reforms, aimed at creating an apolitical public service, run on its own mechanical principles.

It was not until the 1950s and 1960s that a more active notion of equal access and equal treatment entered mainstream debate. Before, in what are today OECD countries, citizens' access to public services was distinctly unequal in practice, despite de jure guarantees of impartiality. As social values changed, this discrepancy became more discordant. Impartiality became increasingly associated with representativeness in public employment - based on the conviction that the former is impossible in practice without the latter.

## 2.2. Current focus

From a purely functional point of view, the challenges facing OECD governments can seem somewhat similar. (OECD: 2007a) highlights the degree to which they should all be focusing on improving labor force participation, liberalizing product markets and improving skill levels particularly via secondary education. However, some 10 years ago (Peters: 1996) had examined such similar shared imperatives and noted that, in relation to public management reforms, different political objectives could be seen behind recent changes - but a consistent core of concern for *responsiveness*, in the sense of responsiveness to elected officials and political priorities, and *performance* in the sense of more explicit linkages between measured results and planning or accountability, can be seen.

Empirically, an increasingly explicit emphasis on balancing due process with responsiveness to elected officials and political priorities can be seen emerging since the 1960s, commencing with significant reforms to the budget process and subsequently broadening to include major reforms in human resource management.

### 2.2.1. Responsiveness

A responsive public sector is one that reduces the time lag between political priorities and public policy actions. Responsiveness is about what gets done and when, while a performance orientation is about how it gets done. It became an important concern because inertia and bureaucratic capture were felt to hinder politicians and policy-makers from refocusing resources on emerging priority areas.

Several OECD countries have made considerable efforts since the 90's to increase responsiveness. Those initiatives are not only restricted to central government, but also to government business enterprises, individual agencies, and local governments (OECD, 1996). Some evidence of that is provided by the greater use of some types of arms-length agencies, as a way of enhancing responsiveness, and some increase in political involvement in senior staffing appointments

### 2.2.2. Performance

A performance orientation in the public sector is one that establishes explicit linkages between measured results and planning for future services or accountability for past deliverables. It entails a concern to make ex ante promises and parallel focus on measuring the degree to which they were achieved.

As many have noted (Matheson, Weber et al.: 2007; Schick: 2005), the notion of performance is seen as fundamental to the modern state: governments must increasingly earn their legitimacy by fulfilling their service delivery promises.

In human resources management, the concern about performance becomes particularly visible in the changing arrangements for managing individual performance. Individualization allows recruitment arrangements, employment contracts, accountability and pay that are tailored to the specific tasks of the individual.

### **2.3. Five technical dimension of reform**

In searching for modest signs of convergence in these diverse paths during the past three decades, this paper identifies responsiveness and performance as the outstanding landmarks. These parallel reform objectives play out differently in five specific policy fields: public expenditure management and financial accountability; human resource management; the structure of the public sector; alternative services delivery; and demand-side reforms.

#### *2.3.1. Public expenditure management and financial accountability*

The twin-track story of responsiveness and performance can be seen throughout the budget reforms of the last 30 years.<sup>1</sup>

There were two historic waves of reform. The earlier set of reforms in the 1960s and early 1970s was primarily concerned with increasing the responsiveness of the budget to political priorities (allocative efficiency) and can be grouped under the title of program budgeting. The second, most recent group of performance-based budgeting reforms can be seen as primarily focused on enhancing performance through operational efficiency.

Accounting reforms have entailed a move from cash-based systems towards double-entry bookkeeping, allowing some understanding of the asset position of a department or agency, and then, in some cases and not without many challenges, to full accruals accounting (which recognizes the value of all assets and liabilities, in addition to revenues and expenditures). The latter step allows, in principle, costs to the entity to be linked to information about its performance.

Audit reforms have followed a similar move towards performance, building on the traditional base of compliance auditing and gradually incorporating performance and value-for-money auditing within standard audit procedures (Pollitt, Girre et al.: 1999).

#### *2.3.2. Human resources management (HRM)*

As in budgeting, the story of responsiveness and performance plays out in HRM reforms. The four key reform areas associated with these goals: the politicization of appointments to the senior civil service, a search for a smaller and more agile government, the use of agency targets and quasi-contracts for senior civil servants, and the individualization of employment conditions.

In the 1970s, the concern for improving the responsiveness of the public service to political priorities took on a new urgency (Rose: 1976). An unresponsive civil service started to be seen in some OECD countries as an obstacle to implementing policy changes in the 80's. Even though the ideal type of the apolitical "Weberian civil service" was rarely found in practice, neutrality was increasingly perceived as an obstacle to rapid responses to political priorities.

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<sup>1</sup> There are three core goals of public expenditure management, aggregate fiscal discipline, allocative efficiency, operational efficiency. Responsiveness and performance can be seen as increasing the emphasis on the latter two goals.

One consequence, as many argue, is an increase in political involvement in senior staffing appointments, as in the USA (Dunn: 1997; Light: 1995; Peters and Pierre: 2004). Political involvement in staffing decisions can affect both line positions (Matheson et al: 2007) and political advisors outside of the usual hierarchy (James: 2007). While increased politicization of the civil service is an important issue in the responsiveness-debate, the hard evidence of increasing politicization remains too limited to speak of an actual trend towards politicization.

Another consequence of the concern about responsiveness has been the search for a smaller and more agile public service. However, there is little evidence of any reduction in government expenditures on staff compensation (relative to GDP), and no evidence of downsizing in general government employment. To the contrary, data from a recent survey suggests that many General Government employment totals have increased, suggesting that the changes owe more to increases in GDP than to downsizing policies.

A key means to enhance both the responsiveness and performance of the civil service has been the use of targets or quasi-contracts for agencies, linked with the performance contracts of senior staff.

As part of the move towards individualization, most OECD countries have introduced individual performance appraisal systems which are usually linked to promotion and advancement. A majority of OECD countries have implemented performance-related pay policies, with wide variations in its application (OECD: 2005c).

### *2.3.3. The structure of the public sector*

The emphasis on responsiveness and performance is apparent in three major structural changes: the development of regulatory management institutions; intergovernmental decentralization; and decentralization within government. These reforms result in greater organizational diversification, with greater managerial authority provided to new "arms-length agencies" and to existing departments and ministries.

New regulatory management institutions have become necessary in response to the growing importance of regulating economic actors as a key task of government. New regulatory policies have been designed to reduce the volume and complexity of regulation, to reduce the cost both of the regulatory process itself and of enforcement, and to develop regulations that better respond to firms' concerns.

The responsiveness concerns are primarily addressed through new institutionalized procedures for public consultation in the regulatory process. While additional sector-specific regulatory authorities have developed, in parallel the responsibility for regulatory quality management has been centralized in a strong central agency, providing the basis for a more integrated reform approach. Improving performance in regulation is undoubtedly still a work in progress.

Intergovernmental decentralization varies greatly across OECD countries (Blöchliger and King: 2006) and fiscal autonomy is not correlated with constitutional structure. There is a clear increase in the share of sub-national expenditures (Italy and Spain). However, this trend is not matched by a corresponding increase in local taxing power. Consequently, the "fiscal gap" has widened in the last decade.

This trend has an ambiguous impact. On the one hand, it may make service providers more responsive to local concerns. On the other, it may make service providers somewhat less concerned about performance and efficiency - because it is not their money that they are spending.



The diversification of organizational forms within the public sector increased significantly through the distribution of government responsibilities to “arm’s-length bodies”. This notion reflects their common characteristic of being at arm’s length from the control of politicians, outside the hierarchical control of traditional vertically-integrated line ministries and departments.<sup>2</sup>

Common characteristics can be identified in an arm’s-length body. Typically, they entail a degree of specialization and differentiated management arrangements from traditional vertically integrated ministries. In some cases the minister is officially prevented<sup>3</sup> from interfering day-to-day but always they seek to combine accountability for the delivery of that service with increased managerial and financial autonomy.

Such agencies can differ significantly along two key dimensions: the form of their political control and the threshold for changing their structure.

On the downside, three potential difficulties associated with agency governance need to be observed. First, there is a persistent concern that arms-length agencies are creating substantial policy coordination challenges (Christensen and Laegreid: 2006, p.137 et seq.). While not mutually exclusive from any performance gains, there are also concerns that they can represent a successful attempt by senior staff to avoid becoming enmeshed in the painful details of service delivery (James: 2003). Finally, there is a concern that the creation of agencies can distract from the more substantial task of removing non-essential service responsibilities from the public sector (Beblavy: 2002).

There is some limited evidence that the growth in regulatory bodies, an intentionally non-responsive (in the sense intended in this paper) form of arms-length body, has been the main growth area (Christensen and Yesilkagit: 2006).

#### *2.3.4. Alternative services delivery*

Governments face, commonly, higher operational difficulties in delivering certain kinds of services than the private sector. Outsourcing and Public Private Partnerships (PPPs) take advantage of the better operational capacity of the private agent, having the potential to improve both responsiveness and performance of the government. The government needs to have sufficient capacity to coordinate these arrangements; otherwise the cost could be higher than the benefit.

(Blöndal: 2005) notes that outsourcing has shown itself as a widely applicable approach. However, beyond the transaction costs of the outsourcing process, there are a number of systemic constraints to outsourcing. Most particularly, government needs to be able to monitor effectively the delivery of the service, to manage any governance risks concerning undue influence or even corruption, and to maintain a watchful eye over any emerging contingent liabilities. OECD experience has suggested that outsourced services rarely revert back to government provision.

Public-private Partnerships (PPPs) describe a wide variety of institution cooperative agreements from loose, informal and strategic partnerships, to design-build-finance-and-operate (DBFO) type service contracts and joint-venture companies. PPP’s have been used in several OECD countries. The claimed benefits of undertaking PPPs are to use the private sector to provide value of money and efficiency, and to more suitably transfer some of the risks to the public operator. However, PPP’s are used less than predicted by many. The UK

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<sup>2</sup> Some prominent examples are the UK Next Steps agencies, the development of Zelfstandige Bestuursorganen (ZBOs - Independent Governing Bodies) in the Netherlands and the Bundesbehörden (Federal Authorities) in Germany.

<sup>3</sup> It prevented by: a) contract that limits his/her involvement to an annual contract renegotiation; or b) a legislative framework that makes the entity accountable only to parliament for the way in which it applies the law.

is the OECD member country where PPPs have been most extensively used, but even there the use of PPPs only represents around 10-15% of total public investment expenditure. PPPs are most commonly employed in large-scale and long term projects that involve extensive maintenance, capital intensity, and operating requirements over the project lifetime.

### *2.3.5. Demand-side reforms*

Demand-side reforms comprise a set of institutional changes that place greater pressure on governments - to adapt services to the policy preferences of key groups (responsiveness) and to ensure quality in implementation (performance). Broadly, such demand-side reforms comprise: the use of market-type mechanisms (such as vouchers), open government, and e-government.

Firstly, vouchers separate the provision of public services from its financing (OECD: 2005b) and can be of three main types. The first type is explicit vouchers. These are coupons of some kind issued to individuals which can be exchanged for services at a range of suppliers. The individual voucher-holder chooses among different suppliers and pays with the voucher, which can be redeemed for cash from the government. The second and third types are different forms of implicit vouchers. One form of implicit vouchers requires that the recipient chooses one of several approved suppliers and thereby triggers the government to pay directly to that provider. A second implicit voucher arrangement is when the government reimburses the user for expenditure on qualifying services from approved suppliers, either through the tax system or through a cash transfer. In each case, government may finance the service, in part or in full. Using this broad definition, the use of vouchers is significant across the OECD.

Secondly, an open government can be loosely defined as one where businesses, civil society organizations and citizens have increased their capacity: to know what has been decided (transparency), to obtain their legitimate service entitlement (accessibility), and to be heard (consultation and participation). OECD governments have developed many new institutions that foster open government (OECD: 2005b).

Finally, e-government does not refer to a distinct set of institutions - but the significance of preparing forms of service delivery and interfacing with the public for e-government is such that the institutional changes necessary are emerging as a distinct area of reform. Performance improvements resulting from e-government can be seen when particular groups with high levels of internet access are required to undertake certain procedures online, streamlining service delivery channels and improving uptake (OECD: 2005a). OECD countries have been establishing legal frameworks for e-government that formally recognize e-government processes vis-à-vis the equivalent paper process, allow data sharing between agencies subject to privacy protection, and consolidate existing legislation concerning public sector electronic services.

## **2.4. Stylized reforms paths**

Emphasizing that the trends within OECD countries represent a broad movement and not a tight convergence, Table 1 sets out some stylized paths that OECD countries have, to very varying degrees, been following. Such paths are not neat and tidy, or indeed predestined, but some patterns can be identified which many OECD countries are broadly following. The obvious point should be emphasized that these are reasonable interpretations from a distance.

In some areas, most notably public expenditure and financial-accountability, a trajectory from “basic” to more “advanced” administrative techniques can be observed. In

the other areas, including human-resource management and structural reforms, there is a similar sequence from basic to advanced, but a less obvious unique trajectory.

**Table 1**  
**Reform Patterns in the OECD**

Area of Reform	Reform Patterns
<b>Public expenditure and financial accountability reforms</b>	
<b>Budget rules</b>	<ol style="list-style-type: none"> <li>1. Input-oriented line item budget, incrementalist</li> <li>2. Input-oriented line item budget, non-incrementalist (ZBB, PPBS)</li> <li>3. Input-oriented line item budget, plus some performance information (MBO)</li> <li>4. Budget procedures and timing based around performance reporting</li> <li>5. Some accruals budgeting</li> </ol>
<b>Accounting</b>	<ol style="list-style-type: none"> <li>1. Cash-based</li> <li>2. Double-entry bookkeeping</li> <li>3. Accruals accounting with extended cost calculation supported by performance measurement system</li> </ol>
<b>Audit</b>	<ol style="list-style-type: none"> <li>1. Traditional financial and compliance audit</li> <li>2. Compliance focus with elements of performance and evaluation</li> <li>3. Institutionalized financial, compliance and performance auditing</li> </ol>
<b>Human resource management reforms</b>	
<b>Workforce size and composition</b>	<ol style="list-style-type: none"> <li>1. Incentives for workforce reduction</li> <li>2. Greater use of lateral entry - particularly for senior staff</li> </ol>
<b>Compensation and careers</b>	<ol style="list-style-type: none"> <li>1. Moves towards position-based system (or even towards use of general labor law)</li> <li>2. Promotion by performance</li> <li>3. Decentralization of the employer function</li> <li>4. Limited introduction of performance-related pay - associated with targets or quasi-contracts for agencies</li> <li>5. Moves towards defined contribution pension schemes</li> </ol>
<b>Structural reforms</b>	
<b>Regulatory management</b>	<ol style="list-style-type: none"> <li>1. Growth in independent regulators</li> <li>2. Creation of central bodies for regulatory management</li> </ol>
<b>Inter-governmental decentralization</b>	Some functional and fiscal decentralization to sub-national governments
<b>Organizational diversification</b>	<ol style="list-style-type: none"> <li>1. Unbundling - (possible) creation of more "arms-length" agencies</li> <li>2. Delegation of managerial authority within central ministries and departments</li> </ol>
<b>Alternative service delivery</b>	
<b>Outsourcing</b>	Increased out-sourcing
<b>Public Private Partnerships</b>	Greater use of "public private partnerships"
<b>Demand side reforms</b>	
<b>Market-type mechanisms</b>	<ol style="list-style-type: none"> <li>1. Market-based approaches to delivering public services (including the introduction of user charges and some use of vouchers)</li> <li>2. Market-based approaches to delivering internal government services</li> <li>3. Market-based approaches to setting regulatory standards or prices</li> </ol>
<b>Increasing user participation in management and planning</b>	Diverse pilot activities
<b>Open government</b>	<ol style="list-style-type: none"> <li>1. Provision of information about services and entitlements through charters</li> <li>2. Freedom of Information legislation</li> <li>3. Extension of offices of ombudsman</li> </ol>
<b>E-government</b>	<ol style="list-style-type: none"> <li>1. Provision of information about services and entitlements through e-government</li> <li>2. E-government infrastructure and legal framework</li> </ol>

Source: Joumard et al: 2004; OECD: 2005b, c, 2007b; Pollitt et al: 2004a.

## 2.5. Achievement and risks

It would be more than cynical not to recognize the productivity and quality improvements the public sectors of OECD countries have seen over the last three decades. Arguably, these improvements are due in large measure to the quantum leap in human capacity within the public sector. Doubtless, ICT investments have made a significant contribution, although the evidence is somewhat scanty. However, there can also be no doubt that managerial reforms have also had a significant share in these improvements.

The contribution of performance-based approaches has undoubtedly been significant. However, an overall cost-benefit evaluation would require some examination of the costs and outcomes of reforms - and here, evidence becomes scarce (OECD: 2008 (forthcoming); Pollitt et al: 2004). Reforms may have been more costly than anticipated - and they may also have had unintended consequences.

### 2.5.1. Responsiveness

Several OECD countries have made considerable efforts since the 90's to increase responsiveness. Those initiatives are not only restricted to central government, but also to government business enterprises, individual agencies, and local governments (OECD, 1996b).

The origins for this increasing concern for responsiveness vary, but they are generally related to budget pressures, dissatisfaction with existing public services and most particularly, concerns from the political leadership that they are unable to introduce or deliver new government programs within a politically meaningful timescale.


### 2.5.2. Performance-based approaches

Measures of performance have been increasingly introduced into management and budgeting arrangements within OECD countries, sometimes embedded within standards, which are a kind of "service delivery promise". While the scope, types, and uses of performance measurement vary enormously (Table 2) across OECD countries, many countries have sought to adopt approaches towards budgeting, management and accountability which shift emphasis from controlling the mix of inputs and processes ex-ante towards ex-post monitoring and accountability for outputs and outcomes. Relaxation of input controls gives managers more flexibility to improve performance, while in return they are held accountable for results.

This has led to the development of stronger processes of external control on outputs, emphasizing that results are as important as the means that delivered them. In parallel, internal management control for probity and compliance has also been strengthened as many financial and non-financial resource allocation decisions are now made at the discretion of local managers.

Collecting performance data is expensive; developing and implementing meaningful indicators takes time. More importantly, performance management systems are not an end in themselves, but serve to motivate public servants to be more attentive to public purposes and results.

**Table 2**  
**Types of Performance Measure used in OECD Countries**

	<b>Relatively simple measures</b>	Compliance with delegated authority		All regulatory and legislative responsibilities complied with		
		Leadership style		Strength of internal governance and leadership, and maintenance of good working relationships		
		Facilitating learning and change management		Effectiveness of arrangements for staff learning, fostering innovation and change management		
		Human resource management		Good recruitment and retention decisions, and productive working environment		
		Stewardship		Operating resources, capital assets and IT infrastructure are well managed		
		Promoting/preserving values		Effectiveness of mechanisms to promulgate public service values		
	<b>Single results measures</b>	Input usage	What goes into the system? Which resources are used?			
		Outputs produced	Which products and services are delivered? What is the quality of these products and services?			
		Policy goals achieved	Intermediate outcomes (direct consequences of the output)	These measures are valid for performance only to the extent that there is a clear causal relationship between the individual or agency outputs and the measure.		
			Final outcomes (significantly attributable to the output)			
	<b>Ratio measures</b>	Efficiency	Costs/Output			
		Productivity	Output/Input			
		Effectiveness	Output/Outcome (intermediate or final)			
Cost-effectiveness		Input/Outcome (intermediate or final)				
<b>Complex measures</b>						

Source: (Ketelaar et al: 2007)

### 2.5.3. Unintended consequences

Schick (2005) has pointed to the risk that responsiveness and service delivery performance might be achieved at the expense of the long-term and more fundamental foundations of legitimacy. Responsiveness and performance are in demand, but they do not by themselves sustain the legitimacy of government. In fact, if they are achieved by unconstrained political involvement which erodes the impartiality and inclusiveness of the public service and its perceived respect for the constitution, then they undermine the longer term legitimacy of the government.

There can be no hard and fast answer whether the public service in OECD countries has indeed retained a grasp on the basics while the recent reforms have been introduced - but, encouragingly, there are some signs that the risks are recognized. However, there are unintended consequences and these can be summarized by:

- *The erosion of value in the public service*: as decentralization of the employer function and individualization of rewards create public sectors that are increasingly heterogeneous, the risk is that of erosion in the unwritten values and ethos of the public sector. The significance of this concern is an open question, but whatever the case, there is an attempt to replace or reinforce the unwritten rules with explicit codes of ethics.
- *Managing the political-administrative boundary*: It has long been the case that while principles of public service neutrality in the sense of non-partisanship are espoused by all OECD countries, this does not equate to an apolitical process for senior appointments. Countries still have a range of laws, conventions and procedures which spell out more precisely the division of responsibility between ministers and civil servants, in some cases by prohibiting politicians or civil servants from being involved in certain areas. However, these arrangements are all under some considerable strain.
- *Emerging risks*: Could there be too many reforms? A recent review concludes, about the US, that "the deluge of recent reform may have done little to actually improve performance. On the contrary, it may have created confusion within government about what Congress and the president really want, distraction from needed debates about organizational missions and resources, and the illusion that more reform will somehow lead to better government" (Light: 2006).

In principle, it is certainly possible that the costs of some public management reforms might outweigh their benefits. Beyond the relatively easily identified staff and material costs for preparing and implementing the reforms, other less tangible but possibly very significant unintended costs need to be taken into account. Excessive transparency can obstruct compromise in decision-making bodies (Stasavage: 2006). In addition, the performance approaches bring with them a significant risk of "gaming".<sup>4</sup> However, (Bevan et al: 2005) point out that gaming risks could be significantly reduced by making it more difficult for agents to predict what exactly will be measured and how it will be done.

### III. Reforming Public Management in Latin American countries

#### 3.1. The context

The countries of Latin America have much in common in their history and culture. This includes a common historical experience of political and economic crisis. The Spanish-speaking countries have enjoyed almost two centuries of independence - Brazil, a former Portuguese colony, a little less. But because of the restricted vote and the absence of modern political parties, this has not always meant full democracy. The 19<sup>th</sup> Century was one of "liberal oligarchy" and minimal government. The early 20<sup>th</sup> Century saw the emergence of a middle class and, to some extent, a working class, but from the 1930s class interests were often tied to a corporatist/paternalist state. There has nonetheless been a slow underlying move to greater democracy in the 20<sup>th</sup> Century, albeit punctuated by authoritarian episodes, populism, and political and economic instability.

Focusing in the last decades, Latin America lived systematic periods of economic crisis and reforms. As an answer for the "lost decade" for Latin America, three major elements to the reform of the state were aimed - in what came to be known as Washington Consensus (Lora: 2007): a) *democratization* (political and electoral systems were reformed,

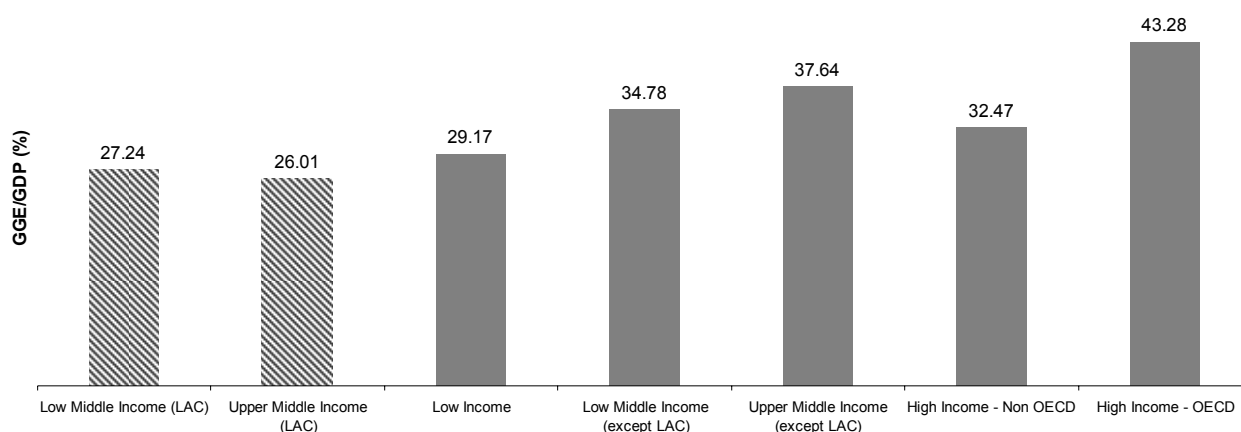
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<sup>4</sup> If agents know the measures that are used to evaluate their performance, they are motivated to change their conduct in order to change the measure, regardless of the impact on the public or policy outcomes.

political parties changed, representation broadened, and judicial oversight improved (Lora: 2007) with the end of military governments); b) *economic stabilization* (fighting inflation, making central banks more independent, improving tax systems, privatization, reforming of budgetary institutions, financial and pension systems); c) *opening the economy*.

Even though a major claim of those reforms was to reduce the size of the government; Latin America countries have been small relative to the rest of the world. The ratio of average General Government Expenditure to GDP is the lowest in the world, comparing it with countries at the same level of income (graph 3). Even when non-financial Public Corporations are included in this calculation for Latin America, the average of the region remains low in relative terms, less than 30% of GDP on average. Brazil is a significant exception.<sup>5</sup>

**Graph 3**  
**Average General Government Expenditure as Percent of GDP per Income Group and Latin America and Caribbean (LAC) region**



Source: International Monetary Fund, Government Financial Statistics (2008).

Latin American countries do not only spend less, on average, than the OECD ones, but they also face a more skeptical public (Graph 4).

We can outline some characteristics of Latin American (including Caribbean) countries:

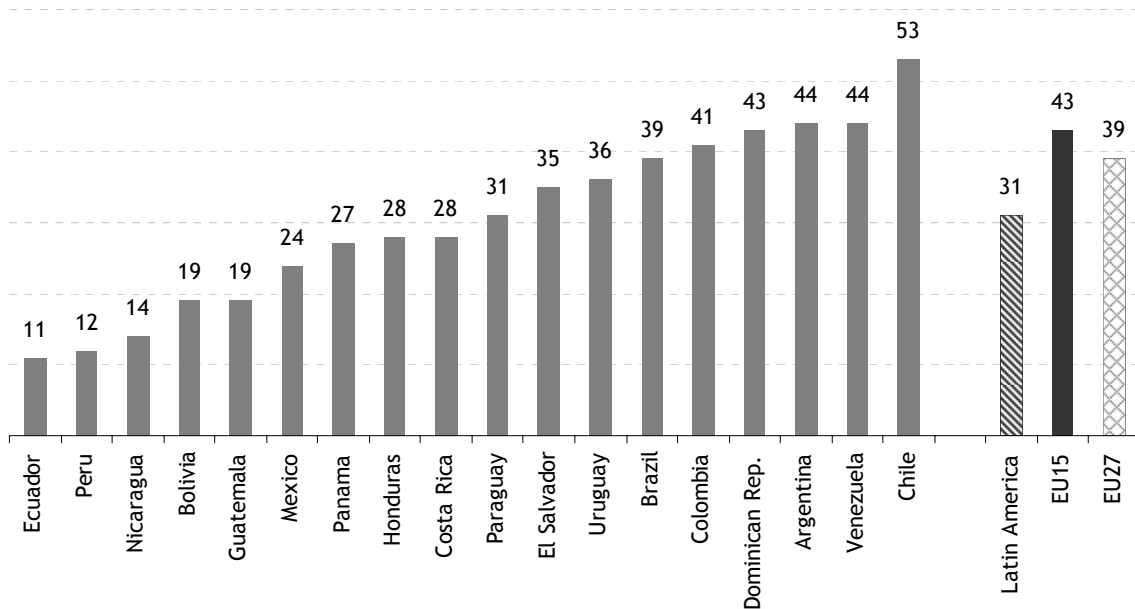
- *A heterogeneous group of countries:* Latin America comprises 34 countries with a combined population of about 520 million. These variations are seen not least in terms of the quality of public administration and government effectiveness (Graph 5).

The range of differences in the quality of public administrations and the factors that drive this are illustrated in a country typology developed in an IDB study (Echebarría et al: 2007), they are: a) *Merit-based bureaucracies* (have good technical capacity and enjoy political independence. Chile and Brazil fall into this category); b) *Administrative bureaucracies* (enjoy some political independence but existing merit-based rules are not applied, incentives for performance are weak, jobs are more politically determined, and the bureaucracy plays a limited role in government. Examples: Argentina, Colombia, Costa Rica, Mexico, Uruguay, and Venezuela); c) *Weak bureaucracies* (the

<sup>5</sup> The General Government Expenditure data is from a sample of 69 observations of several years (due data availability) from the IMF database (GFS, 2008). Total Non-financial Public Sector/GDP is calculated by ECLAC referent to the year 2006 (2008). Note that in both cases, Brazil is not included in the sample due data availability.

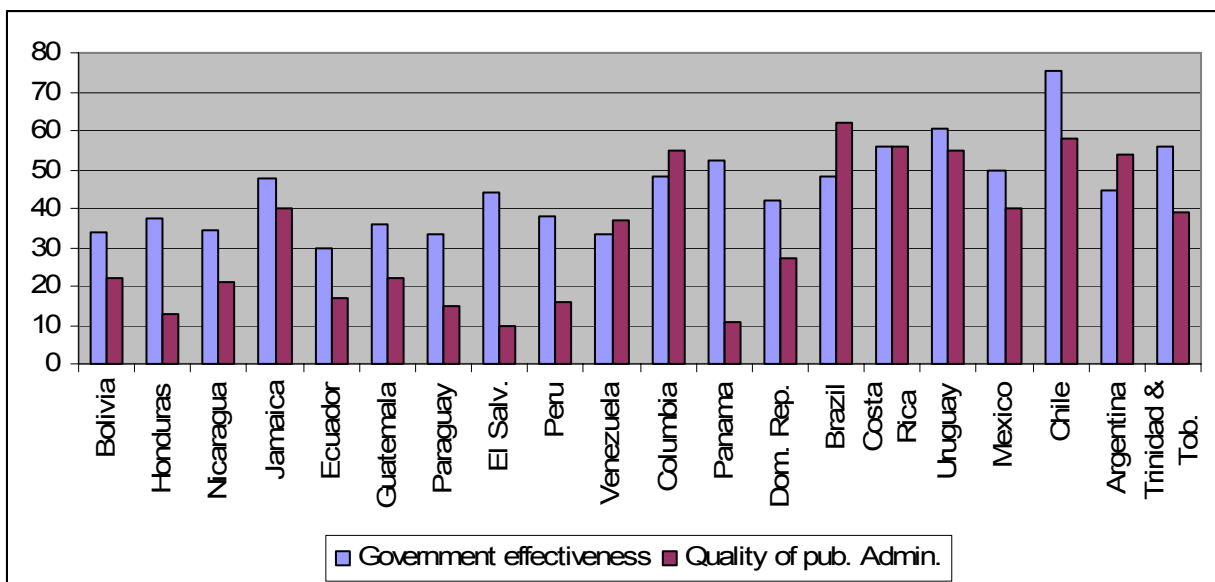
bureaucracy is technically weak, faces poor incentives, and plays a marginal role except in executing the simplest tasks. Example: Bolivia, the Dominican Republic, Ecuador, Paraguay, Peru, and the remaining Central American countries).

**Graph 4**  
Trust in Government in Latin American and Europe (2003-2005)



Source: Latinobarómetro, 2003-2005; Eurobarometer 62, (2005).

**Graph 5**  
Indices of Government Effectiveness and Quality of Public Administration for 20 Countries of Latin America and the Caribbean



Sources: World Bank and Inter-American Development Bank (2008).

- *Complex institutional arrangements:* If the early reformers of the old OECD are characterized by malleable public administration arrangements, then the countries of Latin America are certainly different. The countries of Latin America share a common notion of the centrality of the state, framed within the Napoleonic code and the civil-



law system. On the one hand, these features provide stability. On the other, they prevent rapid structural or managerial change driven by executive decision in Presidential system.

Mostly of these countries have presidential systems<sup>6</sup> of government where a president and congress share power and lack of political responsibility of one to the other. It is particularly aggravated when there is an antagonistic relationship between the president and the legislature or where coalitions hold the power. This is one of the reasons that helps explain why the creation of arms-length agencies has become a favored strategy in Latin America. In the Brazilian case, the Brazilian Development Bank (BNDES) is a classic example. The current discussion to create a new public corporation to manage and extract oil from newly discovered pre-salt layers is a current example. It is typically in times of economic or financial crisis that presidents are able to impose greater control over administrative practices.

Argentina, Brazil, Mexico, and Venezuela also face further challenges. In federal systems with authority constitutionally divided between levels of government, central governments are generally less able to drive through comprehensive and uniform reform programs. On the other hand, strong subnational governments can provide local “laboratories” for testing reforms before launching them on a larger scale. It could be the case of improvement in performance of hospitals in São Paulo, Brazil, by Social Organizations in Health that enabled a formal partnership between the state and nonprofit, private-sector organizations for the management of public hospitals. The “Choque de Gestao” in Minas Gerais also can be an example of public management innovation in a state level, using instruments such as the Results Agreements, quasi-contracts agreed between the State’s Governor and sector Secretaries. These agreements set targets for the performance of the Secretariats and provide information on their achievement to the Governor (via an oversight Commission).

- *Generally weak legitimacy for public administration:* There has been substantial progress in reforming the state in Latin America, but there is a long way to go and the process is fragile and reversible. The fragility of the reforms is reflected in the weak legitimacy of the state. This weak legitimacy undermines efforts at further reform<sup>7</sup>, in particular the reform of public administrations.

In contrast with OECD countries, the deepening basis for legitimacy of public sector did not follow certain sequence over time (Figure 1 for the OECD).

In Latin America countries, this process was different (Figure 2). Administrative responsiveness was always present in the region. First, it was institutionalized through a centralized power structure inherited from the colonial period. Second, in order to maintain the status-quo, especially of the urban and rural elites, administrative responsiveness to political concerns was delivered through patronage. This form of administrative responsiveness to political priorities ensured that the state responded to concerns from the elite about limiting the provision of public goods and redistribution to other groups. However, this dubious achievement was obtained at the cost of inefficiencies, such as clientelist practices and over employment of bureaucrats from urban areas (Geddes: 1991; Acemoglu et al.: 2006). Thus responsiveness was limited - focused on the elite - and the state was also limited - in terms of its institutional

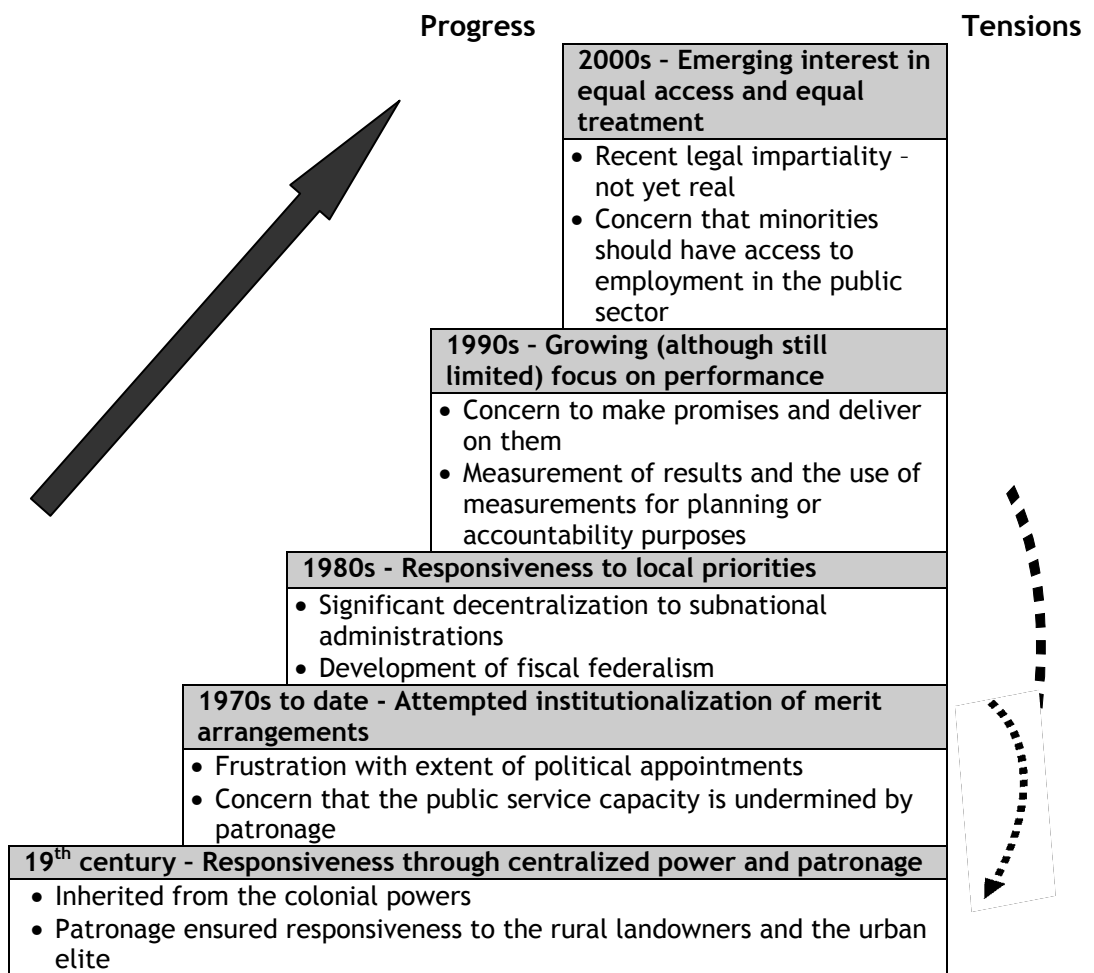
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<sup>6</sup> Presidential systems provide more veto players than Parliamentary systems, requiring the agreement of many actors in order to promote change (Tsebelis, 2007).

<sup>7</sup> This is corroborated by the evidence that Latin Americans associate the reform process with economic crisis (in the 1990’s at least) (Panizza: 2006)

capacity. As with the OECD reforms, there are intrinsic tensions within these developments. The tentative moves towards a more rigorous performance regime, the lasting impact of the 1980s and subsequent decentralization initiatives, and the continuing attempts to the institutionalization of merit arrangements for the public service, challenge the politically tried and tested approach for ensuring responsiveness - patronage and centralization.

**Figure 2**  
**The Changing Basis for the Legitimacy of the Public Service in Latin America**



Source: Authors

In this political-economy scenario, due process was stunted. Institution building is an ongoing work that has been done opportunistically, never systemically.

More recently, the concept of performance was included in reform rhetoric, inspired by the quite successful experience in some OECD countries. Some improvements were made (Matsuda: 2003), but it is still aspirational in the next rounds of reforms in the majority of countries.

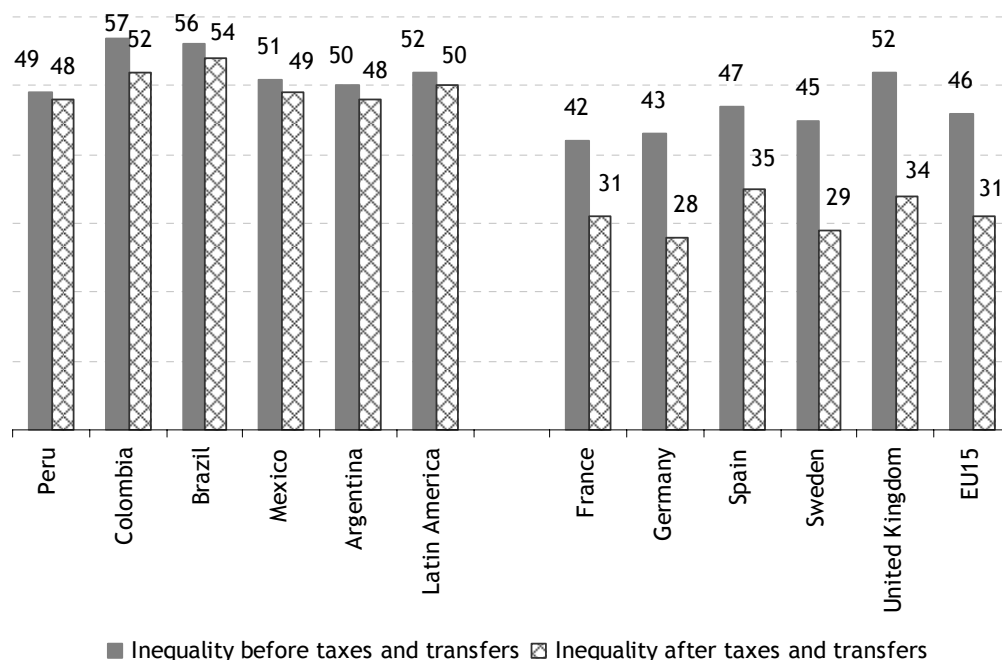
Different to the OECD track, equal access and equal treatment on public administration have been ignored over time. Equal access to public service employment through meritocratic systems is an exception in the region (Echebarría et al: 2007).

Even in the exceptions such as Brazil, meritocratic arrangements are patchy and not applied in all departments and levels of government. In the majority of the countries, many jobs in the public administration remain politically determined and tend to be distributed either to urban elites or to beneficiaries of patronage. There is always a trend to employ more civil servants than the equilibrium point, in exchange for political support (Geddes: 1991).

Panizza (1999) found that in the mid-1990s, the average pay of public employees in eight Latin American countries was 14 percent higher than that of their equivalents in the private sector. Jobs in the public service in the region have other features that make them more attractive than other jobs, such as stability, attractive retirement conditions, and social benefits.

Since the state is relatively small (graph 3) and personnel expenditures are relatively high, the consequent result is that the state provides few public goods, especially in social areas focusing in low income groups (Tanzi: 2008). This is a picture of a limited state, which contributed with the intergenerational maintenance of the “inequality trap”, well known in the region (World Bank, 2005). As a result, rural communities and minorities remain deprived of public goods (e.g. education, health, etc) and equal treatment, therefore, opportunities.<sup>8</sup> In addition, policies also have an ineffective redistributive impact (graph 7).

**Graph 7**  
**Inequality in Latin America and Europe before and after taxes and transfers**  
**(Gini Coefficients)**

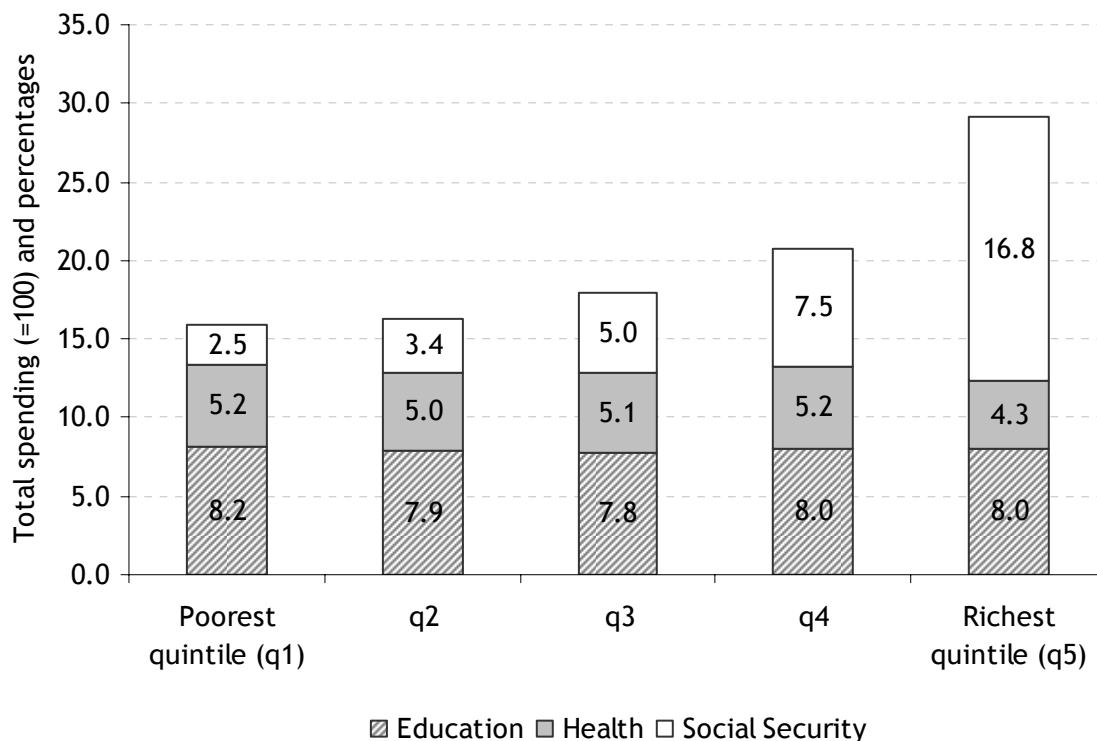


Source: OECD (2007)

Social Security is a particularly regressive expenditure that consumes a considerable percentage of the government’s budget (graph 6).

<sup>8</sup> Ferreira and Gignoux (2008) found that inequality of opportunity is responsible for a substantial share of observed economic inequality in Latin America. They also found empirically that the opportunity-deprived profile has geographic location, gender, age, family similarities and schooling level defined.

**Graph 6**  
**Distribution of Social Spending across Income Levels:**  
**Average of Selected Countries in Latin America**



Source: OECD Development Center. Latin American Economic Outlook 2008, drawing on ECLAC (2005).

The impartiality of the public administration is, in this case, incomplete, because states do not reach the whole society in terms of access to public sector employment opportunities or in terms of provision of services.

### 3.2. Current focus

The current challenges facing the OECD countries are also present in Latin America. But they are considerably less salient. There is, for all countries, a performance challenge, not only because of fiscal constraints, but also because public waste - notably as a result of corruption. It is only some states -Chile and Brazil are leaders - that have begun to move on to some of the more sophisticated aspects of performance orientation that characterize the OECD. As with the OECD, however, rhetoric sometimes outstrips reality.

The challenge of political responsiveness has so far been a distinctly muted issue in Latin America. It is perhaps in the area of decentralization that this issue has most obviously been raised: decentralization has been driven by political concern for responsiveness, not by the efficiency concerns of other fiscal federalism reforms.

The issue of non-responsiveness to central-government politicians is rarer: most civil services are not strong enough to stand up against politicians. At the same time, the equal treatment of citizens is becoming an important issue in Latin America as democracy develops. Communities originally deprived of access to public sector employment

opportunities and services started to gain political voice and power, as example the indigenous populations in the Andean countries.

In general, low trust in government, low fiscal capacity, poor public services, and poor income distribution appear to be related to each other. For instance, across Latin American countries, the share of those who trust that taxes are well spent correlates with the share satisfied with democracy, with better Gini coefficients, and with more progressive social spending (Santiso: 2007). But the causal relationships are more difficult to discern. It could be that there is a vicious circle of low tax revenues<sup>9</sup> and poor services that can be turned into a virtuous circle.

In practice, two stylized types of public management reforms can be seen:

- Where the public sector operates on reasonably transparent and formal lines, and particularly where public servants are generally hired on merit and reasonably immune from political pressures, then the reforms look more similar to those undertaken in the OECD settings against which they are contrasted in this report. In such settings, performance-based approaches are increasingly found in human-resource management and budget preparation, and in driving efficiency improvements in service delivery. These reforms tend to be institutionalized and sustained.
- In other cases, where patronage is more entrenched, reforms have more of the flavor of pilots or experiments. They seek the same objectives of improved performance and responsiveness, but they are more likely to be enclaved or otherwise disconnected from reforms elsewhere in the public sector. They have a flavor of opportunism more than strategy, and the risk of reversal is more pronounced. These other cases are by far the majority.

### 3.3. Five technical dimension of reform

One important conclusion about the comparison between OECD and Latin American countries is that while the trajectories of reform have been different, the key changes have taken place within the same five institutional dimensions.

#### 3.3.1. Public expenditure management and financial accountability

- *Budget rules for aggregate financial discipline:* are needed to prevent an excessive and inefficient expenditure of public resources, especially through rules that seek to protect these resources from private interests. According (Filc and Scartascin: 2007), budgetary reforms in Latin America during the 90's-2004 had positive impact in improving control of fiscal results: better budgetary institutions were associated with lower fiscal deficits. The main reform trends were as follows: a) Numerical restrictions ("fiscal responsibility" laws to impose limits on spending, the deficit, or the public debt; multiyear frameworks to give predictability and flexibility to annual targets; funds to stabilize revenue from taxes or major exports; numerical fiscal restrictions on sub-national governments); b) Procedural (or hierarchical) rules (limited powers of the legislative to change the decisions of the executive; relative stronger power of the minister of finance than cabinets); c) Transparency rules (regulations to improve access to information on fiscal results).
- *Policies to improve performance:* The next step is to tackle inefficiencies related to allocation of resources, implementation of policies and quality of expenditure.

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<sup>9</sup> Brazil is an exception in the region. In 2004, the Brazilian tax revenues as percentage of GDP was 36%, while OECD countries were 36% as well and Latin America countries were 18%.

Performance budgeting has received growing emphasis from both governments and donors (World Bank: 2008).

In Latin America a great deal of performance information is currently drawn from programs and projects and the link to the budget is largely presentational. Goals and performance indicators have often been established for line ministries and their programs, with specific resources assigned to them, and these may be reflected in their strategic plans. This enables compliance to be monitored. Initially these indicators tend to measure the production levels achieved, yet they are increasingly used to measure intermediate or final outputs, although institutionalizing them and linking them to the budget process remains a challenge.

Most of the countries have a limited degree of freedom in prioritizing, planning and managing expenditures based on results information. There is often little time to use it during the budget cycle and there are other problems related to the complexity of the existing monitoring and evaluation systems. Performance-informed budgeting has the potential to significantly transform budgeting in Latin America.

However, there are common risks and challenges faced by governments in implementing performance-informed budgeting. These include: developing adequately robust and easily-understood performance measures; finding ways to integrate this information into the often overly rigid budget processes, alongside traditional financial information; providing decision makers with the right amount and type of information in a timely manner; and creating the incentives to use this information in budgetary decision-making and sustain the reforms.

- *Public procurement*: is a specialized topic within public expenditure - one particular aspect of improving performance and combating corruption as well. Many procurement regimes in Latin perform poorly. They also provide a microcosm of the problem of informality in Latin American public administration - an excess of rules (formalism) that are poorly applied.

Based on a review of World Bank procurement reports covering 10 Latin American countries, the Brookings Institution (2008) judged that there has been meager progress in reforming procurement processes in the region. Chile, with the most advanced e-government procurement (e-GP) system and the most developed procurement database in the region, is the major exception. Most of the other countries in this sample followed the path of technical reforms and made limited progress.

- *Financial information*: A defining characteristic of public-sector reform in Latin American countries has been an emphasis on strengthening government financial management by improvements in accounting, particularly through investing in integrated financial management systems (IFMSs). The basic elements of an IFMS include budget management, accounting, treasury, debt management, procurement and public accounts. The premise is that improving the quality and availability of information necessary at various stages of public financial management will lead to better decisions and outcomes.

The region presented a relative success of IFMS reforms as reflect the dominance of the macro-fiscal agenda within the region's governments. However much IFMS can be justified as a tool for transparency and prevention of corruption, financial management reforms in the region rarely appear to have been driven by political pressure from society toward better governance and better service delivery.

- *Audit*: All the countries of Latin America have long-established supreme audit institutions (SAIs). Analyzing the rules of a sample of ten Latin American SAIs (in terms

of their independence, credibility, timeliness, and enforcement), (Santiso: 2006) finds a broad range, from relatively effective audit institutions in Brazil, Colombia, and Chile to relatively ineffective ones in Ecuador, Argentina, Peru and Mexico. Nominally at least, SAIs are moving from compliance auditing to performance auditing.

### 3.3.2. *Human Resources Management*

In the earlier phase of state reform, the main initial concern in human-resource reform was to reduce the size of the public workforce as a contribution to solving fiscal problems. These efforts appear to have had some effect: the size of public employment for the region as a whole dropped from 5.4 percent of the population in 1995 to slightly over 4 percent in 1999 (Lora: 2007). Some of these gains may have been more apparent than real: sometimes, for instance, when the number of central-government public servants fell, the number of local-government or contracted employees rose. The savings were used to raise salaries: the share of the public wage bill in GDP actually rose in 1995-99. The regional averages conceal large differences between countries.

Reforms to increase incentives for the efficiency and performance of public servants have been markedly less successful. The problem of badly performing civil services in most Latin American countries is one of the most enduring symptoms of poor public administration in the region.<sup>10</sup>

### 3.3.3. *The structure of the public sector*

A strong, if untidy, reform process has been going on in Latin America through changes in the structure of the public sector and the development of alternative forms of service delivery. This process has largely been driven by specific sectoral reform needs, rather than a broader attempt at administrative reform. Organizational diversification has taken the form of a switch from production to regulation, the creation of arms-length agencies, decentralization of service delivery to sub-national governments, contracting out, and client involvement in service delivery.

- *Regulatory management*: the Latin America's reform of the state had in its agenda the deregulation of markets with intention: a) to support market institutions (particularly the regulation of financial institutions and natural monopolies, especially after widespread privatizations in the region); b) to involve private agents more fully in the provision of public services; and c) to encourage citizens to follow welfare-enhancing actions (through pension reform, for example). In addition, regulatory systems can create a politically resilient structure which is potentially less prone to patronage (World Bank: 2000). Even though Latin America presented some progress in terms of its deregulation agenda, it is far from finished: markets and daily life in the region remain highly regulated.
- *Intergovernmental decentralization*: In Latin America, it is generally the case that the decentralization of political power to sub-national levels of government has been driven by politics and the devolution of responsibilities and revenues has followed in its wake. Latin America's return to democracy led to a massive process of fiscal and administrative decentralization beginning in the mid-1980s, one that was pretty much new to all the countries except Brazil and Argentina. Once mayors were elected, they pressed for resources and authority. According to one IDB survey, the share of sub-

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<sup>10</sup> There have been two contrasting perspectives in the diagnosis of government bureaucracies in the region (Matsuda: 2003; World Bank: 1997): excessive or stifling bureaucracy (over-formalism) and too little bureaucracy (informality). These are, of course, not mutually exclusive.

national governments in total public spending went from 13 percent in 1985 to 19 percent in 2004 (compared to almost 30 percent in the OECD, according to (Blöchliger et al: 2006)).

Decentralization has progressed substantially, but it has also thrown up problems, in particular the fiscal risk of excessive sub-national borrowing, high sub-national dependence on fiscal transfers, an unclear central-local division of functions and responsibilities, and the weak institutional capacity of most sub-national governments. This is perhaps the best example in Latin America of responsiveness to political demands leading to unintended consequences.

- *Organizational diversification*: A number of governments have chosen to bypass unreformed bureaucracies by creating arms-length agencies, some of them within the formal hierarchy, but many of them in parallel to existing agencies or otherwise as organizational enclaves (Burki et al: 1998, pp.131-4; Fiszbein: 2005; Matsuda: 2003). This has led to significant organizational diversification and is one of the few ways that less-developed countries, such as Bolivia, have found to raise the capacity of some public services. These new agencies perform basically two alternative public functions: regulation and service delivery.

#### 3.3.4. *Alternative service delivery*

- *Outsourcing*: Governments began to outsource service delivery from the 1980s in an effort to replace more clientelistic models of service delivery, where political clients were employed to provide services to political clients. In infrastructure, these reforms led to substantial private provision, a general improvement in service quality (though not necessarily prices), and the growth of regulatory agencies.

The contracting out of social services on any scale to private firms has been less frequent, as the case of concession of school management in Bogotá, Colombia. It is more common to contract out social services to non-government organizations, as the case of contracting out hospital services in São Paulo, Brazil.

- *Public Private Partnerships*: Public-Private Partnerships are quite new in Latin America, developing mostly during this decade. There are few experiences in Brazil, Chile and Mexico. Peru recently approved a new PPP law. The evaluation of those few experiences in the region looks more challenging than in the OECD countries.

Chile has a considered well-established PPP program that has been used mainly to develop transportation, airports, prisons, and irrigation (IMF: 2005). Brazil approved its PPP law in 2004, but there is currently only one project in more advanced phase (procurement) out of two dozens of projects that the central Government announced. However, PPP projects have started in the Brazilian states of São Paulo (subway and sanitation), Bahia (sewage pipeline) and Minas Gerais (roads).

Although not a single, simple solution to the lack of resources for better public goods provision, PPP is certainly an alternative form of service delivery in the region, especially relevant because of budget constraints in the short term. In Latin America, fiscal, judicial and institutional risks have emerged as significant.

#### 3.3.5. *Demand-side reforms*

Improvements in the delivery of public services, especially social services, in Latin America have been notable. But the improvements have generally resulted from spending more money. The very partial evidence suggests that service quality has not raised much.



For the next generation of reforms, the improvement of the quality of public services need to be tackled as priority.

- *Market-type mechanisms (Vouchers)*: In education, market-type mechanisms have largely comprised the use of vouchers. Colombia and Chile in particular undertook key experiments. Colombia used vouchers covering almost 2,000 secondary schools to encourage a greater transition of poor students to secondary schools. Chile adopted a universal system of quasi-vouchers to encourage competition between private and public schools. Both reforms have been thoroughly evaluated.
- *User participation in planning and management*: Facilitating the participation of clients in the planning and management of public services can have powerful effects. This works best when services are on a small scale and management problems are simple. Community-run schools in El Salvador (the EDUCO program) provide a good example in increasing rural enrollment and raising class attendance.
- *Open government*: has become a more pressing concern as citizens of the region express a growing impatience with the seeming incapacity of elected governments to respond adequately to their needs. This has led to political unrest and political change in some countries. It has also led to the greater activism of civil-society organizations working within the existing institutional context, as example human-rights and election-monitoring groups, public-interest law movements, freedom-of-information laws and ombudsman.
- *E-government*: E-government can improve citizen access to public services, speed up the delivery of services, and increase transparency. To make e-government work, administrative processes must be simplified and automated. This, in turn, can save public resources by reducing corruption, improving efficiency, and raising revenues.

In 2005, according to the UN's e-government readiness index, Latin America was more advanced than most other regions of the developing world, but just behind South and East Asia and well behind most of the OECD countries (Division for Public Administration and Development Management and Affairs: 2005). However, there were large differences between the countries of the region.

### **3.4. Stylized reforms paths**

Re-emphasizing the diversity of public management reform approaches in different countries, and again noting that there is a distinct divergence between reforms undertaken where the public sector operates on reasonably transparent and formal lines, and the more opportunistic and easily reversed reforms elsewhere, Table 3 summarizes the broad patterns of reform in Latin America.

**Table 3**  
**Public-Management Reform Patterns in Latin America**

Area of Reform	Reform Patterns
<b>Public-expenditure-and-financial-accountability reforms</b>	
<b>Budget rules</b>	<ul style="list-style-type: none"> <li>▪ Strong rules for fiscal controls have enabled governments to move beyond cash-based fiscal control.</li> <li>▪ Large efforts, but very limited progress (except Chile), in performance budgeting.</li> </ul>
<b>Procurement</b>	<ul style="list-style-type: none"> <li>▪ Governments have tried to move from ineffective systems emphasizing the control of corruption to modern systems emphasizing value-for-money, but with limited success.</li> </ul>
<b>Accounting</b>	<ul style="list-style-type: none"> <li>▪ Relative success of integrated financial management systems to support budget-rule reforms (and move from cash-based controls).</li> <li>▪ Little progress on accrual accounting.</li> </ul>
<b>Audit</b>	<ul style="list-style-type: none"> <li>▪ Supreme audit institutions have not been particularly effective and are not a reform priority.</li> </ul>
<b>Human-resource-management reforms</b>	
<b>Workforce size and composition</b>	<ul style="list-style-type: none"> <li>▪ Cuts have contained workforce size, but not its cost. Jobs have crept back in other forms.</li> <li>▪ There have been limited improvements in establishment control.</li> </ul>
<b>Compensation and careers</b>	<ul style="list-style-type: none"> <li>▪ A merit-based regime has been a major reform objective, but has failed signally. Chile and Brazil are the main exceptions.</li> <li>▪ A few countries have tried to introduce performance measures to the public service, with little success.</li> <li>▪ But merit-based - sometimes performance-oriented - “islands” of reform have been established in various countries.</li> </ul>
<b>Structural reforms</b>	
<b>Regulatory management</b>	<ul style="list-style-type: none"> <li>▪ Many new regulatory agencies have emerged in the wake of privatization and sectoral reform.</li> <li>▪ Little has been done to develop centralized regulatory approaches.</li> </ul>
<b>Intra-governmental decentralization</b>	<ul style="list-style-type: none"> <li>▪ There has been a strong decentralization process, most recently in education and health.</li> <li>▪ This process has created problems of fiscal crisis, articulation between central and local government, political resistance, and revenue imbalances.</li> </ul>
<b>Organizational diversification</b>	<ul style="list-style-type: none"> <li>▪ Effective arms-length revenue and service-delivery agencies have been created to by-pass bureaucracy and politics.</li> <li>▪ But such agencies can also undermine administrative coherence.</li> </ul>
<b>Alternative service delivery</b>	
<b>Outsourcing</b>	<ul style="list-style-type: none"> <li>▪ There have been successes in contracting out some social services.</li> </ul>
<b>Public Private Partnerships</b>	<ul style="list-style-type: none"> <li>▪ Use of “public private partnerships” has been limited.</li> </ul>
<b>Demand side reforms</b>	
<b>Market-type mechanisms</b>	<ul style="list-style-type: none"> <li>▪ Voucher systems and user fees have broadened client choices.</li> </ul>
<b>Increasing user participation in management and planning</b>	<ul style="list-style-type: none"> <li>▪ Clients participate in managing some health and education services.</li> <li>▪ Outsourcing, voucher systems, and client participation have led to substantial improvements in service delivery (if limited in scope), but the successes are highly context-specific.</li> </ul>
<b>Open government</b>	<ul style="list-style-type: none"> <li>▪ Citizen voice is increasingly expressed through monitoring, legal activism, and consultation.</li> <li>▪ Freedom-of-information legislation is progressing, but under-developed.</li> <li>▪ Ombudsman offices have become effective in protection human rights in some countries and social entitlements in others.</li> </ul>
<b>E-government</b>	<ul style="list-style-type: none"> <li>▪ E-government is becoming increasingly significant.</li> </ul>

Source: Authors.

### 3.5. Achievement and risks

The region's experience of public management reform is best understood in the context of the broader reform-of-the-state experience. Reform of the state was, and is, an ambitious political and economic endeavor, not exactly a planned process, and in relation to the larger challenges of achieving macro stability and re-orienting the role of government, a surprisingly successful one (Lora: 2007). State reform has meant transforming a welfare-developmental state into a social-liberal state - regulating more, producing less, getting more services to the poor, and competing globally.

Strengthening public management as part of this reform process has been opportunistic and largely driven by the need to establish legitimacy for public administration. In many cases this has entailed an attempt to create - or in some few cases consolidate - an administration driven by due-process and formality. This provides something of a contrast with the OECD countries, where the newer demands of performance and responsiveness have played a more important role in driving reform.

The experience of public management reform has, of course, been different in the different countries of Latin America. There are, no doubt, several reasons for this, including different political-administrative traditions and the extent of constitutional federalism. But the most obvious factor in explaining differences is different starting points that reflect, broadly at least, different levels of institutional, but not necessarily economic, development. Among many countries, clientelism has helped stymie the emergence of modern, independent public bureaucracies. The diversity of experience in the OECD is also great, but probably less.

#### 3.5.1. Achievements

In the end, the lack of hard data means that, as with the OECD countries, the progress in reform in Latin America is hard to judge. A review of reform efforts made almost a decade ago judged that the picture was at best mixed (Burki et al: 1998). More recent reviews (Fiszbein: 2005; Matsuda: 2003) do not come to a different conclusion.

In reviewing the most important areas of reform, we can summarize some results: a) fiscal control, improvement of budget rules, investments in information systems; b) incomplete reform of national civil services; c) alternative forms of service delivery provide a promising alternative to civil service reform; d) decentralization has proven a qualified success; e) civil society organizations appear to be directing their increased capacity for action and increased access to information more towards greater political and human rights, rather than better public services; f) e-government may begin to enhance the power of citizens and business.

#### 3.5.2. Risks

Three risks seem to be emerging from this mixed pattern of public sector reform.

First, there seems to be a problem of governance "legibility". Second-generation reform of the state has a predominantly sectoral agenda, and so a lot of public management reform efforts have been made in a sectoral context. The result is that the overall shape of public management reform is barely visible to politicians and policy-makers (Fiszbein: 2005).

Second, there is a risk of reform for its own sake. A fragmented reform agenda has been emphasized because, with high levels of public cynicism, public management reform was rarely driven by a public demanding better services. (Spink: 1999) suggests that, in this area, the debate may have been intentionally narrow.

Finally, and perhaps most substantially, there is a risk of weak institutionalization of reforms - leading to a pattern of frequent reforms and equally frequent reversals. As noted, progress in reform in Latin America tends to be more incremental than comprehensive and across-the-board (Spink: 1999). The consequence here can be "Brownian motion" - a situation in which many pilots and many small scale reforms will come and go, but the larger institutional weaknesses remain untouched.

#### **IV. Lessons and implications**

If we compare the reforms described in sections 2 and 3, we can see similarities in the overall trajectory and techniques of reform between the two groups of countries, but differences in the political contexts which impel particular reforms. The similarities make the OECD reform experience highly relevant to Latin America. The differences call for a careful and selective approach in interpreting this experience.

To better understand the difference between reform trajectories and techniques on the one hand and reform contexts on the other, it is useful to make a distinction between the search for greater efficiency as a permanent and largely non-political driver of change and specific political contexts that drive change to different extents in different times and places.

Over time, the menu of "bureaucratic" technology has become more advanced and more varied: greater efficiency has come from better human resources, better physical capital (including information and communications technology), and better organization and management. These are neutral "tools" which can be applied in different mixes to respond to the political concerns described above. They are also, to an extent at least, tools that can be used by rich and poor countries alike.

Specific reform contexts, on the other hand, reflect the particular concerns at particular points in time of politicians and the broader public they represent about what the public administration should look like and how it should behave. In this sense, reform is the basis for gaining or maintaining the legitimacy of political arrangements related to public administration. The perception of the society changes over time as perceived problems change. Thus, the perceived problem in today's more advanced countries in the earlier part of the nineteenth century - corrupt, inefficient administration and a lack of continuity in applying policies - was solved by the invention of a due-process reform, a quasi-independent civil service (Silberman: 1993). By the end of the twentieth century, the problem was perceived to have shifted and the public service was perceived as unresponsive, as its independence came to be seen by some as an obstacle to implementing legitimate political priorities, and underperforming.

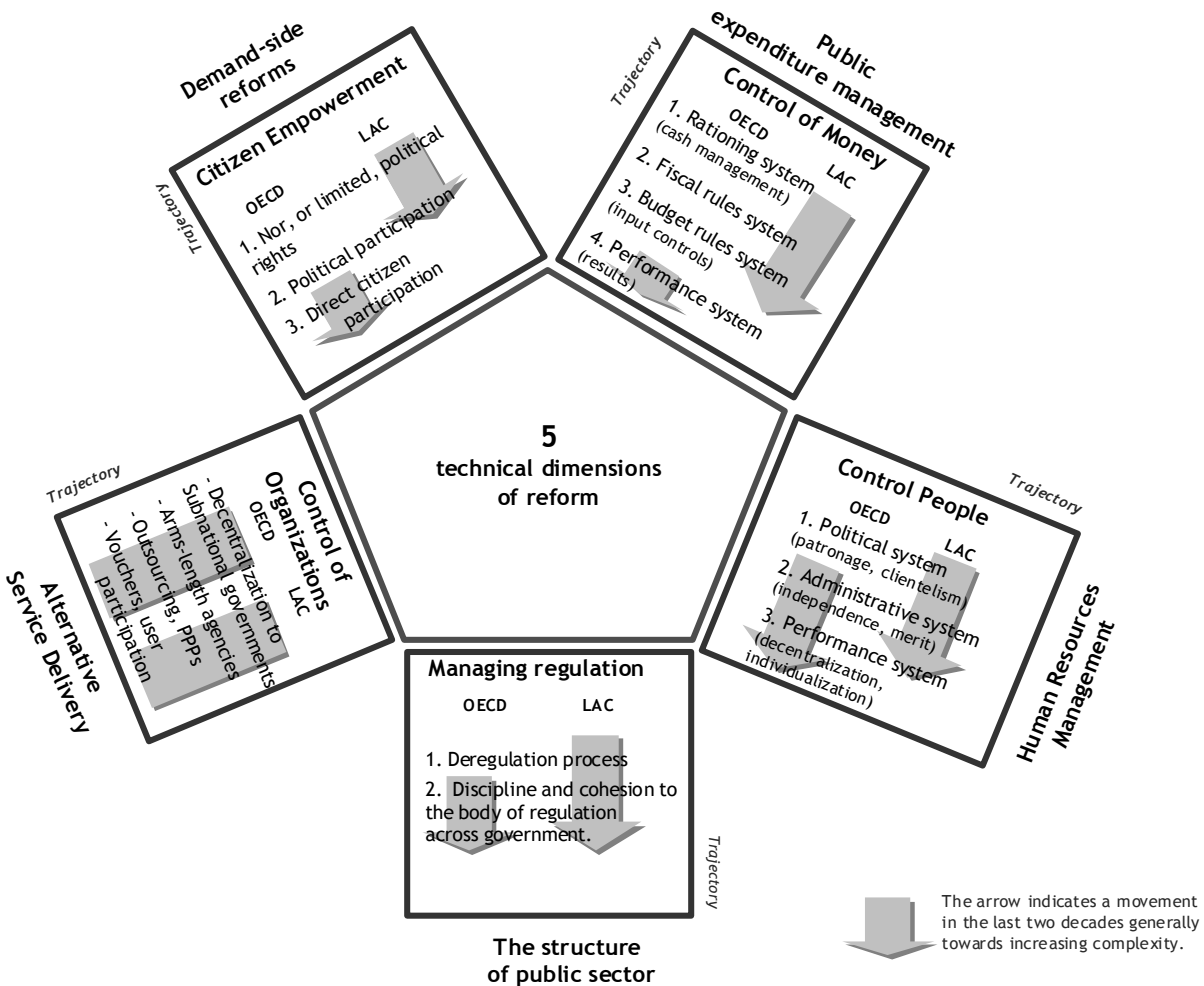
##### **4.1. Shared Trajectories, Shared Techniques**

There is no denying the diversity and specificity of national reform experiences in either region. But if we compare reforms across the two groups of countries in the five technical areas, we find, by and large, that for each area, there is a dominant trajectory of reform into which both groups can fit. OECD countries are typically, but not in every case, further along the trajectory than Latin American countries. Essentially, the experience of the OECD countries defines a trajectory describing successive management techniques in search of ever-greater efficiency.

The logic of the trajectories for the administration of money, people, and organizations appears to reflect a move from simpler to more complex forms of control and coordination. The more complex forms need more information, and they use either more

sophisticated hierarchical techniques (more advanced planning) or contractual-discretionary instruments that are alternatives to hierarchical commands. In most cases, OECD countries are “ahead” of Latin American countries, as might be expected. The main trajectories can be summarized as follows (Figure 3).

**Figure 3**  
**Movement along the five technical dimensions of reform in the last two decades**



Source: Authors

- **Control of money.** Most OECD countries have moved to performance budgeting. The countries of Latin America, by and large, have moved beyond cash budgeting to a rules-based system for aggregate fiscal control, but they are still struggling to make input-based budgeting work.
- **Control of people.** OECD countries are involved in substantial changes in the institutional arrangements for civil servants. Partly through administrative decentralization and the individualization of management, civil services are becoming more integrated into private labor markets. Almost none of the countries of Latin America have got near this “modernization” agenda. Instead, most of them are still trying to establish a due-process (independent and merit-based) civil service, an agenda

that the OECD countries have long since achieved. Organizational diversification will offer alternatives for Latin America.

- *Managing regulation.* The current OECD agenda is to impart some discipline and cohesion to the body of regulation across government. The Latin American agenda is both to complete the deregulation process and to acquire the skills needed for its new regulatory role as a result of the increasing role of private parties in service provision.
- *Control of organizations and alternative service delivery.* Latin American and OECD countries are heavily engaged in finding more flexible and performance-oriented organizational alternatives to the traditional ministerial hierarchy. Unlike the more linear trajectories we have indicated for the control of money and people, the trajectory of organizational and command formats is from homogeneity to heterogeneity. Better performance is being sought through a restructured public sector (decentralization and arms-length agencies) and alternative forms of service delivery involving private agents. The OECD countries are doing this to make governments more efficient and responsive. But many Latin American countries are doing this because their hierarchical administrations are dysfunctional. Indeed, in alternate service delivery, Latin America is seemingly ahead of the OECD countries. Diversifying organizational formats is demanding, and it remains to be seen how important an alternative this approach can provide to dysfunctionality.
- *Empowering citizens.* Both groups of countries are moving to give citizens greater direct powers over the services they receive. In the OECD case, this seems to fit into a natural progression of democratic rights, while for the countries of Latin America it is partly a substitute for (imperfect) political rights.

So far at least, reforming countries have generally followed each stage of the reform sequence: they have not, for instance, “leapfrogged” from aggregate fiscal control to performance budgeting, but have had to master input-budgeting in between. This strongly indicates that reform is a process of cumulative learning. But historically-observed sequences do not constitute an immutable rule. Both organizational diversification and e-government, for instance, provide some promise that countries can catch up faster than they did in the past. Organizational diversification could also modify the need for large, uniform civil service hierarchies.

In sum, there is no different operating system between Latin America and the OECD. The existence of a dominant trajectory suggests, first that the techniques of public management benefit from a somewhat common toolbox (or operating system), second that, as they advance in efficiency, countries move smoothly along this trajectory, rather than “leapfrogging” from the least to the most sophisticated techniques. Thus the similarity lies in the common toolbox and trajectory. This makes the OECD reform experience relevant for Latin America. There is thus much to be gained from sharing technical experiences within these five areas.

#### **4.2. Different Reform Imperatives**

We have sought to place the recent record of public-management reform in two groups of countries within a context of the political imperatives that drive reform - and most particularly the search for legitimacy and trust. For many of today’s OECD countries a modern public administration was born in the nineteenth century as a result of political concerns for due process. But in the most recent decades, there has been a marked concentration on two newer areas of concern. From the 1970s, many OECD governments came to worry about the responsiveness of the administrative machine, and its capacity to

respond quickly to the elected officials and political priorities of the day. Since the 1990s, all OECD governments have worried about the performance of the administrative machine. This tighter link is intended to make the promises of politicians and the responsibilities of civil servants more transparent, to strengthen accountability for these promises, and to improve planning - in other words, to make the machine work properly and have it be seen to be working.

Due-process appears to have been a permanent concern. Otherwise, it is not clear that there has been a predetermined sequence in changing political concerns. Older concerns have not gone away when new ones surfaced. What is clear is that new concerns can be at odds with old ones - gaining legitimacy and trust on one area while sacrificing it in another. Most notably, attempts to improve responsiveness and performance can put due-process at risk. For instance, more contractual approaches to managing the civil service have often been perceived to undermine the ethical systems of old-fashioned hierarchical arrangements. Hence a balance between different concerns has to be found, and this balance needs adjusting over time as the perceived importance of different concerns changes.

The performance concern has become the dominant driver of reform across the advanced countries in the last twenty years, we believe, in large part because the very size of government has led to a crisis of manageability. That crisis consists in the difficulties of effectively coordinating a huge machine and the associated problems of fiscal pressure and, arguably, falling public trust.

Achieving a due-process administrative regime remains the dominant reform imperative in Latin America. Large efforts have gone into creating national (and sub-national) public services based on merit and on rules, but the progress has been interrupted and disappointing. By and large, most Latin American countries are situated where today's OECD countries were in the mid-to-late nineteenth century - at the beginning or in the middle of the due-process revolution. But this parallel should not be exaggerated. First, today's Latin American governments are trying to respond to far broader political demands for services than did the countries of Europe and North America in the late 19th century. Second, the menu of management technology is much larger. On the other hand, the OECD provides Latin America (and the rest of the developing world) with a well-specified model for administrative modernization.

A concern with performance - linking results more closely to inputs - has also swept the region. But with some important exceptions, performance-oriented systems have not been made to work very effectively. It seems that several Latin American governments hoped, originally at least, that performance-oriented systems might be able to modernize administrative systems as an alternative to due-process reforms. This hope has not been realized: as with the OECD countries, it therefore seems that performance reforms must build on due-process reforms. It may also be that the region's interest in performance-oriented reforms has often been rhetorical - and a reflection of the effective job that several OECD countries had done in selling managerial reforms to the developing world.

With very few exceptions, the responsiveness of public administrations to political priorities has not been an issue in Latin America in the sense it has been in the OECD. In those Latin American jurisdictions where due-process reforms have made only modest progress, civil services have not become strong and independent enough to resist political direction. Indeed, they are often vehicles for patronage, and they can be highly responsive when they are packed with high-level political appointments.

Equity, that remained ignored for a long time, has begun to be a greater concern. However, it is more in terms of citizens having reasonable access to services than of civil servants reflecting the citizenry. However, a few countries of the region, disenchanted with the “neo-liberal” state reform model and in some cases with important indigenous populations, are now putting a greater emphasis on having the composition of the civil service more nearly reflect the make-up of its citizens.

In sum, while the OECD challenge has been to improve performance and responsiveness without undermining the earlier foundations of legitimacy and trust, the Latin American challenge is considerably more complex. Here the task is to re-create a form of responsiveness that is not dependent on patronage, while also creating equal access to public service jobs and services for long-marginalized groups. Thus, by comparison with their OECD colleagues, reformers in Latin America face two particular difficulties in the reform of the Latin American state:

(a) to reassure politicians that in losing the tried and tested basis for responsiveness, they will be gaining something equally effective in its place,

(b) to manage reform programs that are operating on more political fronts than recent reforms in the OECD.

While it is useful to generalize about Latin America, it is also important to take account of the range of country situations and experience. At one end of the spectrum are jurisdictions which seem able to achieve due-process only within small islands, but at the other end are jurisdictions which have begun to make progress in performance-oriented reform. Thus reform contexts between the two groups of countries are different. This makes the OECD reform experience something that has to be interpreted by Latin American countries with care and selectivity.

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## ABSTRACT

In the last twenty years both the OECD and the countries of Latin America have been preoccupied with a vision of modern techniques of public management which can deliver better, more relevant, and simply more, public services despite tight fiscal constraints.

The OECD experience has been held up as a model for Latin America. OECD reforms and the rhetoric surrounding them have had a substantial impact on the discourse and decisions on reform in the countries of the region. It is therefore an appropriate moment to take a fresh look at the OECD experience and what this means for Latin America.

This paper looked at the reform experience of the last two decades, first in the OECD, then in Latin America. Considering each group of countries in a structured, parallel, and self-contained way, we first looked at the pre-conditions for reform, second elicited the objectives of reform, third characterized the actual reforms undertaken, and finally made some judgments about the consequences, intended and unintended, of these reforms. The actual reforms undertaken were considered along five technical dimensions: public expenditure management, human resources management, the structure of the public sector, alternative service delivery and demand side reforms.

There is no denying the diversity and specificity of national reform experiences in either region. But comparing reforms across the two groups of countries in the five technical areas, we found that for each area, there is a dominant trajectory of reform into which both groups can fit. OECD countries are typically, but not in every case, further along the trajectory than Latin American countries. Essentially, the experience of the OECD countries defines a trajectory describing successive management techniques in search of ever-greater efficiency. The logic of the trajectories for the administration of money, people, and organizations appears to reflect a move from simpler to more complex forms of control and coordination.

By and large, recent OECD reforms have been driven by responsiveness and performance concerns, while the Latin American picture is more mixed. Here, due process seems to be the largest common issue. At one end of the spectrum are jurisdictions which seem able to achieve due-process only within small islands, but at the other end are jurisdictions which have begun to make progress in performance-oriented reform. Additionally, in Latin America, equity, that remained ignored for a long time, has begun to be a greater concern. Thus reform contexts between the two groups of countries are pretty different. This makes the OECD reform experience something that has to be interpreted by Latin American countries with care and selectivity.