Government at a Glance

LATIN AMERICA AND THE CARIBBEAN 2014

TOWARDS INNOVATIVE PUBLIC FINANCIAL MANAGEMENT

OECD IDB

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BETTER POLICIES FOR BETTER LIVES

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Foreword

This first edition of Government at a Glance: Latin America and the Caribbean 2014: Towards Innovative Public Financial Management *provides internationally comparable data on government activities and their results for the LAC region. By showcasing a dashboard of key indicators it is aimed at helping policy makers and citizens analyse the relative performance of governments and, when possible, benchmark against OECD member countries. The 31 indicators cover key aspects of public financial management and governance, such as public finance and economics, public employment and pay, budgeting practices and procedures and public procurement.*

This research was led by Zsuzsanna Lonti (OECD) and Gilberto Chona (IDB) under the direction of Rolf Alter (OECD), Mario Marcel (OECD), Edwin Lau (OECD) Vicente Fretes (IDB) and Gustavo Garcia (IDB). It was drafted by Santiago González (OECD), Alessandro Lupi (OECD), and Natalia Rezai (IDB). Comments were received from Edwin Lau (OECD), Gustavo García (IDB) and Carlos Pimenta (IDB) (Chapter 1); Camila Vammalle (OECD), Luiz Villela (IDB), Fernando Velayos (IDB) and Alberto Barreix (IDB) (Chapter 2); Maya Beauvallet (OECD), Alice Lazzati (OECD) and Opheline Chevalier (IDB) (Chapter 3); Ronnie Downes (OECD), Camila Vammalle (OECD), Ian Hawkesworth (OECD), Lisa von Trapp (OECD), James Sheppard (OECD), Marco Varea (IDB), Edna Armendariz (IDB), Gerardo Reyes (IDB), Mikel Tejada (IDB) and Roberto Martirene (in memoriam) (Chapter 4); Despina Pachnou (OECD), María Emma Cantera (OECD), Leslie Harper (IDB), Daniel Sánchez (IDB) and Ana Cristina Calderón (IDB) (Chapter 5). We thank Natalia Nolan-Flecha, Lia Beyeler, Laura Boutin, Kate Lancaster, Sophie Limoges, Zoltan Mikolas, Alberto Magnet (IDB), Claudia M. Pasquetti (IDB) and Sarah Schineller (IDB) for their help in preparing, editing and translating this publication.

This joint publication between the OECD and the Inter-American Development Bank (IDB) is the result of contributions from a wide range of sources and expertise. It was financed by the IDB and it greatly benefited from inputs provided by the Network of Senior Budget Officials for Latin America and the Caribbean (LAC SBO) and its co-ordinator Roberto García-López. The authors express their gratitude to country officials from Latin America and the Caribbean who replied to the surveys and helped during the data cleaning and validation process. Furthermore, we thank the IDB country representatives and country economists, who assisted whenever a question arose, and facilitated channels of communication with government authorities.

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Preface

Today, Latin America and the Caribbean (LAC) is one of the most dynamic regions in the world. Rapidly evolving economies and societies bring new challenges to governments. Both citizens and businesses expect better services, more efficient delivery, greater transparency, more social inclusion, and less corruption, among other things; therefore, governments in the region must adapt to meet these new demands. While the economic and social challenges facing the different countries in the region vary greatly, the overall objectives of more effective public governance within a sound fiscal framework are common to all. The starting point for improving public governance is the ability to accurately benchmark government activity and performance. This first edition of *Government at a Glance: Latin America and the Caribbean 2014: Towards Innovative Public Financial Management* enriches the series of this OECD flagship publication by providing internationally comparable data on government resources and processes for the LAC region.

This "dashboard" of indicators will help policy makers, public managers and citizens to analyse and compare the relative performance of governments in the region and, when possible, benchmark them against OECD practices. The 31 indicators included in this publication cover key aspects of public financial management, focusing on public employment and compensation, budgeting practices and procedures, as well as public procurement.

This publication shows how several countries in the LAC region through the implementation of new policy tools such as fiscal rules or stabilisation funds managed the commodities boom of the last decade and weathered the last global economic and financial crisis somewhat better than the OECD member countries. The combination of successful and intensive fiscal reforms, and sensible countercyclical policy was possible thanks to high commodity prices, and resulted in stable fiscal positions in most countries. Nevertheless, many fiscal and governance challenges still lie ahead for the region. Global growth is slowing down and projections warn of lower commodity prices, decelerating terms of trade and private consumption. In light of the foregoing, governments must continue to adopt sound fiscal policies as well as explore innovative practices in public financial management, public procurement, and the professionalisation of the civil service. Only in this way can governments improve resource allocation, operational efficiency, and the quality and use of information for the benefit of the citizens in the region.

We trust that *Government at a Glance: Latin America and the Caribbean 2014: Towards Innovative Public Financial Management* and subsequent editions will become a critical resource for policy makers, practitioners, citizens, and researchers in their pursuit of building institutions for people, and implementing and designing better policies for better lives.

This publication is the product of a successful co-operation between the OECD and the IDB. It brings together the expertise developed by the OECD in collecting information on public governance practices from government officials with the in-depth country knowledge and presence of the IDB in Latin America and the Caribbean.

Angel Gurría
Organisation for Economic Co-operation and Development
Secretary-General

Luis Alberto Moreno
Inter-American Development Bank
President

Government at a Glance:
Latin America and the Caribbean 2014
Towards Innovative Public Financial Management

Executive summary

Despite the recent financial and economic crisis, Latin America and the Caribbean (LAC) countries have experienced economic growth. The positive economic performance has been driven in part by important structural reforms intended to contribute to the prudent management of public finances, and by the commodities boom in the last decade. Among others, these factors have afforded many LAC countries the opportunity to strengthen their fiscal positions, enhancing their resilience to negative economic shocks.

Nevertheless, several challenges remain in the coming years, namely the euro area's weak performance, the uncertainty of the United States monetary policy and the slowdown of China's economy. In addition, the foreseen moderation of commodity prices might challenge LAC governments and societies to do more with less, in particular as countries continue their path to development and demands from citizens continue to grow. The indicators presented in *Government at a Glance: Latin America and the Caribbean 2014: Towards Innovative Public Financial Management* shed light on the progress achieved by LAC countries in recent years as well as the areas calling for further development and improvements.

Key findings

- **Governments in the LAC region are relatively small.** Public employment in the LAC region represented 10.7% of the total labour force in 2010; government expenditures were 27.8% of GDP in 2011. For OECD countries these figures were 15.3% and 45.2% respectively. Furthermore, in contrast to the OECD, LAC governments spend substantially less in social benefits and transfers for their citizens.
- **Data on the compensation of public employees reflects an unequal pay structure.** Data has been collected for the first time on the compensation of central government employees in core ministries, for selected occupations. While lower in monetary adjusted terms, relative to GDP per capita compensation for all positions is higher in LAC countries than in the OECD. On average the compensation of a top manager (D1) is 11.3 times the GDP per capita in LAC countries, compared to 5.9 times in OECD countries. In addition, when compensation levels are compared across several positions, larger differences are found in the LAC region than in OECD countries, for example, while in the OECD on average the compensation of a senior manager amounts to 4.6 times the compensation of a secretary, this figure is 6.7 times in the LAC region.
- **The representation of women in politics is increasing; in LAC countries 21% of the ministers were women in 2012.** For the same year women held 20% of parliamentary seats in lower or single houses of parliament and both of these figures increased since 2005. In addition, 12 LAC countries have introduced legislated quotas as a means of addressing the gender gap in among parliamentarians. In OECD countries, women held 25% of parliamentary and ministerial positions while only nine countries have adopted legislated quotas.

- **LAC countries are strengthening fiscal frameworks through innovative budget practices.** Many countries in the region have adopted budget practices in order to ensure greater adherence to fiscal discipline and long term sustainability. Among these tools are fiscal rules, which are used in 10 LAC countries in an effort to increase macroeconomic stability. In many cases fiscal rules are accompanied by stabilisation funds as means of smoothing fluctuations in non-renewable commodity revenues by accumulating additional resources during price surges and financing necessary expenditures during declines. Furthermore, medium term expenditure frameworks (MTEF) have been established by 8 countries seeking to create the necessary budget discipline to manage expenditure in an anti-cyclical manner. In addition, 11 LAC countries (from 17 surveyed) have established performance budgeting frameworks at the central government level in order to improve the allocation and effectiveness of public expenditure. In 14 countries, support is available to parliament or congress, to a varying degree, as a means to generate budgetary and economic information, and also to ensure the efficiency and transparency of public spending. In comparison 88% of OECD countries have established MTEFs and 97% have implemented fiscal rules, the average number of rules per country has increased. Furthermore, standardised performance budgeting frameworks are used in all but eight OECD countries.
- **Investment levels are relatively low and governments are faced with high budgetary earmarks.** On average investment represented 2.6% of GDP in 2011 for LAC countries, these levels are relatively low when compared to other developing regions. In addition, many governments are faced with a significant amount of pre-assigned expenditures limiting their possibility to create fiscal space.
- **E-procurement and the public availability of procurement documents is a widespread practice in LAC countries.** Public procurement systems in LAC countries cover up to 20% of GDP, making them an essential component of public administrations and the objects of much reform in recent years. LAC countries have made important progress in guaranteeing that procurement information is available and currently all countries have an e-procurement system in place. However, further progress could be achieved in the use of procurement as a strategic governance tool; only 40% of LAC countries incorporate social and environmental objectives into the procurement process. In contrast, policies and strategies to promote green procurement, the promotion of SMEs and support of innovative goods and services exist in 80%, 74% and 51% of OECD countries respectively.

Reader's guide

In order to accurately interpret the data included in the *Government at a Glance: Latin America and the Caribbean 2014: Towards Innovative Public Financial Management*, readers need to be familiar with the following methodological considerations that cut across a number of indicators. The standard format for the presentation of indicators is on two pages. The first page contains text that explains the relevance of the topic and highlights some of the major differences observed across LAC countries. Furthermore, when data are comparable, the OECD averages are considered as an additional benchmark. It is followed by a "Methodology and definitions" section, which describes the data sources and provides important information necessary to interpret the data. Closing the first page is the "Further reading" section, which lists useful background literature providing context to the data displayed. The second page showcases the data. These figures show current levels and, where possible, trends over time. A "Glossary" of the main definitions of the publication can be found in the final chapter of the book.

Data sources and features

Most of the data used in the *Government at a Glance: Latin America and the Caribbean 2014: Towards Innovative Public Financial Management*, are collected from government officials by the OECD/IDB via specifically defined surveys. As such, they represent either official government statistics or the country's own assessment of current practices and procedures. To the extent possible, OECD data collection instruments use standardised definitions and common units of measure. However, bias can occur in that countries may interpret and answer questions differently and/or may not answer the questions completely objectively. In general, the direction of the bias is known but not necessarily its extent. To try and minimise these biases the OECD/IDB have cleaned and verified the collected data by following up with countries when there are potential inconsistencies or outliers. This has been done by benefitting from the OECD's knowledge through previous work in the region and mainly from the IDB's expertise and local presence in the countries under study. In addition, responses have been verified with other external and additional sources, whenever available, such as the IMF dataset on Fiscal Rules or the Open Budget Survey from the International Budget Partnership.

Data are also drawn from other international organisations such as the *International Labour Organization* (ILO), the *International Monetary Fund* (IMF) and the *Inter-Parliamentary Union* (IPU). The Public Finance and Economics data for LAC countries are based on the IMF *World Economic Outlook* (IMF WEO) and the IMF *Government Financial Statistics* (IMF GFS) databases. Data from the IMF *WEO* and *GFS* databases were extracted on 16th December 2013 (for the IMF WEO corresponding to the October update). For the OECD averages, the data are based on the *System of National Accounts* (SNA), and were excerpted from the *OECD National Accounts Statistics* database and published in the OECD *Government at a Glance*, 2013 edition (unless specified otherwise). In most cases, data on public finances are presented for 2001, 2009 and 2011, showcasing years prior, during and after the economic crisis.

The Public Employment data for LAC countries was extracted from the ILO dataset *LABORSTA* on 15th November 2013. Data on women ministers were obtained from the Inter Parliamentary Union's (IPU) "Women in Politics" posters and represents appointed women ministers as of 1 January 2012 and 1 January 2005. Data for women parliamentarians was obtained from the IPU *PARLINE* database. It refers to the share of women parliamentarians recorded as of 31 October 2012 and 25 October 2002.

Despite the significant accomplishments of international organisations in harmonising data among the different statistical systems several differences exists in different occurrences which impact some of the indicators analysed. In consequence, within the methodological section specific note are included whenever specific methodological considerations need to be taken into account.

Country coverage

Government at a Glance: Latin America and the Caribbean 2014: Towards Innovative Public Financial Management was meant to include data for 12 LAC countries, based on available information. The 12 countries to which the surveys were initially sent are: Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Jamaica, Mexico, Panama, Peru and Uruguay. In the framework of the LAC Senior Budget Officials (SBO) meeting that took place in the Dominican Republic from 15th to 16th April 2013, preparatory workshops were carried out with the government representatives in charge of filling out the surveys.

Given their presence in the LAC SBO meeting and participation in the preparatory workshops, some of the surveys were sent to a larger group of countries whose answers are also included in this publication: Barbados, El Salvador, Guatemala, Haiti, Honduras, Paraguay. In addition, the largest number of countries with available information is included when using information from external sources. Uruguay was the only country which received all the surveys and participated in the preparatory workshops, but never replied to the surveys. Several efforts were made to encourage the participation of Uruguayan authorities in the process but no answers were received. In the case of Argentina, answers to the different surveys were provided by the Public Budget International Association (ASIP).

Country codes (ISO codes)

The International Organization for Standardization (ISO) defines three letter codes for the names of countries, dependent territories and special areas of geographical interest. For the graphical display of some figures the following codes based on the ISO classification are used.

LAC countries			
Argentina	ARG	Haiti	HTI
Brazil	BRA	Honduras	HND
Barbados	BRB	Jamaica	JAM
Chile	CHL	Mexico	MEX
Colombia	COL	Panama	PAN
Costa Rica	CRI	Paraguay	PRY
Dominican Republic	DOM	Peru	PER
Ecuador	ECU	Suriname	SUR
El Salvador	SLV	Uruguay	URY
Guatemala	GTM		

LAC and OECD averages and totals

Averages

In figures and text, the LAC and OECD averages refer to the unweighted, arithmetic mean of the LAC region and OECD member countries for which data are available. LAC countries not included in the graphs and tables are those where data was not available.

When a figure depicts information for one or more years, the LAC average includes all member countries with available data. For instance, a LAC average for 2011 includes all current LAC countries with available information for that year. In the case of the OECD average, the data are those published in the *OECD Government at a Glance*, 2013 edition (unless specified otherwise).

Totals

LAC and OECD totals are most commonly found in tables and represent the sum of data in the corresponding column for LAC and OECD countries for which data are available. In the case of LAC countries, those not included in the tables are countries without available data. In the OECD member countries, the totals are those published in the *OECD Government at a Glance*, 2013 edition.

Online supplements

The report *Government at a Glance: Latin America and the Caribbean 2014: Towards Innovative Public Financial Management* also offers access to *StatLinks*, a service that allows readers to download the corresponding Excel files of the data featured. *StatLinks* is found at the bottom right-hand corner of the tables or figures and can be typed into a web browser or, in an electronic version of the publication, clicked on directly.

In addition, the following supplementary materials are available online at: *www.oecd.org/gov/government-at-a-glance-lac.htm*.

- Country fact sheets that present key data by country compared with the LAC and OECD averages.

Per capita indicators

Some indicators (e.g. expenditures, revenues and government debt) are shown on a per capita (e.g. per person) basis. The underlying population estimates are based on the notion of residency. They include persons who are resident in a country for one year or more, regardless of their citizenship, and also include foreign diplomatic personnel and defense personnel together with their families, students studying and patients seeking treatment abroad, even if they stay abroad for more than one year. The one-year rule means that usual residents who live abroad for less than one year are included in the population, while foreign visitors (for example, vacationers) who are in the country for less than one year are excluded. An important point to note in this context is that individuals may feature as employees of one country (contributing to the GDP of that country via production), but residents of another (with their wages and salaries reflected in the gross national income of their resident country).

Purchasing Power Parities

Purchasing power parity (PPP) between two countries is the rate at which the currency of one country needs to be converted into that of a second country. This conversion is done to ensure that a given amount of the first country's currency will purchase the same volume of goods and services in the second country as it does in the first. In consequence, when converted by means of PPPs, expenditures across countries are in effect expressed at the same set of prices enabling comparisons across countries that reflect only the differences in the volume of goods and services purchased.

The PPP index used for LAC countries is the same as that used by the IMF *World Economic Outlook* (WEO). The International Comparisons Program (ICP) is a global statistical initiative that produces internationally comparable Purchasing Power Parity (PPP) estimates. The PPP exchange rate estimates, maintained and published by the World Bank, the OECD, and other international organisations, are used by WEO to calculate its own PPP weight time series.

Composite indicators

The publication includes two descriptive composite indexes in narrowly defined areas related to budget practices and procedures. These composite indexes are a practical way of summarising discrete, qualitative information. The composites presented in this publication were created in accordance with the steps identified in the *Handbook on Constructing Composite Indicators* (Nardo et al., 2008).

Details about the variables and weights used to construct the budget practices and procedures composites are available in Annex C. The composite indicators are based on theory and/or best practices, the variables composing the indexes and their relative weights are based on expert judgments and, as a result, may change over time. For both LAC and OECD countries, the composites on budget practices and procedures are not comparable with those in the 2009 edition of *Government at a Glance*, as the latest Budget Practices and Procedures and Performance Budgeting surveys (2012) include questions that are worded slightly differently from the 2007 survey. Moreover, additional questions were included and some of the weights have been redefined.

Signs and abbreviations

..	Missing value or not available
x	Not applicable (unless otherwise stated)
EUR	Euros
USD	US dollars
LAC	Latin America and the Caribbean
p.p.	Percentage points

Introduction

Objectives

The main objective of the *Government at a Glance* series is to provide reliable, internationally comparable data on government activities and their results in OECD member countries. By broadening the scope to other regions of the world, in particular to Latin America and the Caribbean, the publication allows LAC countries to benchmark their governments' performance within the region and in relation to the OECD. In addition, it allows governments to track their own and international developments over time, and provides evidence to their public policy making.

Government at a Glance: Latin America and the Caribbean 2014: Towards Innovative Public Financial Management recognises that governments are major actors in modern societies. Every citizen throughout his or her life interacts with governments at several stages; from the issuance of a passport to the provision of health, education and social benefits. Furthermore, as societies reach higher development levels, demands and expectations from governments tend to increase, while at the same time becoming more complex. Good governance is critical to long term economic, social and environmental development. The ability of governments to operate effectively and efficiently depends in part on their management policies and practices. For instance budget practices that support fiscal sustainability, public procurement that is conductive to an efficient use of public resources and a level of compensation of public employees that is crucial for the competitiveness and quality of public services. Among others, this publication provides insight into these fields of public governance.

Indicators on government activities and public management practices

LAC countries are primarily interested in collecting data and information to identify how public governance and, more specifically, public management practices contribute to a government's ability to achieve its objectives. This report is built on the following framework, which describes the public "production" process and identifies five types of indicators: 1) contextual factors; 2) inputs; 3) processes; 4) outputs; and 5) outcomes.

1) Contextual factors

Annex C presents contextual information describing some key features of the political and administrative structure in each of the LAC countries included in the publication. Situating policies and indicators within this contextual background can help us better understand differences among countries, and identify those with similar structures that might serve as better comparators for benchmarking purposes.

2) Inputs

Input indicators include data on government revenues, expenditures, employment and workforce characteristics. These are the main components of the government production function and provide insight into the incentives and constraints that governments face in determining what types of goods and services to provide. Furthermore, this data allows for a comparison of the proportion of the economy devoted to producing different goods and services, as well as the difference in the mix of inputs used for production. For instance, as labour is a key input in the government production process, the compensation of the public workforce may affect government productivity and its capacity to provide goods and services.

3) Processes

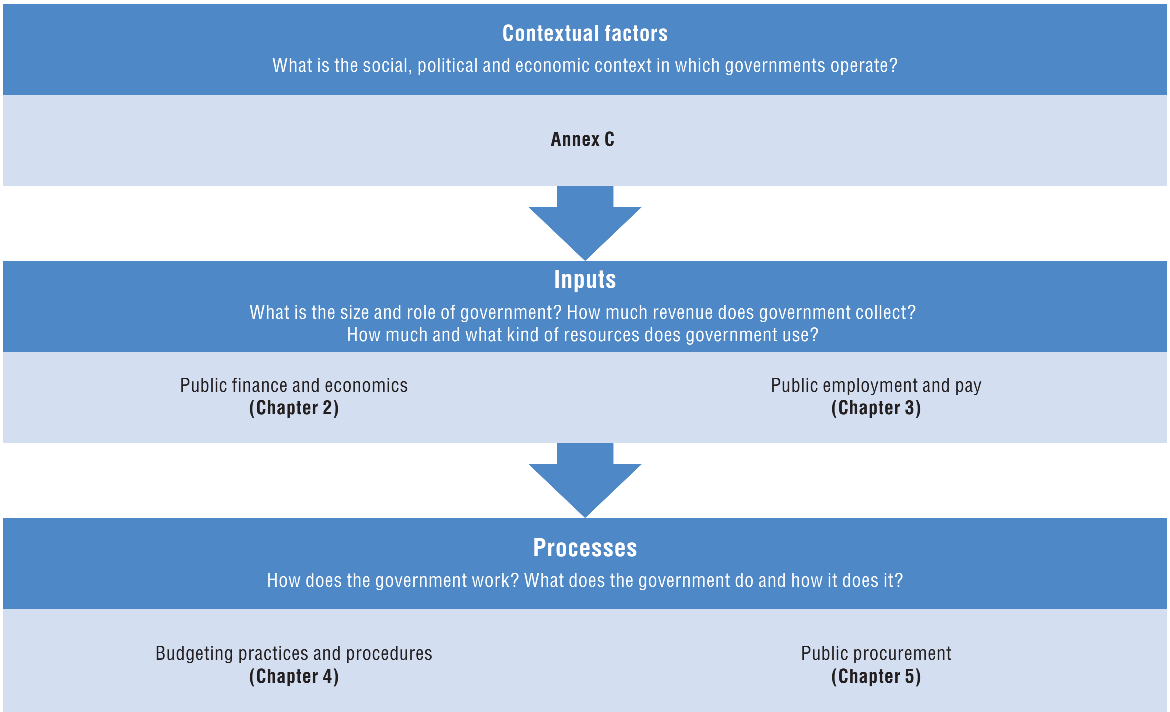
Process indicators refer to the public management practices and procedures undertaken by governments to implement policies. They describe how governments implement policy and how inputs are transformed into outputs and outcomes. Information on processes such as budgeting and public procurement allows countries to begin the evaluation of the effects of recent reforms, and identify new strategies to improve productivity. For instance, the use of multi-year expenditure estimates in budgets can improve fiscal discipline and help to ensure that government resources are allocated productively and efficiently. Open and competitive procurement processes can reduce the incidence of corruption, increasing the resources devoted to producing goods and services and improving public trust in government.

4) Indicators of outputs and outcomes

The dividing line between outputs and outcomes can be blurry; while outputs refer to the amount of goods and services produced by governments, outcomes show the effects of policies and practices on citizens and business. The success of a given policy should be measured, at a first stage, by outputs but should ultimately be judged by the outcomes it achieves. This first edition of *Government at a Glance: Latin America and the Caribbean 2014: Towards Innovative Public Financial Management* does not include output or outcome indicators. To start, it is difficult to develop valid indicators that truly measure the outputs and outcomes of public administration. In addition, little internationally comparable information on outputs and outcomes exists for the LAC region.

Figure 0.1 presents the conceptual framework for *Government at a Glance: Latin America and the Caribbean 2014: Towards Innovative Public Financial Management*.

Figure 0.1. **Conceptual framework for *Government at a Glance: Latin America and the Caribbean 2014: Towards Innovative Public Financial Management***



Structure

This report starts with a policy chapter analysing the recent budgetary innovations in the LAC region and the implications on the fiscal sustainability for the region. Chapters 2-5 include data on the following areas of public administration: "Public finance and economics", "Public sector employment and pay" "Budgeting practices and procedures" and "Public procurement". Finally, there are two indicators that are included as special features, addressing topical issues such as non-renewable resources as a source of revenue and sustainable procurement within the "Public finance and economics" and "Public procurement" chapters respectively.

Government at a Glance:
Latin America and the Caribbean 2014
Towards Innovative Public Financial Management

Chapter 1

Fiscal and budget innovations and the commodities boom in LAC countries: A winning decade?

Introduction

Latin America and the Caribbean (LAC) countries have struggled for more than three decades with economic volatility, financial crises, and difficulties to maintain credible fiscal policy frameworks. Throughout the 1980s, a period often referred to as the "lost decade", many countries in the region defaulted on their high debt due to a host of issues, including rising interest rates, skyrocketing oil prices and a deterioration of exchange rates. As a result, inflation increased, income dropped and unemployment soared, generating problems that affected the region for many years.

Nevertheless, beginning in the late 1990s and early 2000s, the region underwent a period of fiscal management reforms that sought to promote stable and sustainable fiscal policy in the short term, and macroeconomic stability and growth in the long term. Among these reforms, fiscal rules, medium term fiscal frameworks, stabilisation funds, and performance budgeting stand out as important tools, even though they were not applied uniformly or in an integrated manner. The ability of a few LAC countries to mitigate the effects of the 2008-09 global economic crisis provides some evidence of the region's capacity to use these reforms to harness the benefits of the commodities boom and to introduce some countercyclical fiscal measures.

During this time, many countries in Latin America and the Caribbean also experienced significant reductions in poverty and inequality, although the region remains one of the most unequal in the world. The road towards macroeconomic and fiscal stability that supports poverty reduction and other development objectives in the region has not been continuous nor is it complete. Although the commodities boom that swept the global economy helped improve macroeconomic and fiscal positions in many LAC economies, the recent financial and economic crisis illustrates some of the structural fiscal shortcomings that are still present in the region.

The data collected in this publication allows for a comparison across countries of the individual progress in these areas within the LAC region and for a comparison of the region as a whole with OECD countries. Such a regional comparison; however, must also consider two key policy issues: 1) the different roles of government, examined from public finance, employment, compensation, procurement and angles; and 2) the relationship between economic and fiscal volatility in the LAC region, and the adoption of innovative fiscal reforms and budgeting practices to improve fiscal stability and to strengthen financial reserves. In addition, it is also important to keep in mind the major differences in these issues across LAC countries.

The role of governments in Latin America and the Caribbean

Citizens and businesses' expectations of governments are broadly similar in both LAC and OECD countries; however, LAC countries have smaller governments and public sectors than the OECD average. While OECD countries have historically accumulated institutional capacity, a trained bureaucracy and sufficient financial resources, LAC countries are at an earlier stage of institutional development with fewer available resources, weaker governmental capacity and are consequently performing fewer tasks and providing fewer services.

Compared to OECD countries, democracies in LAC countries are relatively young. Most were only consolidated by the mid-1980s, with elected presidents in all countries only by the early 1990s (Marcel, Guzman and Sanguinés, 2014). This is in sharp contrast to the majority of OECD countries that developed into well-functioning democracies over the last 60 years. During this period, many European countries consolidated their welfare states. Furthermore, in LAC countries the development of the public administration during the 1990s was strongly influenced by libertarian notions that called for small, non-interventionist governments, as well as by New Public Management (NPM), which emphasises efficiency and contractual relationships (OECD, 2012).

In this new century, significant social changes have also occurred in the LAC region. Between 2003 and 2009 the size of the middle class, measured by disposable income, increased by 30% from 103 million people in 2003 to 152 million in 2009 (World Bank, 2012). In consequence, poverty rates have also steadily declined: since 2002, poverty in the region dropped by 15.7 percentage points and indigence by 8.7 percentage points (ECLAC, 2013a). In addition, the deepening globalisation process and the surge of new communication technologies have strengthened citizens' ability to scrutinise government actions and have improved the organisational capacity of relevant stakeholders.

The increased pace of economic development has added to the number and complexity of tasks that require government intervention. Governments in LAC countries are now responsible for the provision of public goods, the delivery of services, the stabilisation of the economy and the promotion of social equity through the redistribution of resources. Adding to these tasks, governments also regulate the behaviour of economic agents and the civil society, as well as co-ordinate and mediate among them.

More recently, governments became active in the areas of environmental protection, economic integration and gender equality. At the same time, the increase of government activities has been accompanied by the rise of various delivery mechanisms, including direct provision and outsourcing to the private and non-for profit sectors; as well as intermediate schemes, such as Public-Private Partnerships (PPPs), which substantially increase the complexity of government operations and the number of actors involved.

Although LAC societies are predominantly young, demographic change is unfolding: life expectancy will continue to rise, urbanisation will deepen and the empowerment of women will further boost their education and employment prospects but will also increase demand for public services, such as institutionalised care for children and the elderly. The share of women entering the labour market and participating in politics has steadily increased over the last decade and this trend is expected to continue. In LAC countries, the participation of women in general government employment has grown by two percentage points between 2001 and 2010. It is currently slightly below 50%. Nevertheless, the employment of women in the general government represents a higher share of the total female labour force (14%). This figure is 10% for men (see section on "Women in general government").

Furthermore, the demand for tertiary education will continue to rise as more people complete secondary levels of education. This will result in an increased demand for more and new public services, as well as financial help from governments. As democracies, backed by a growing middle class, continue to strengthen in the region, the poor will also attain a stronger voice, increasing the demands for state services. The subsequent increase in fiscal pressure will require the development of comprehensive tax systems. This will only be possible to the extent that citizens in LAC countries trust their governments and their capacity to provide public services transparently and effectively.

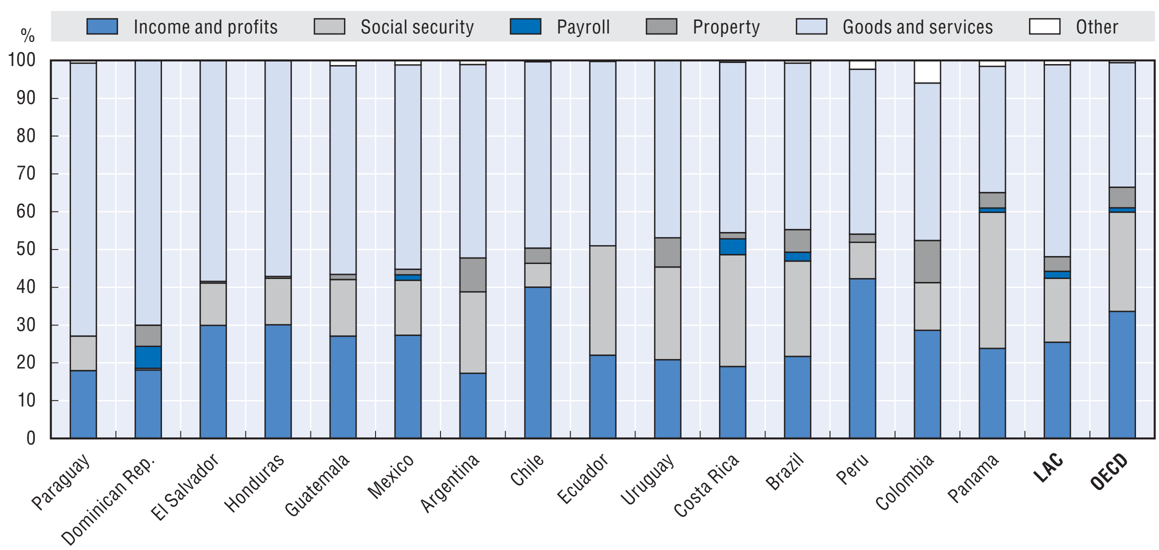
Based on the indicators in this publication, the section and sub-sections below analyse selected dimensions to measure and compare LAC governments' performance in key public management areas.

The size of government

Government revenues and expenditures

On average, government revenues in LAC countries represent 25.6% of GDP: this is in stark contrast to the OECD where they reach 41.9%. Furthermore, the revenue sources also differ substantially. On average, LAC countries rely heavily on taxing goods and services which represent over 50% of their revenues, while OECD countries on average only obtain one-third of tax revenues from this source. In contrast, OECD countries receive more tax revenues from taxing income, profits and contributions to the social security system (Figure 1.1). Taxing consumption is preferable to taxing the sources of production, as its impact on economic growth – especially export growth – and employment is less detrimental. However, it is generally a regressive tax system, disproportionately affecting lower income individuals, as opposed to a progressive income and profit tax system that reduces income inequality.

Figure 1.1. **Breakdown of tax revenues as a share of total taxation (2011)**



Source: Data for the LAC countries: OECD (2014), *Revenue Statistics in Latin America* (database). Data for the OECD average: OECD (2013), *Revenue Statistics* (database).

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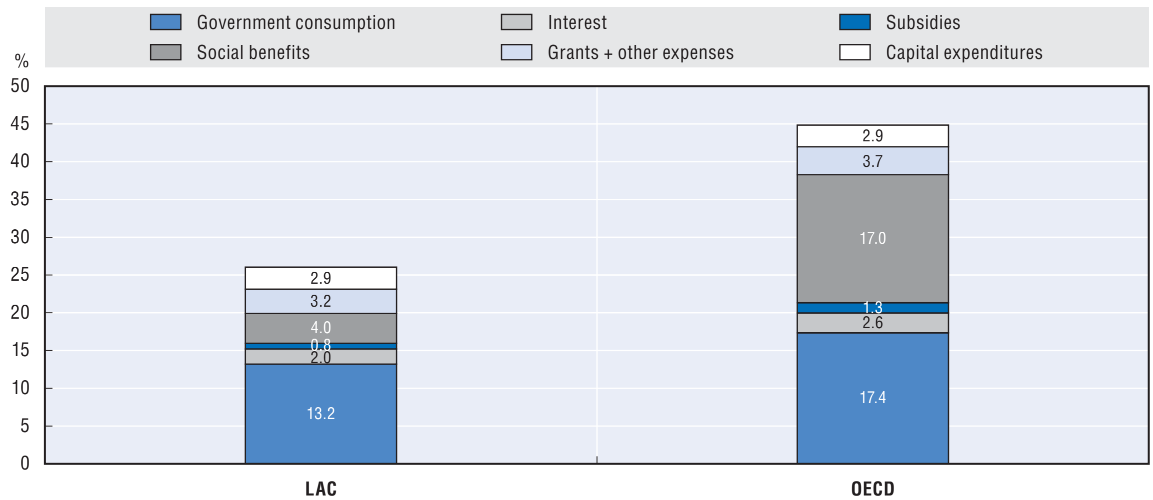
Although LAC countries have made progress in the area of taxation in the last decade, significant challenges remain. Overall, the region collects less than what its level of development would suggest. Furthermore, the structure of taxation is biased towards non-progressive taxes and tax evasion levels are significant. Another important source of tax revenues in several LAC countries is taxation on non-renewable natural resources (NRNR). The revenue collected in many countries, and especially in Central America and the Caribbean countries, that do not benefit from NRNR exports is often insufficient to address developmental needs. In addition, fiscal volatility incurred because of external shocks and commodity price fluctuations aggravates this gap.

More broadly, it can be stated that in spite of important shortcomings in tax collection, most LAC countries over the past two decades have strengthened their tax administrations through increased technical and financial autonomy (including earmarking a part of the collected revenue), better human resources and better information and communications technologies (ICT).

In general, LAC governments are considerably smaller than governments in OECD countries when comparing public expenditures, revenues and employment. In 2011, government expenditures in LAC countries represented on average 28% of GDP, compared to 45% of GDP for OECD countries (see section on "General government expenditures"). Moreover, the expenditure breakdown reveals several differences in how the money is spent. The most salient difference relates to expenditures on social benefits, defined as payments directly linked to the welfare function of governments. As a share of GDP, OECD governments spend 17% on social benefits, compared to only 4% in LAC countries (Figure 1.2). Furthermore, LAC countries spend 4.2 percentage points less in government consumption.

Figure 1.2. **Structure of government expenditures as a share of GDP (2011)**



Note: Government consumption is the sum of expenditures on compensation of government employees plus purchases of goods and services. Interest on public debt has been measured as consolidated interest payable by general government. Subsidies are current unrequited payments that governments make to enterprises on the basis of the levels of their production activities or the quantities or values of the goods or services which they produce, sell or import. Social Benefits refer to the two main categories of social benefits other than social transfers in kind (e.g. pensions and unemployment benefits) and social transfers in kind related to expenditures on products supplied to households via market producers. Grants + other expenses include other current transfers, capital transfers and other remaining expenses (e.g. property income other than interest). Capital expenditures encompass gross capital formation plus acquisitions less disposals of non-produced non-financial assets. Data for Brazil, Peru and Paraguay are recorded on a cash basis. Consumption of fixed capital is not recorded for Brazil, Costa Rica, Honduras, Paraguay and Peru. For the list of LAC countries included please refer to Figure 1.3. OECD average does not include Chile and New Zealand.

Source: IMF, *Government Finance Statistics* (IMF GFS) (database). Data for Mexico and OECD countries are based on the *OECD National Accounts Statistics* (database).

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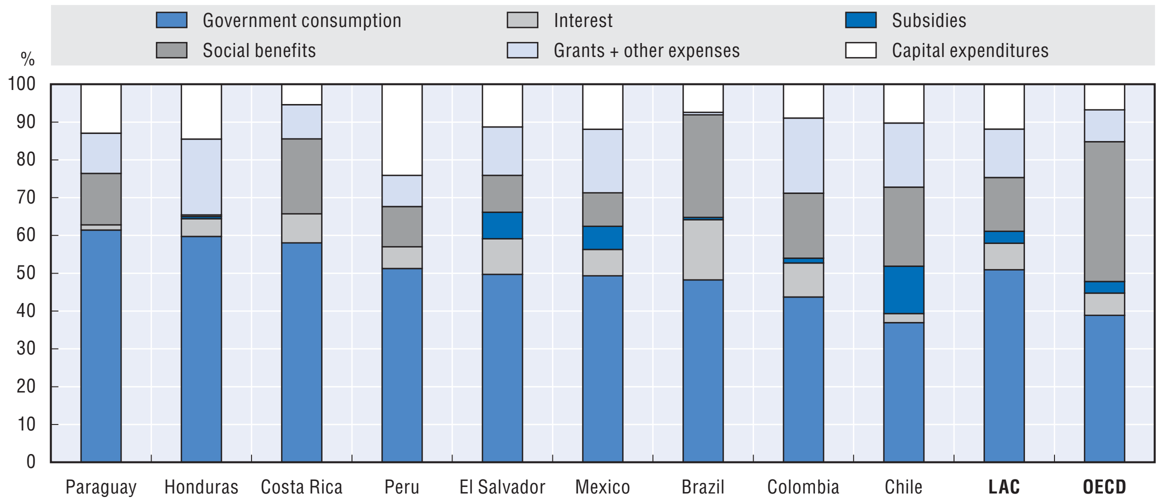
A further breakdown of government expenditures (Figure 1.3), shows that on average, over 50% of expenditures in the LAC region are devoted to government consumption, which is the compensation of government employees plus the purchases of goods and services by the government, compared to 39% for OECD countries. Furthermore, while on average, LAC countries have lower debt levels as a share of GDP than OECD countries (41% and 79% respectively), a higher share of their expenditures is devoted to interest payments (7% in LAC countries versus 5.9% for OECD countries). Markets still perceive LAC countries as risky and charge a higher premium for lending. In summary, LAC governments devote a higher share of resources to the basic infrastructure of government: running a bureaucracy and guaranteeing the state's presence in several areas where it is required, and dedicate substantially less to the provision of social benefits for their populations.

Brazil, Chile and Costa Rica are the countries that spend the most on social benefits (27%, 21% and 20% respectively). Brazil has the highest debt interest, reaching 16% of total expenditure. Colombia (44%) and Chile (37%) have the lowest levels of government consumption. For Chile, the figure is below the OECD average.

Finally, many LAC countries have inherited an organisational structure based on Franco-Iberian traditions and the importance of legislation and rules as mechanisms of regulating public management. This practice, however, has resulted in a proliferation of laws, organisations and

Figure 1.3. **Structure of government expenditures (2011)**



Note: Government consumption is the sum of expenditures on compensation of government employees plus purchases of goods and services. Interest on public debt has been measured as consolidated interest payable by general government. Subsidies are current unrequited payments that governments make to enterprises on the basis of the levels of their production activities or the quantities or values of the goods or services which they produce, sell or import. Social Benefits refer to the two main categories of social benefits other than social transfers in kind (e.g. pensions and unemployment benefits) and social transfers in kind related to expenditures on products supplied to households via market producers. Grants + other expenses include other current transfers, capital transfers and other remaining expenses (e.g. property income other than interest). Capital expenditures encompass gross capital formation plus acquisitions less disposals of non-produced non-financial assets. Data for Brazil, Peru and Paraguay are recorded on a cash basis. Consumption of fixed capital is not recorded for Brazil, Costa Rica, Honduras, Paraguay and Peru. OECD average does not include Chile and New Zealand.

Source: IMF, *Government Finance Statistics* (IMF GFS) (database). Data for Mexico and OECD countries are based on the *OECD National Accounts Statistics* (database).

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oversight procedures that were created in order to control corruption, clientelism and informality in government. This culture of regulation combined with and lack of resources has produced a highly centralised system of decision making and has increased the role played by the presidency and Ministry of Finance in governing the allocation of public expenditure.

Public procurement

Public procurement is the way in which goods and services are purchased by governments. In LAC countries, it represents on average 26% of total government expenditure (see section on "Public procurement spending"), slightly less than in OECD countries with 29%. Due to its complexity, the size of the financial flows it mobilises, and the close interaction between the public and the private sector, public procurement is an activity that is vulnerable to waste, fraud and corruption. This is particularly true for the LAC region, which has been historically plagued by these types of events.

LAC countries have made some progress in establishing public procurement procedures to promote integrity, such as guaranteeing that procurement information is published and made widely available in LAC countries. Nevertheless, the region still needs to promote various integrity and anti-corruption measures to ensure the transparency, good management, accountability and control of procurement systems. Codes of conduct are not commonly used and neither are special measures intended to prevent and detect fraud or corruption. In these categories, Costa Rica and the Dominican Republic are the only two countries that showed some progress.

In the LAC region, public procurement is not widely utilised as a tool to promote strategic governance objectives. The incorporation of social and environmental objectives into the procurement process is relatively low; with 40% of LAC countries incorporating these into their procurement frameworks (see section on "Special feature: Sustainable public procurement"). In contrast, policies and strategies to promote green procurement and SMEs, and to support innovative goods and services exist in 80%, 74% and 51% of OECD countries respectively.

Public employment and compensation

As a percentage of the labour force, LAC countries have fewer government employees – 10.7%. This figure remained unchanged between 2001 and 2010 and it is lower than the corresponding figure for OECD countries of 15.3% in 2010 (see section on "Public sector employment"). Government employment varies greatly in both OECD and LAC countries Argentina, for example, is at one end of the spectrum with 14.8% of the labour force made up of general government employees compared to less than 4% in Colombia, while OECD countries range from 30% in Norway to 6% in Korea. Nevertheless, the biggest difference between OECD and LAC countries is that LAC public administrations are generally "pre-bureaucratic" (OECD, 2012), and are characterised by a high share of political appointments and the lack of a formal professional civil service, affecting the continuity and effectiveness of public policies.

In several LAC countries, bureaucracies are not merit-based and are usually comprised of low-skilled workers protected by strict contractual labour arrangements, and managers appointed based on their political affinities. Furthermore, the region has a reputation for developing clientelistic networks of public staff responding to political leaders. Under such a framework, it is not guaranteed that the most capable people will fill public positions. One of the biggest challenges facing LAC countries is the need for the professionalisation of their civil service. Several countries including Brazil, Chile, Mexico and Peru have undertaken reforms in this direction in recent years, but the effects are still uncertain (OECD, 2012). Building both the autonomy and capacity of bureaucracies in LAC countries is necessary to reinforce public sector innovation and policy effectiveness (OECD, 2014).

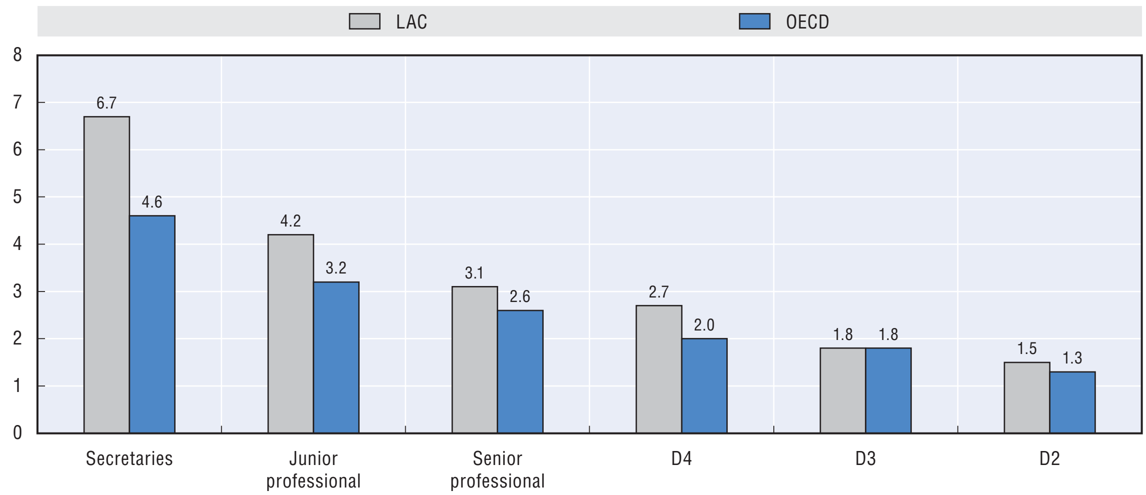
Compensation of key central government occupations

For the first time in the LAC region, this publication collects compensation data for selected key occupations within central government ranging from secretaries to senior managers. The objective of collecting this data is to examine the attractiveness of government employment in the LAC region and governments' ability to attract the most qualified employees, which is an essential component for the professionalisation of the civil service.

In absolute terms, adjusted for purchasing power parity, compensation levels for key government occupations are lower in LAC countries than in OECD countries. This is reflected not only in wage levels, but also in the share of the compensation devoted to social contributions. In relative terms, measured as a share of GDP, compensation levels in LAC countries are higher than in OECD countries (see indicators on compensation of public employees). At the same time, differences in compensation levels are also greater in the LAC region than in OECD countries. For example, while compensation of senior managers in OECD countries is 4.6 times higher than the compensation of secretaries, in the LAC region this difference is 6.7 times (Figure 1.4). This reflects the higher income inequalities within LAC societies. In 2010, the average Gini coefficient for the LAC region was 0.50, ranging from 0.57 in Honduras to 0.45 in Uruguay, where 0 means that each share of the population has the same income, while 1 means that the richest individual has all the income. While these values are close to the Gini coefficient for OECD countries pre-tax (0.47), the tax system performs significantly less well as a tool for redistribution, leaving the coefficient almost unchanged in the LAC region before and after taxes (OECD, 2012).

This section examined the role of government in the economy and society, e.g. as a key spending agent, as a redistributor of revenues, as a creator of public employment, as an employer setting wages and as the allocator of public resources. The indicators show that public resource expenditure in the

Figure 1.4. **Compensation ratio in comparison to D1 – highest level of – senior managers (2011)**



Source: 2013 OECD Survey on Compensation of Employees in Central/Federal Governments.

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region can be further improved by putting public management practices in place that make government more strategic by professionalising the public service and investing in the capacity needed to improve performance and outcomes.

The next section will look at the relative fiscal performance of LAC countries through the lens of the commodities boom and the early adoption of good fiscal and budgetary practices following the last decade boom.

Economic and fiscal volatility in the LAC region and the adoption of innovative fiscal reforms and budgeting practices

LAC countries have made important progress in improving the region's resilience to fiscal volatility and strengthening public finances through the use of fiscal rules, medium term fiscal (and budget) frameworks and stabilisation funds. Overall, the last decade was characterised by sustained growth, a sharp reduction in gross public debt and an increase in tax revenues. Furthermore, these advances led to an increase in public spending in almost all LAC countries that contributed to a reduction in poverty levels in the region (see Chapter 2 on "Public finance and economics").

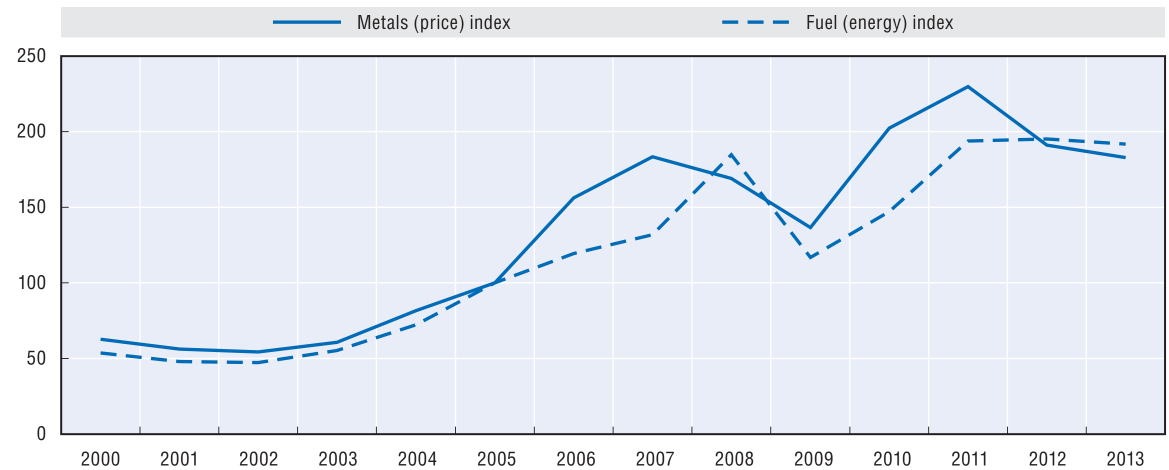
The commodities boom and its effect in LAC

The recent decade-long commodities boom drove revenues derived from oil, minerals, and other primary commodities upwards and paved the way for several LAC countries to improve their macroeconomic performance. As a result of increased demand from China and other emerging economies, prices for NRNR reached unprecedented levels between 2003 and 2008. Copper prices, for instance, increased nearly fivefold between 2000 and 2011, greatly benefitting Chile, which is currently the world's largest exporter of this mineral. Oil prices also reached historic heights during the same period, benefitting several oil-exporting countries such as Mexico and Venezuela (Figure 1.5).

In addition to favourable market conditions, a number of countries enacted legal reforms to increase the governments' take from natural resource rents in light of the economic boom. This stands in contrast to the period 1990-2003, where economic rents and fiscal contributions of the NRNR sector were lower. Governmental reforms to increase revenue from non-renewable resources in the past decade were aimed at direct government participation in the exploitation of these resources, royalties, and taxes with differential rates charged to extractive companies.

Figure 1.5. **Index of international commodity prices (2000-13)**

Index 2005 = 100



Note: Metals Price Index, 2005 = 100, includes copper, aluminium, iron ore, tin, nickel, zinc, lead, and uranium price indices. Fuel (Energy) Index, 2005 = 100, includes crude oil (petroleum), natural gas, and coal price indices.
Source: IMF, *Commodities Database*.

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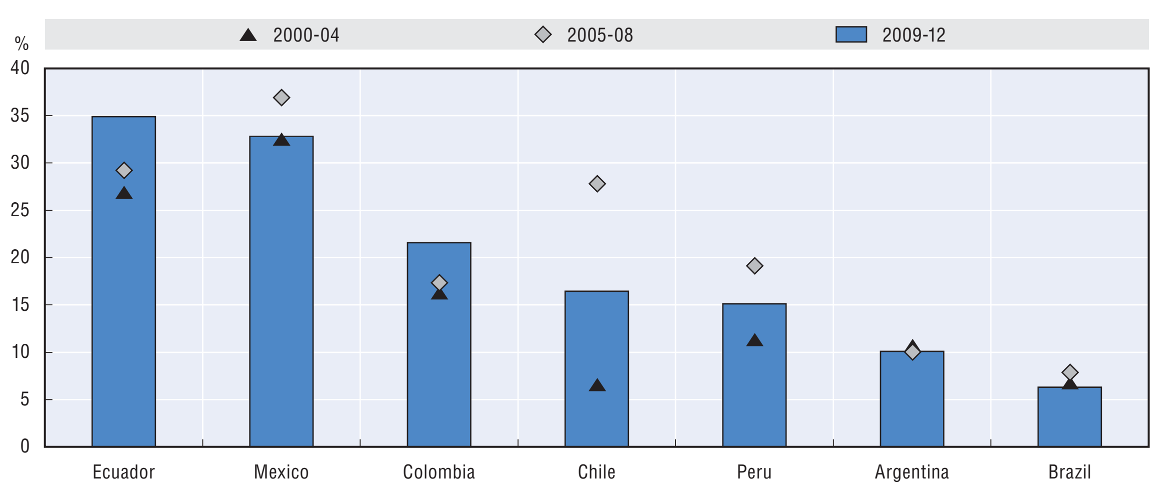
The unprecedented increase in commodity prices and the introduction of legal reforms pertaining to the capture of rents from NRNR, were crucial factors in the improvement of macroeconomic performance and fiscal positions in the region in the last decade.

In some LAC countries, revenues derived from non-renewable natural resources, as a share of total revenues, are substantial. In Bolivia, Ecuador, Mexico and Venezuela, for instance, revenues from NRNR accounted for over 30% of total revenues between 2009 and 2012. The recent financial and economic crisis did, however, lessen the share of revenues derived from commodities of total revenue. Between 2009 and 2012 Chile experienced the largest decrease (11.3 percentage points) in commodity-based revenue as prices for minerals stagnated at levels lower than those registered during the boom. This decline could also be linked to decreased profit margins as a consequence of increasing production costs and exchange rate appreciation (Figure 1.6). In other NRNR exporters, this decline was less pronounced. Overall, NRNR revenues stabilised again during 2012-13 in these countries.

Figure 1.6. **Relative participation of revenues from non-renewable natural resources as a share of total revenues**



Source: OECD/ECLAC/CIAT (2014) based on ECLAC (2013).

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Nevertheless, not all LAC countries benefited equally from the commodities boom. Though 93% of the region's population lives in commodity-exporting countries, they account for only half of the LAC countries. In general, net commodity exporters tend to be the larger economies in South America (in addition to Mexico). Net commodity importers, on the other hand, tend to be the smaller economies of Central America and the Caribbean. These economies are especially vulnerable to commodity price shocks, and suffered an important deterioration in their terms of trade during the crisis due to increased international prices in food and fuels. In these countries, tax policy reform in the last decade has focused on increasing the tax base and effective tax rates on the most important taxes to buttress the commodities economic shock.

The difference between the fiscal effect of the commodities boom on net exporters and net importers of NRNR, particularly hydrocarbons, highlights the vulnerability of the region to external shocks. Historically, the region has been characterised by intense macroeconomic and fiscal volatility (measured by the statistical standard deviation) compared to other regions. Over the period of 1990-2013, for instance, inflation volatility in the region far surpassed that of other regions in the world (see Table 1.1).

Table 1.1. **Indicators of macroeconomic and fiscal volatility in LAC**

Standard deviation of:	Latin America and the Caribbean	Advanced economies	Developing Asia	Central and Eastern Europe	Middle East, North Africa, Afghanistan, and Pakistan	Sub-Saharan Africa
GDP (% change)	2.11	1.56	1.86	3.34	1.70	2.29
Investment (% of GDP)	1.58	1.43	4.08	1.76	2.69	2.35
Inflation (% change)	110.05	1.06	3.48	36.26	3.72	12.41
Terms of trade (% change)	3.96	1.19	2.56	5.21	11.76	5.74
General government revenue (% of GDP)	2.42	0.68	2.39	0.74	3.82	2.04
General government expenditure (% of GDP)	2.41	1.89	2.32	1.70	1.88	1.93
General government net lending/borrowing (% of GDP)	1.31	2.19	1.17	2.22	4.90	2.80
General government gross debt (% of GDP)	4.47	12.54	3.74	5.17	13.63	17.43

Note: Standard deviation is computed over the 1990-2012 period. Group aggregates displayed in the table have been compiled by the IMF WEO (October 2013). The country classification within each group is not based on strict criteria, economic or otherwise. The objective is to facilitate analysis by providing a reasonable method of organising data.
Source: IMF, *World Economic Outlook Database* (IMF WEO) (October 2013).

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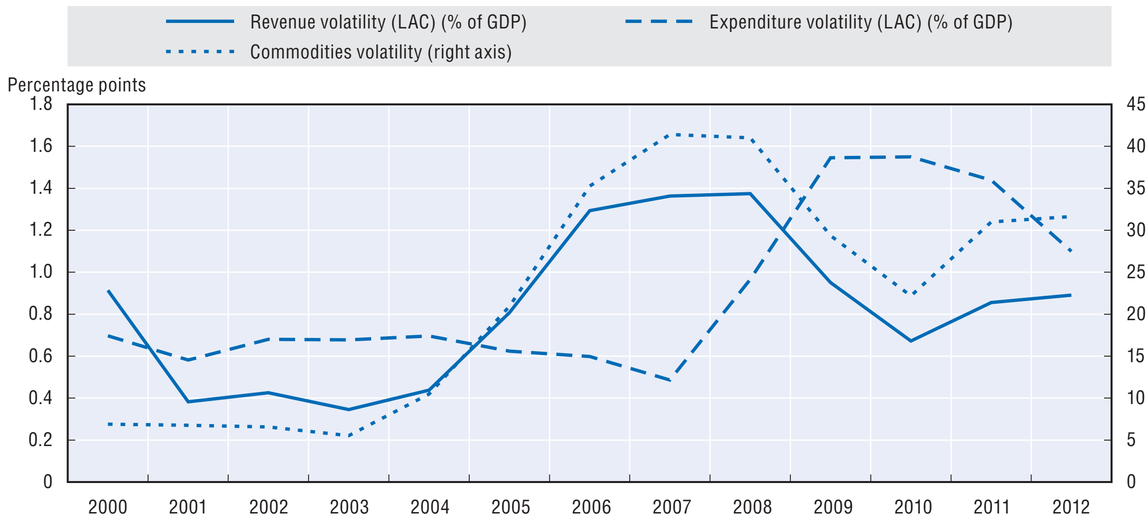
Given the region's dependence on commodity exports of NRNR such as fuel and metals, commodity price volatility and external market conditions have a substantial effect on fiscal revenue fluctuations (Figure 1.7).

Although there are various factors that explain the recurrence of macroeconomic and fiscal instability in the region, the effect of external shocks associated with fluctuations in the price of primary commodities plays a key role.

Fiscal and budgetary reforms in LAC: A search for innovations

Given the region's predisposition for macroeconomic and fiscal instability, many countries introduced reforms in the 1990s and early 2000s focusing on the promotion of stable and sustainable fiscal policy in the short term and macroeconomic stability and growth in the long term. In addition, as the process of democratisation took hold in most LAC countries, there was increased demand from society for greater provision of goods and services to pay for the "social debt" reflected in unjustifiable levels of extreme poverty. Given the increased fiscal capacity in net commodity exporter countries

Figure 1.7. **Revenue and expenditure volatility in comparison to commodity index price volatility (from 2000 to 2012)**



Note: Commodities is an average of Metals Price Index and Fuel (Energy) Index. Volatility is calculated as standard deviation of a 5 year time span, including the year of reference and the 4 preceding years.
Metals Price Index, 2005 = 100, includes copper, aluminium, iron ore, tin, nickel, zinc, lead, and uranium price indices.
Fuel (Energy) Index, 2005 = 100, includes crude oil (petroleum), natural gas, and coal price indices.
LAC average refers to the member countries as described in the "Reader's guide" plus Bolivia, Trinidad and Tobago and Venezuela.
Source: Data for commodities index is from IMF *Commodities Database*. Data for expenditure and revenue volatility is from IMF, *World Economic Outlook Database* (IMF WEO) (October 2013).

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(mainly South America and Mexico), the limited fiscal capacity in others, and the growing number of demands overall, a need for a more effective use and allocation of resources led to a series of innovations in fiscal and budgetary management.

Although fiscal results are determined by political institutions and legal and institutional frameworks, many governments began to reform budget institutions in the early 1990s in order to improve the predictability of fiscal results. These institutions are particularly important for public finance as they compose the rules and procedures that are used to prepare, approve, execute, control, and monitor budgets. Budget institutions thus determine: a) the size of total public expenditure, the fiscal deficit and public debt (and implicitly the sustainability of public sector accounts); and b) the appropriation of resources by type of expenditure and by groups of beneficiaries (Lora, 2007).

In general, each LAC country underwent a process of fiscal and budgetary reforms that began in the late 1990s and continued into the mid-2000s. Although these reforms reflected the specific needs and political context within each country at the time, some LAC countries adopted a particular set of reforms to improve fiscal results and make them more sustainable. The reforms were also important to identify the level of savings needed to progressively reduce public debt and open fiscal space to sustainably increase social and infrastructure investment that was lagging in most LAC countries, and which is a necessary element for sustainable economic growth.

These fundamental reforms consisted in the adoption, although not necessarily the integration, of fiscal rules, medium term frameworks, and the creation of stabilisation funds, while performance budgeting systems have been used to promote some transparency of decision-making and to help prioritise spending. As opposed to piecemeal reforms, a few LAC governments enacted integrated fiscal responsibility laws that encompassed these reforms and that were meant to provide the necessary tools to improve fiscal results. In general, these laws imposed limits on public expenditure or borrowing among other components. In the LAC region, Argentina (1999), Brazil (2000), Peru (2000), Ecuador (2002), Panama (2002), Colombia (2003), and Venezuela (2003) all enacted fiscal responsibility

Table 1.2. **Summary of Fiscal Reforms**

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Argentina		N,F		U,Ea					R(N,C,T),S	P,*r(c)*,S,E,Fb	*r(n)*,s			R(N,S,C)	
Bolivia			S							U					
Brazil								N		R(N,S,T),P					
Chile										Re(N,C)			*ef*,T		
Colombia	*fc*			Fd	C					N	S		R(N,P,T)		
Costa Rica											U,A				
Ecuador					U		Eg	N	C			R(N,P,C,T)		T	*r(n)*
El Salvador			U			A									
Guatemala										P,N,U					
Honduras													P,U		
Mexico								C				Ch,P,T			
Nicaragua												S,Fi,A			P
Panama								U				R(N),S,T		*r(n)*	P,U
Paraguay			ei							U			P,U		pk
Peru				U						R(N,P,C,T)		*r(n)*,C,T			
Dominican Republic								Fl						T	
Uruguay						U,Em									
Venezuela								C,U		P			R(N)n		

Notes: N = numerical rules; C = countercyclical fund; P = multiyear framework; R = fiscal responsibility law; S = subnational governments; U = single account; E = increase in executive power; F = increase in power of finance ministry; T = transparency; and A = principles of transparency.
Italic lowercase letters mean that the previously established reforms were reversed or the restrictions weakened.
R(X,Y) means that the Fiscal Responsibility Law included restrictions to X and Y.
a) Decrees of need and urgency.
b) Powers of head of cabinet.
c) Constitutional mandates that make public expenditure less flexible.
d) There was a substantial reform of the way the National General Budget was executed. In 1994 Law 179 of 1979 was changed to introduce an Annual Cash Program, replacing the Expenditure Agreements.
e) R here means the establishment of a structural balance rule. A bill was sent to congress in 2005.
f) Law 19.875 (of 2003) makes the Joint Budget Committee of the National Congress permanent and establishes the Budget Advisory Unit to give technical support to parliament for budget analysis.
g) The constitution prohibits congress from increasing the estimated amount of revenue and expenditure established in the budget proposal.
h) Automatic stabilisers were introduced.
i) Some provisions to improve cash management are included in the financial administration law.
j) Congressional powers were increased.
k) Beginning in 2006 a multiyear budget is being used pursuant to a transitory decree. It was used previously but was not a legal requirement.
l) The Integrated Financial Administration Program has made important changed in the management of the information on revenue, payments, and administration of bank accounts. These changes took place on the basis of an integrated information system that retrieves the previous information and integrates it into the full budget economic cycle.
m) Change in the review of the multiyear framework.
n) Includes components of the countercyclical fund and of the previously existing multiyear framework.
Source: IDB (2007), Table 5.1 from *The State of State Reform in Latin America*.

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laws within a four year period (IDB, 2007). The common characteristic of these countries is that they became important net commodity exporters and/or were dependent on one or two commodities (export of services in the case of Panama) for a big share of their exports. Following the policy trend in OECD countries such as Israel and Norway, the adoption of fiscal responsibility laws and macroeconomic stabilisation funds to manage the effects of volatile commodity price fluctuations became an apparent macroeconomic and fiscal policy need in countries such as Chile, Colombia, Peru, and Mexico. In other countries, these reforms were reversed.

Fiscal rules

The majority of LAC countries that adopted fiscal rules, both procedural and numeric, enshrined them in reforms that took place at the end of the 1990s and in the early 2000s. Numeric fiscal rules, which place long-term restrictions on fiscal policy through explicit numeric limits on fiscal aggregates, typically cover revenue, expenditure, budget balance or debt.

As the indicator on fiscal rules for the LAC region in this publication shows, there is no one-size-fits-all approach. In adopting these rules, the specific economic, political and social factors that influence fiscal policy in each country were considered. For instance, a small number of countries that wanted to limit the size of government, adopted expenditure ceilings, whereas those with a history of public debt defaults capped public borrowing through debt rules. In addition to determining the type and objective of the fiscal rule, an even smaller group of LAC countries explored how to determine the fiscal rule's anti-cyclical capacity and its escape clauses to maintain some budgetary discretion in extreme cases. Once these countries adopted fiscal rules, attention in some countries moved to ensure that budget procedures were adjusted accordingly in order to guarantee their consistency with the existing fiscal rule.

Fiscal rules in Chile introduced predictability and stability in fiscal policy over the economic cycle. In this case, the fiscal rule was created with a sophisticated methodology that determined the necessary structural primary balance and the levels of permanent and temporary revenues that could be expected from commodity price fluctuations (mainly copper), hence defining a sustainable trajectory for fiscal expenditures.

Medium-term frameworks

Medium-term frameworks (MTF) are institutional tools that aim to extend the planning horizon of public policies beyond the annual budget cycle but without the characteristic deficiencies of medium-term development plans (Shack, 2008). Although MTFs emerged among OECD countries in the second half of the 1990s, the majority of LAC countries began adopting them in the mid-2000s, as mentioned above, to complement fiscal rules.

MTFs require authorities to commit to a predefined evolution of the primary fiscal balance. In this way, they were forced to take into account the long-term effects of current expenditure decisions. In addition, transparency was increased as stakeholders and citizens in LAC countries have become more aware of the outlook of public finances with the introduction of macroeconomic projections in the legislative budget debate. A key instrument derived from MTFs was the development of macroeconomic projections, such as GDP growth and tax revenue growth. These projections increased the predictability of financial flows and allowed LAC governments to link the budgetary process to broad fiscal policy goals that extend beyond the annual budget cycle, while maintaining a sustainable fiscal position over the medium term.

MTFs, however, vary in terms of the level of depth with which they are promoted, and the type of projections that are included (Oxford Policy Management, 2000). A medium-term fiscal framework (MTFF), the most basic of the MTFs, usually focuses on the evolution of public debt, and the relation of expenditure, revenue, inflation and GDP to this variable. A more comprehensive MTF is called a medium term budget framework (MTBF). The objective of this framework is to provide some predictability to expenditures across units that are consistent with overall fiscal discipline. The last and most comprehensive framework is a medium-term expenditure framework (MTEF), which not only helps to improve fiscal discipline, but it also increases the efficiency of public sector spending by harmonising public expenditure with national priorities. The majority of LAC countries have a MTFF, but only eight have adopted a MTEF.

In the presence of sizeable increases in revenue windfalls in Chile, Colombia, Mexico, and Peru, the introduction of medium-term fiscal and expenditure frameworks created the necessary budget discipline to manage expenditure in an anti-cyclical manner. The MTFs in these four countries allowed for an orderly debate between the executive and legislative powers, based on clear parametres for expenditure ceilings and objective fiscal data.

Stabilisation funds

In the case of LAC, where net commodity exporter countries are highly dependent on fiscal revenues derived from NRNRs, the volatility, unpredictability and exhaustive nature of these revenues pose a great challenge to fiscal policy. In order to insulate the government and the economy from shocks arising from the volatility of non-renewable resource revenue, some LAC governments established macroeconomic stabilisation funds. These funds were set up in order to attenuate the effect of price fluctuations in non-renewable natural resource exports, shielding budgets from revenue uncertainty and volatility. These stabilisation funds do not, however, set formal restrictions on the overall conduct of fiscal policy. For instance, they do not affect spending nor can they reduce revenue uncertainty and volatility facing the public sector as a whole.

Anti-cyclical stabilisation funds operate under pre-established rules, easing fluctuations in non-renewable commodity revenues by accumulating additional revenues during price surges and by financing necessary expenditures during declines. Deposits and withdrawals from the stabilisation fund depend on the attainment of a pre-defined target in relation to a specific price outcome. However, the reference trigger values that govern withdrawals and deposits vary across LAC countries. In some countries, for example, funds are centred on price fluctuations in exports, whereas in other countries they are governed by fluctuations in fiscal revenues. Some funds may also be subject to caps in funding, whereby a fund's maximum size is predetermined, or it may be required to maintain a minimum balance.

All of the main exporters of NRNRs in the LAC region, with the exception of Bolivia, have created macroeconomic stabilisation funds in recent years. It is clear that the creation of diverse macroeconomic stabilisation funds that similar principles, allowed the net commodity exporting

Box 1.1. **The role of Colombia's General System of Royalties within its new Institutional Fiscal Framework**

As a result of the crisis in 1999, Colombia applied structural reforms intended to promote stable economic policy in the long run by addressing macroeconomic fundamentals. Recently, Colombian authorities ratified the adoption of three reforms geared towards increasing public savings and promoting fiscal sustainability. These reforms are part of a new General System of Royalties (SGR), a fiscal rule that sets a deficit target of 1% of GDP for the central government's structural balance in 2022, and the adoption of a fiscal sustainability principle in the Constitution. Together, these reforms strengthen the country's Institutional Fiscal Framework and reaffirm the government's commitment to fiscal responsibility.

The new SGR (Legislative Act 5/2011 and Law 1530/2012) is an important component of Colombia's Institutional Fiscal Framework. Its objectives are, among others, to more equitably distribute the revenues generated by the exploitation of non-renewable resources, generate savings from these resources, and increase the competitiveness of its regions through development. In order to fulfil these goals, the SGR contributes to five funds, one of which is the Stabilization and Savings Fund (FAE).

The FAE is the primary tool, within the SGR, for dealing with the volatility and unpredictability of non-renewable resource prices by accommodating the accumulation of resources in upswings and the decrease in resources during downswings. This, in turn, shelters projects funded by royalties from the fluctuations in resources, and generates savings for future generations. More importantly, given the adoption of the new fiscal rule, FAE funds may be utilised by the government to reach fiscal deficit targets, contributing to a long-term reduction in debt.

The design of the new SGR, in conjunction with the fiscal rule, stand as an innovative approach to ensuring good performance in public finances in the medium-term, while also carving out a path for long-term sustainability through a decrease in the public debt/GDP ratio.

countries in the LAC region (those who did not dismantled them) to shield public finances from abrupt expenditure surges derived from positive revenue shocks associated with the volatile increase of non-renewable resource revenue. This anti-cyclical mechanism, when combined with a sound fiscal rule, explains to a great extent the sustained GDP growth and fiscal stability that a few net commodity exporting LAC countries displayed during and after the global crisis of 2008-09. An important caveat should be introduced here. Recent fiscal results in most LAC countries reveal that with the stabilisation of commodity prices after 2010, an anti-cyclical fiscal stance was not necessarily maintained by most LAC countries, risking a future deterioration in the fiscal primary balance. This shows that even though fiscal management reforms temporarily contributed to strengthening anti-cyclical fiscal policy, the instruments created in the most sophisticated LAC countries are not sufficient to curtail expansionary expenditure pressures.

As we have discussed in this section the adoption of fiscal rules, medium term frameworks, and macroeconomic stabilisation funds allowed several LAC countries to harness the positive effects of the commodities price boom in the last decade while the introduction of performance budgeting systems should support increased transparency and prioritisation of spending. However, the capacity for creating a permanent anti-cyclical fiscal policy remains an elusive question even in the few advanced LAC countries like Chile, Colombia, Mexico, and Peru. Many LAC countries still lag behind in fiscal management innovations and anti-cyclical fiscal policy in the presence of commodity price volatility.

Performance budgeting

Performance budgeting has become one of the main tools by which countries can prioritise their expenditure plans within the spending envelope set by the medium-term framework. Performance budgeting is also an important instrument for improving accountability and transparency of budgetary decision-making.

The combination of scarce resources and the application of the NPM paradigm as the driver of public administration reforms in LAC countries are making performance budgeting a core component for several governments in the region. Consequently, fiscal governance frameworks are permeated by elements of performance measurement and performance budgeting practices. It has to be noted, however, that this trend is not yet consolidated in all LAC countries.

While some LAC countries have sought to adopt performance budget practices, there are vast differences in the approaches taken and there is no consensus on the optimal combination that should be applied. However, it is clear that a few countries in the region (notably Chile, Colombia, Mexico, and Peru) have embarked on this path in order to increase the effectiveness of public spending allocation and to reduce corruption. In the future, the move towards performance budgeting will be reflected in the budget laws of a greater number of LAC countries.

Results for LAC countries indicate that the adoption of these reforms has not been uniform within the region as countries have adopted different types of performance budgeting schemes, elements, targets and information. Overall, many countries have a standard framework that applies to all ministries and that generates performance information to some extent. However, this information is not used directly in the context of budget negotiations between line ministries and central budgeting authorities. In addition, there are usually no consequences when performance targets are unmet, suggesting performance information is not easily transformed into budget corrections. This experience is similar to that of OECD countries that have also put in place performance budgeting systems.

Chile and Mexico, for instance, have both implemented a standard performance budgeting frameworks at the central government level and produce a relatively high level of performance information. Brazil stands out as having leading performance budget practices in the region. In addition to having a standard framework, performance information such as financial data, operational data, spending reviews and statistical information are all produced. Furthermore, performance monitoring and evaluation covers a substantial amount of budget expenditure and there has been some success in adapting the budget cycle to incorporate performance information.

Advances in performance budgeting are more limited in the smaller Central America and the Caribbean countries. The he countries that produce the least amount of performance budgeting information are the Dominican Republic, Honduras and Panama. In this group, the majority of countries are still developing standardised performance budgeting frameworks. Although many countries have now adopted some form of public financial management information systems (IDB 2012), the amount of performance information generated and linked to the budget is still relatively low and its use in budget negotiations is mostly presentational.

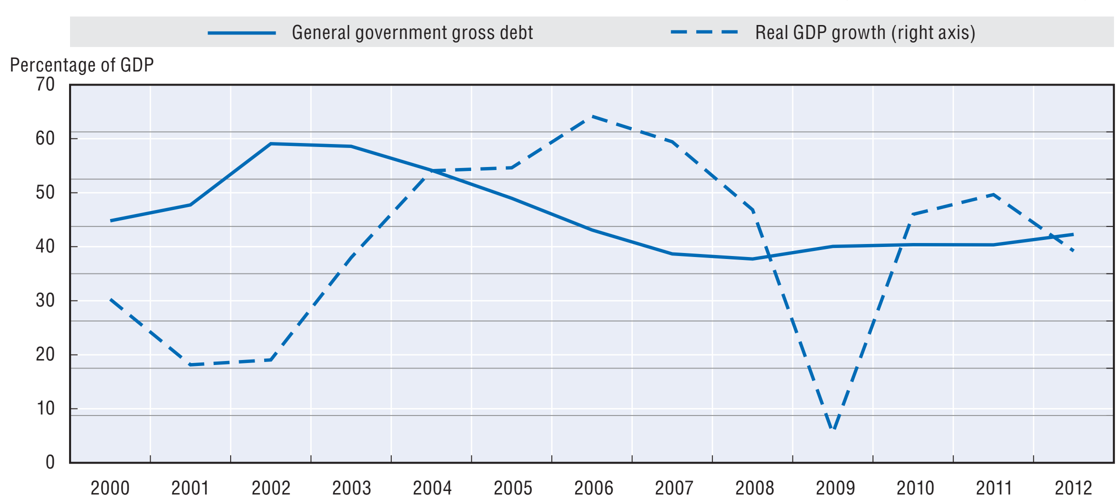
In contrast to a greater prevalence of parliamentary systems in OECD member countries, most LAC countries have presidential systems in which the head of the state is also the head of government. This characteristic of the LAC political system makes budget transparency all the more relevant. Publishing the main policy documents in a manner that is both understandable and accessible to the general public can increase the likelihood of generating discussions on public policies and, together with performance budgeting, can improve the effectiveness and efficiency of public spending.

What major differences can be observed in the fiscal results of the LAC region after the commodities boom?

Differences in macroeconomic and fiscal conditions

Following the commodities boom, several LAC countries shifted the composition of public debt towards instruments denominated in local currency and facilitated the expansion of the local financial markets. At the same time, lower debt and debt service, within an international context of low interest rates extended over a prolonged period, and the revenue windfall from commodities, allowed many LAC countries to reduce dollarisation, and increase their levels of international reserves (Figure 1.8).

Figure 1.8. **LAC average: General government debt and GDP (from 2000 to 2012)**



Note: LAC average refers to the member countries as described in the "Reader's guide" plus Bolivia, Trinidad and Tobago and Venezuela.
Source: IMF, *World Economic Outlook Database* (IMF WEO) (October 2013).

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In this context, there was an important shift in the composition of primary expenditure in the region. A significant reduction in interest payments on the public debt, in some countries even amounting to 2% of GDP, was redirected towards primary social expenditures, particularly towards conditional transfer programmes. This shift did not increase the level of primary expenditures in most countries in the initial years of the commodity boom but helped to reduce poverty levels notably.

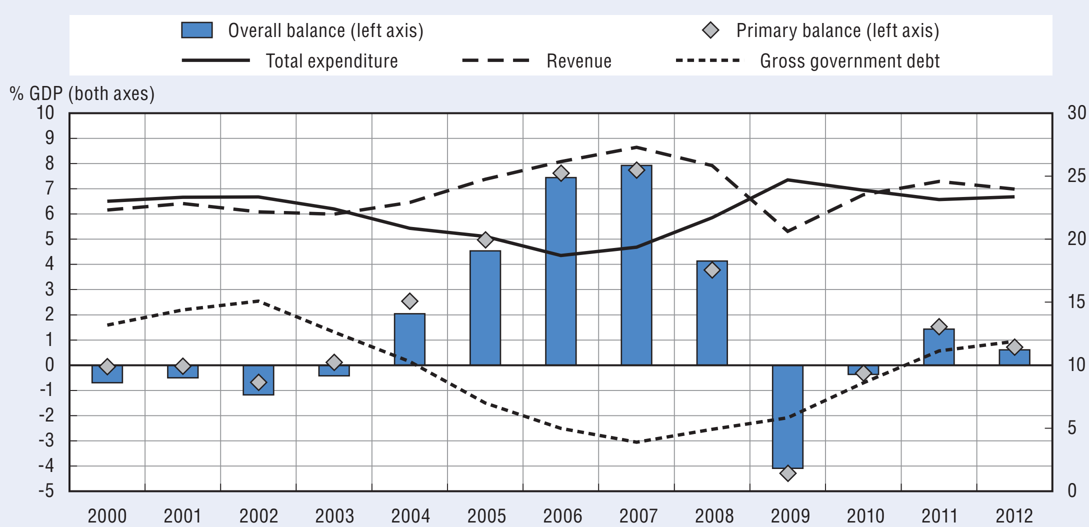
In 2008-09, LAC countries were for the most part able to provide a countercyclical response to the Great Recession in the form of a moderate fiscal stimulus. Fiscal balances were relaxed but not beyond a reasonable trajectory of the long-term primary balance for most countries. Anti-cyclical fiscal policy was easier in net commodity exporter countries that adopted integrated fiscal and budgetary reforms described in previous sections of this chapter.

The reaction to the Financial Crisis of 2008-09 and the Great Recession that followed it revealed four different types of fiscal policy stance (and fiscal outcomes) among LAC countries. In particular, a differentiation emerges regarding the individual responses to the crisis, the role played by NRNR, and the management of macroeconomic and fiscal policy.

Box 1.2. **Chile's "structural" fiscal balance rule**

Chile was an early adopter of a "structural" fiscal balance rule. This rule introduced three key measures: a) a measure of the structural fiscal balance of the central government; b) an annual primary balance target; and c) a clear methodology to apply the fiscal rule to the budget process. The fiscal rule was subsequently complemented with the introduction of a savings/ stabilisation fund and the introduction of a performance-based budget process, all in line with best OECD practices.

Chile: Selected government indicators (from 2000 to 2012)



Source: IMF, *World Economic Outlook Database* (IMF WEO) (October 2013).

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Notably the savings accumulated during the commodities boom, due to a firm commitment to the application of its fiscal rule, allowed Chile to undertake an active anti-cyclical fiscal policy during the global crisis in 2008-09.

One group of countries (A) is currently undergoing sustained economic growth and has adopted some form of fiscal rules complemented by inter-temporal saving/stabilisation funds to counteract large shocks. These countries enjoyed sizeable windfall revenues from NRNR during the commodities boom. During the onset of the crisis, therefore, savings generated by the commodities boom allowed them to provide an anti-cyclical response in the form of moderate fiscal stimulus. The fiscal balance was relaxed, but not beyond a reasonable trajectory of the long-term primary balance, and debt levels remained largely unchanged. In general, macroeconomic policy prior to the 2008-09 crisis focused on aligning the expansion of public expenditure with a carefully constructed measure of permanent revenue. In this way, savings were achieved, as expenditures did not exceed revenues beyond reasonable levels. Furthermore, public debt as a share of GDP was reduced, in part by savings achieved, and in part by shifting the composition of public debt towards instruments denominated in local currency.

A second group of countries (B) also experienced a substantial influx in revenues derived from commodity exports. Since the onset of the crisis, fiscal stabilisation and monetary policies were partially observed. These net-commodity exporting countries currently exhibit moderate debt-to-GDP ratios. On average, they also have high levels of primary expenditure, a deteriorating primary balance, and a deficit-prone overall fiscal balance. These countries have applied some fiscal and budget management reforms but in a partial, non-integrated fashion.

A third group of countries (C) experienced a substantial influx in revenues derived from commodity exports. Since the onset of the crisis; however, fiscal stabilisation and monetary policies were not clearly observed. Although these are net-commodity exporting countries, they currently exhibit, on average, high levels of expenditure, a fast deteriorating primary balance, medium to high debt-to-GDP ratios, and a markedly deficit-prone overall fiscal balance. This type of country not only enacted fiscal and budgetary reforms partially, but also reversed or deactivated them altogether.

The fourth group of countries (D) is characterised primarily by a lack of substantial NRNR revenue and is primarily composed of small, net commodity importers. Their economies are still very vulnerable to commodity price volatility, external economic shocks, natural disasters and the slow pace of world economic recovery. These countries have also experienced low or declining economic growth since the crisis. Furthermore, most exhibit a deteriorating primary balance, high debt-to-GDP ratios and persistent fiscal deficits that result mainly from limited revenue collection and high expenditures linked to entitlement schemes and state-owned enterprises.

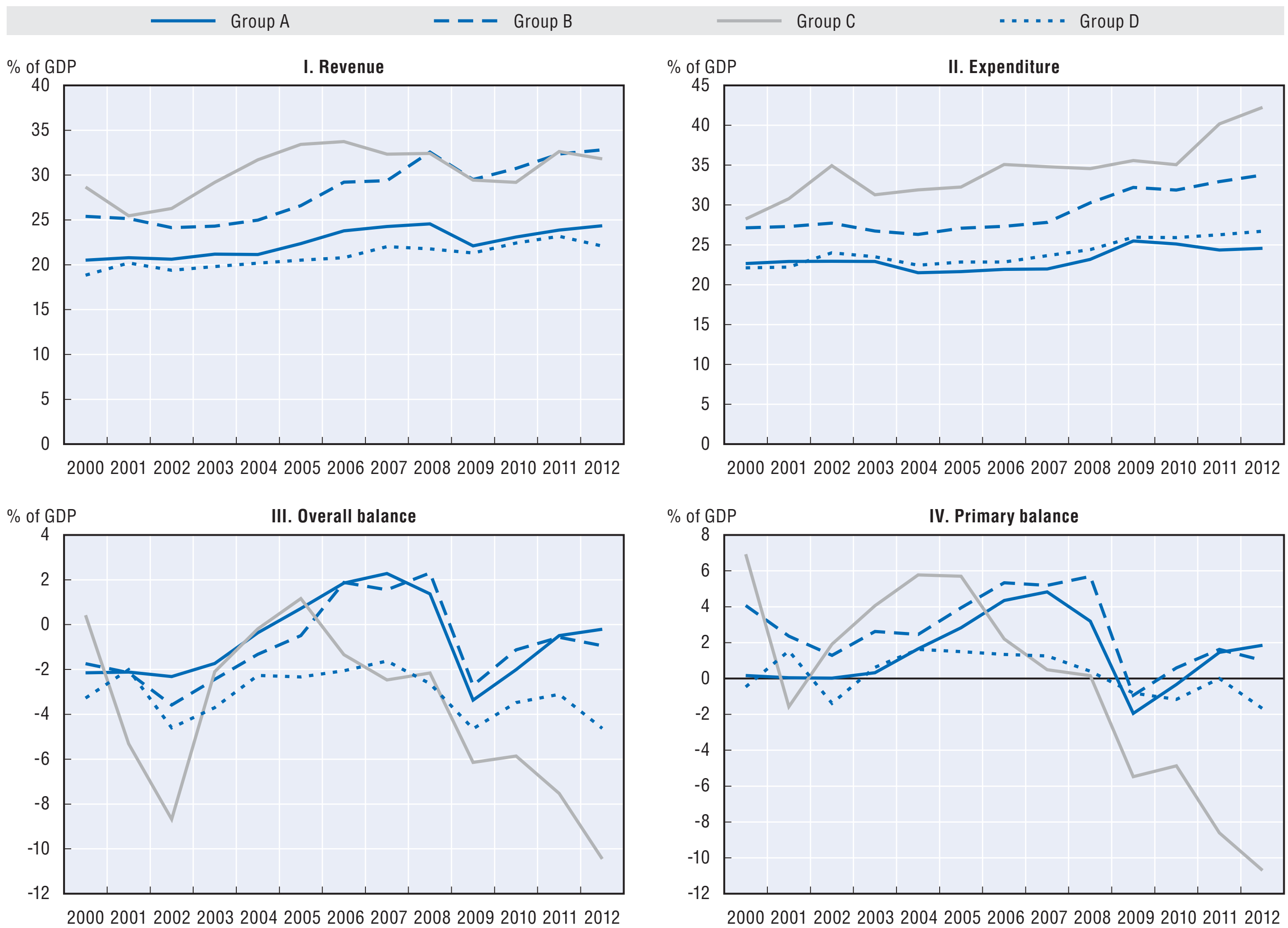
Overall, most LAC countries benefited from a surge in commodity export revenues (Figure 1.9.I), and most countries in the region, particularly those in group C, expanded expenditures during this boom (Figure 1.9.II). Furthermore, a significant number of countries show deterioration in fiscal results since the onset of the Great Recession (Figure 1.9.III). Only a select group of countries did not experience a significant deterioration in their primary balance (Figure 1.9.IV).

Conclusion

Latin America and the Caribbean countries undertook significant fiscal and budget reforms throughout the last two decades. During this process, some countries adopted a deeper, more structural approach to reforming the economy and the performance of the public sector. The solid foundation created by these reforms allowed many countries to benefit from the commodities boom from 2003-08 and to withstand the global economic crisis in 2008-09 with relative success.

The introduction of important reforms and innovations in fiscal policy and budget practices set the foundation for fiscal stability and allowed countries to manage expenditures in an anti-cyclical way. For most LAC countries, fiscal management reforms were limited and had no meaningful effect on the improvement of fiscal results, even in the presence of important increases in public revenues during the commodities boom. Key among these innovative reforms was the introduction of fiscal

Figure 1.9. **Selected government indicators by group of LAC countries (from 2000 to 2012)**



Note: Overall balance (general government net lending/borrowing) represents total revenues minus total expenditures. Primary balance is net lending/borrowing plus net interest payable/paid (interest expense minus interest revenue).
Group A: Countries with stable revenue, controlled levels of primary expenditures, positive primary balances or moderate deficits, sustainable levels of public debt.
Group B: Countries with increasing revenues, high levels of primary expenditures, a tendency towards permanent primary deficits and medium levels of public debt.
Group C: Countries with increasing revenue, very high levels of primary expenditures, a markedly deficit-prone overall fiscal balance, a fast deteriorating primary balance and elevated levels of public debt.
Group D: Countries with limited revenue, low levels of primary expenditures, a persistent fiscal deficit, deteriorating primary balance and high levels of public debt.
Data for primary balance are not available for Ecuador, El Salvador, Haiti, Mexico and Paraguay.
Source: IMF, *World Economic Outlook Database* (IMF WEO) (October 2013).

StatLink http://dx.doi.org/10.1787/888933089643

rules, medium-term frameworks, stabilisation funds, and performance budgeting systems. For Chile, Colombia, Mexico and Peru, adapting the best practices in fiscal and budgeting reforms of OECD countries to the political and institutional reality of LAC countries has resulted in the creation of fiscal and budget institutions that incorporate a structural view for long-term fiscal consolidation. These countries established quantitative public debt, primary balance or expenditure targets and maintained the firm policy objective of applying fiscal rules up until the advent of the 2008-09 global economic crisis.

The commodities boom of the last decade was a unique test to fiscal and budget institutions in the LAC region. In several cases, such innovations helped net commodity exporting countries to mitigate the effect of the Great Recession by allowing them to accumulate fiscal savings out of pre-crisis windfalls and use them to fund anti-cyclical spending, without jeopardising the long-term primary balance.

The integrated application of these reforms and innovations in Chile, Colombia, Mexico and Peru countries should serve as a guide to the more vulnerable LAC countries in finding their own formula to attain fiscal sustainability. Whereas comparative data on input levels such as government expenditures, public sector employment and compensation; and on practices such as public procurement, can help countries to determine the right mix of inputs, delivery mechanisms, human capital investment and outputs to meet expectations as well as governments' own means and political goals.

The application of the OECD surveys on performance budgeting, budget practices, public compensation and employment, as well as of public procurement practices, shows that LAC countries still have important gaps in key public policy areas. LAC policy decision makers may find that a systematic approach to close these gaps utilising the benchmarking possibilities of this publication could be a worthwhile effort.

The collaborative research effort between the IDB and the OECD represents a useful model upon which to build. Furthermore, future joint work could be expanded to include other dimensions of public governance such as the quality and efficiency of public expenditures, the use of open government tools, and the quality of public statistics and public information systems.

This and future *Government at a Glance* publications for the LAC region will be useful to inform public policies which seek to improve fiscal, budgetary, and public finance performance; and to open fiscal space to invest in poverty reduction, create human capital, and improve infrastructure for sustainable social and economic growth in Latin America and the Caribbean.

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Towards Innovative Public Financial Management

Chapter 2

Public finance and economics

In contrast to other regions in the world, the effects of the recent global financial and economic crisis were rather moderate in Latin America, resulting in relatively low debt levels. Furthermore, the price of many commodities has remained at historically high levels in recent years, leading to a substantial influx of resources into the region. On average, the LAC region grew at 3.5% for the period between 2001 and 2011. Nevertheless, despite the favourable economic environment, some LAC countries still face negative fiscal balances, suggesting a need to improve the management of their public finances. In addition, the slowdown in global demand, the moderation of commodity prices, and the uncertainty of financial and monetary conditions all present less favourable economic conditions in the coming years.

This chapter describes and analyses the key indicators in public finance and economics, helping to shed light on how governments are managing their public finances. It includes indicators on government deficits/surpluses and public debt. It assesses trends in the size and structure of government revenues and expenditures, the general government balance and debt levels as well as the magnitude of government investment. In order to offer insights into longer-term trends and the impact of the economic crisis, data for most indicators are presented for 2001 (the base year), 2009 (the year in the midst of the crisis) and the latest year for which data are available (in most cases, 2011).

Governments raise revenues to finance the provision of goods and services and to fulfil their redistributive role both within and across generations. The amount of revenues collected is determined by multiple factors such as government policies, political institutions, the stage of economic and social development, and internal and external macroeconomic conditions.

Government revenues accounted for 25.6% of GDP across LAC countries in 2011. Ecuador had the highest level of general government revenues as a share of GDP (40.7%), followed by Argentina, Barbados and Brazil (37.4%, 36.9% and 36.7% of GDP respectively). In general, Central American countries collect the least revenues in terms of GDP, with Costa Rica, the Dominican Republic and Guatemala collecting less than 14% of GDP in 2011.

The LAC region experienced significant volatility in revenues in the last decade. Between 2001 and 2007, general government revenues as a share of GDP increased by 2.7 percentage points as a result of strong growth, and relatively high commodity prices. However, due to the economic and financial crisis, revenues decreased by 0.6 p.p. between 2007 and 2009. As the majority of LAC countries began to recover from the crisis, revenues increased by 2.2 p.p. between 2009 and 2011, surpassing even the pre-crisis levels. The largest increases occurred in Haiti (12 p.p.) and Ecuador (11 p.p.).

An alternative way of looking at the importance of the government in the economy in terms of financial resources is to measure government revenues per capita. On average, revenue per capita reached around USD 3 000 PPP in 2011. Barbados has the highest revenue collection in the region, reaching about USD 9 000 PPP per person in 2011. In general, countries in the southern cone, such as Argentina, Uruguay, Brazil and Chile, collect comparatively more revenue per capita than most LAC countries. Similar to revenue as a share of GDP, revenue per capita increased substantially in the last decade. Despite a drop as a result of the economic and financial crisis, revenues per capita increased by 4.5% over the last decade, particularly as countries recovered from the crisis and economic activity surged between 2009 and 2011. Haiti, in particular, experienced a substantial increase in revenues per capita (28.4%) during this time period as a result of the influx of financial relief in the aftermath of the 2010 earthquake. Although LAC countries collect far less revenues per capita than OECD member countries (about USD 15 000 PPP for the OECD countries), this figure increased substantially more in LAC countries between 2001 and 2011.

Methodology and definitions

Data are drawn from the IMF *World Economic Outlook Database* (IMF WEO) (October 2013), which is based on the *Government Finance Statistics Manual 2001* (GFSM 2001) framework. The GFSM 2001 provides a comprehensive conceptual and accounting framework suitable for analysing and evaluating fiscal policy, harmonised with other macroeconomic statistical frameworks, such as the overarching *System of National Accounts 1993* (1993 SNA). However, some differences exist between the GFSM 2001 and the 1993 SNA frameworks in several occurences (detailed information can be found in Appendix 3 of the GFSM 2001) which led to the establishment, to a large extent, of correspondence criteria between the two statistical systems.

General government consists of central government, state government, local government and social security funds. Revenues encompass social contributions, taxes other than social contributions, grants and other revenues. Gross domestic product (GDP) is the standard measure of the value of goods and services produced by a country during a period of time.

Government revenues per capita were calculated by converting total revenues to USD 2011 using the implied IMF purchasing power parities (PPP) conversion rate and dividing it by population. PPP is the number of units of country B's currency needed to purchase the same quantity of goods and services in country A.

For the OECD average, data are derived from the *OECD National Accounts Statistics* (database), which is based on the *System of National Accounts*, and published in the OECD *Government at a Glance*, 2013 edition.

Further reading

Corbacho, A., V. Fretes Cibils and E. Lora (eds.) (2012), *More Than Revenue: Taxation as a Development Tool*, Inter-American Development Bank, Washington, DC.

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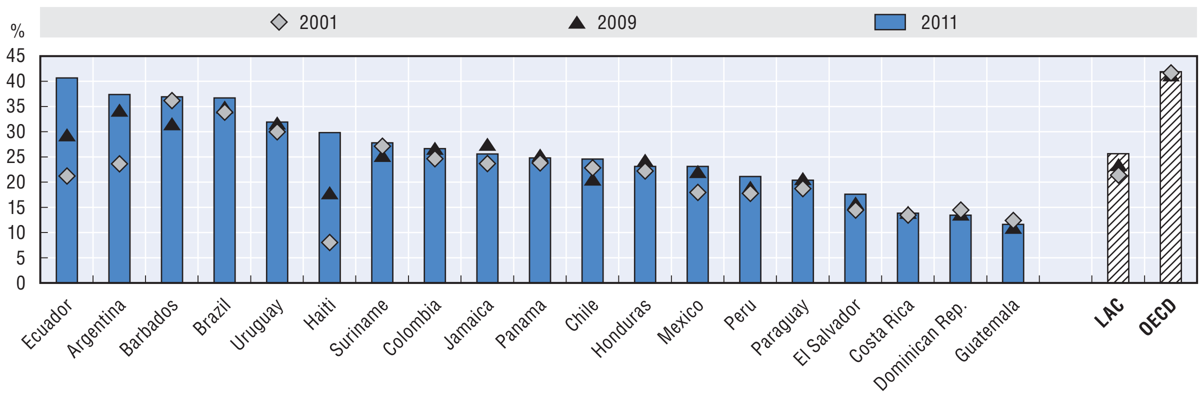
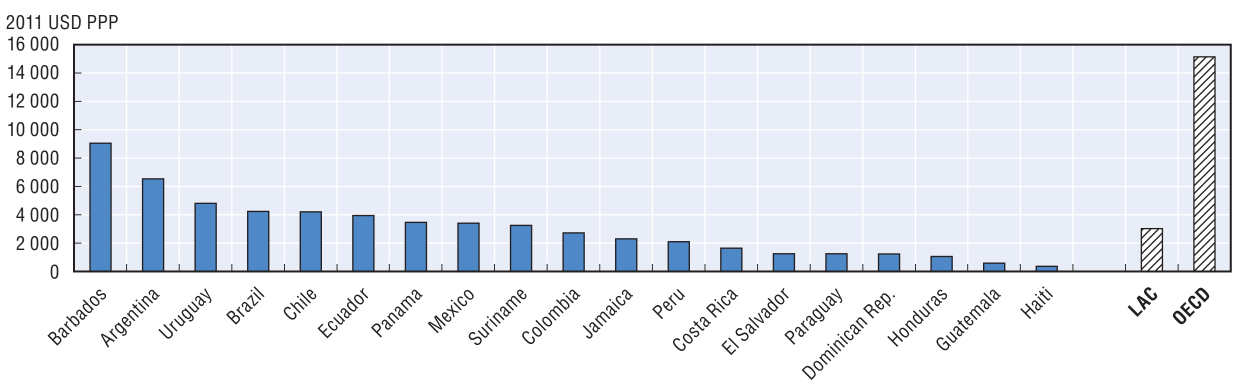
2.1. General government revenues as a percentage of GDP (2001, 2009 and 2011)



Sources: Data for the LAC countries: IMF, *World Economic Outlook Database* (IMF WEO) (October 2013). Data for the OECD average: *OECD National Accounts Statistics* (database).

StatLink http://dx.doi.org/10.1787/888933089662

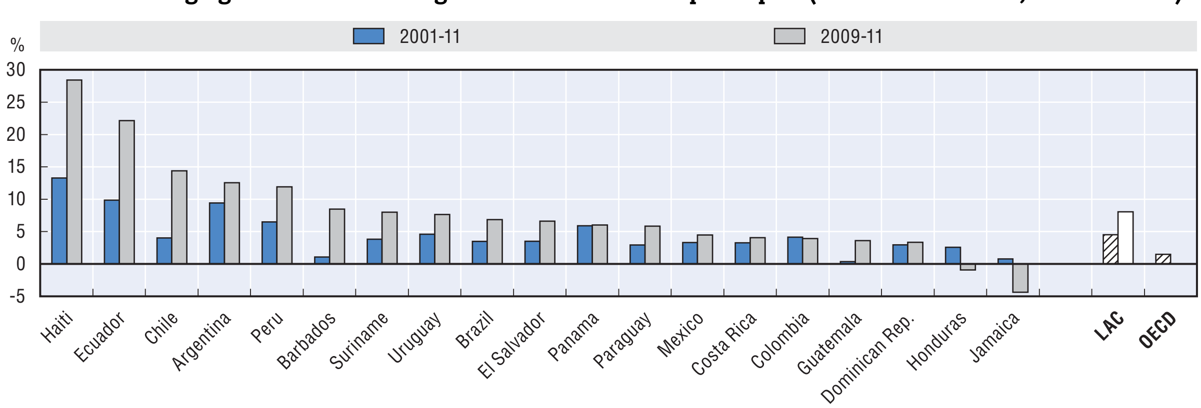
2.2. General government revenues per capita (2011)



Sources: Data for the LAC countries: IMF, *World Economic Outlook Database* (IMF WEO) (October 2013). Data for the OECD average: *OECD National Accounts Statistics* (database).

StatLink http://dx.doi.org/10.1787/888933089681

2.3. Annual average growth rate of real government revenues per capita (from 2001 to 2011, 2009 to 2011)



Sources: Data for the LAC countries: IMF, *World Economic Outlook Database* (IMF WEO) (October 2013). Data for the OECD average: *OECD National Accounts Statistics* (database).

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During the past two decades, LAC countries made significant progress in the area of taxation. They increased tax collection, strengthened tax administrations and attempted to curb rampant tax evasion. As a consequence, taxes as a share of GDP increased more in the region than anywhere else in the world (Corbacho, Fretes and Lora, 2013). Furthermore, revenue increases have taken place across all tax sources, and tax administrations continue to grow stronger as a result of greater technical and budgetary autonomy.

The size of tax revenues varies across LAC countries, ranging from 35% of GDP in Brazil and Argentina to close to 13% in Guatemala and the Dominican Republic. Although the region has seen major increases in tax collection, LAC countries still collect considerably less revenue as a share of GDP than OECD member countries. In 2011, the OECD member countries collected 34.1% of GDP on average, whereas LAC countries collected 20.1% of GDP.

Although overall damage from the crisis was subdued in the LAC region, it did have a negative impact on tax revenues as a share of GDP. Between 2007 and 2009, tax revenues as a share of GDP decreased on average 0.5 percentage points compared to an average increase of more than 2.6 p.p. between 2001 and 2007. However, fluctuations varied considerably among countries. The Dominican Republic (3.1 p.p.) and Honduras (2.1 p.p.) experienced the strongest decrease in tax revenues. At the same time, Argentina and Ecuador experienced the strongest increases in tax revenues (5.5 p.p. and 5.1 p.p. respectively).

The structure of general government tax revenues serves as an indicator of the relative contributions made by different sectors to the tax base. In Latin America, taxes on goods and services represent the largest share of tax revenues (on average around 50%). This is mainly due to the significant role value added tax (VAT) plays in LAC countries. Taxes on income and profits account for approximately 25% of total tax revenues, while social security contributions comprise 17.1%. In contrast, in OECD member countries, goods and services, and income and profits contributed roughly egual amounts (around one third each) to tax revenues whereas social security contributions reached over one quarter.

On average, the structure of government tax revenue remained fairly stable in LAC countries between 2001 and 2011. Although taxes on income and profits have historically played a modest role in the region, this category of taxes experienced an increase between 2001 and 2011 that was almost balanced by a reduction of taxes on goods and services. This increase may be due to the adoption of a dual tax system, which broadens the tax base and increases revenue from personal income tax. Seven LAC countries have implemented dual or semi-dual systems since Uruguay first successfully adopted the dual system in 2006.

Methodology and definitions

Data are drawn from the OECD *Revenue Statistics in Latin America* (database) whose classification of tax revenues is almost equivalent to that of the *Government Finance Statistics Manual 2001* (GFSM 2001). The GFSM 2001 provides a comprehensive conceptual and accounting framework suitable for analysing and evaluating fiscal policy. It is harmonised with the other macroeconomic statistical frameworks, such as the overarching *System of National Accounts 1993* (1993 SNA). However, there are some differences between the definitions of tax revenues used in OECD *Revenue Statistics in Latin America* and the SNA. In the SNA, taxes are compulsory unrequited payments, in cash or in kind, made by institutional units to the general government. Social contributions are actual or imputed payments to social insurance schemes to make provision for social insurance benefits. These may be compulsory or voluntary and the schemes may be funded or unfunded. OECD *Revenue Statistics in Latin America* treats compulsory social security contributions as taxes while the SNA considers them social contributions because the receipt of social security benefits depends, in most countries, upon appropriate contributions having been made, even though the size of the benefits is not necessarily related to the amount of the contributions.

Further reading

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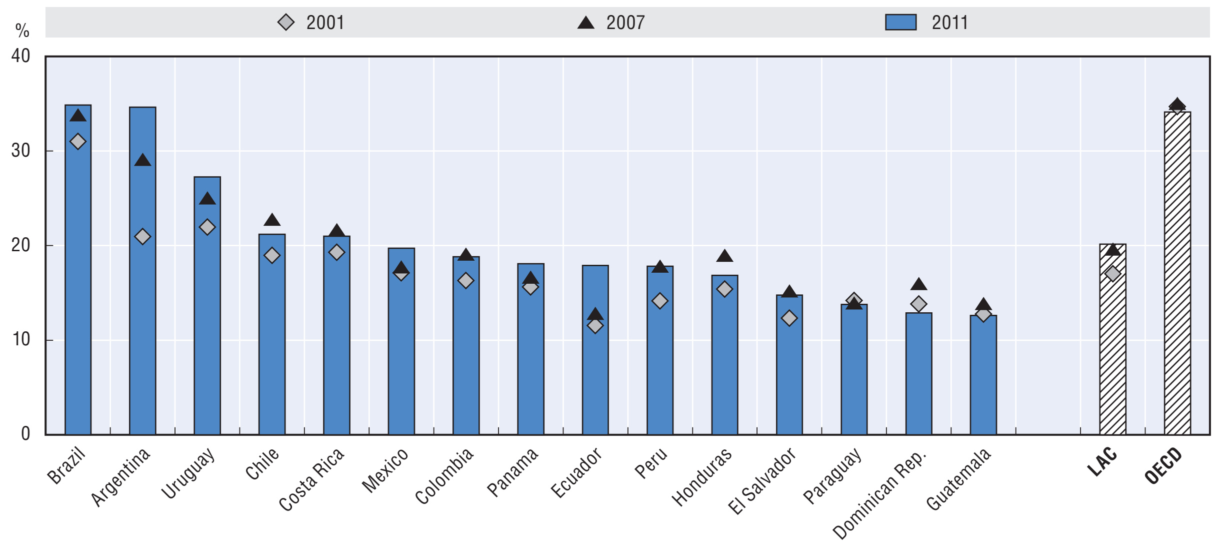
2.4. Tax revenues as a share of GDP (2001, 2007 and 2011)



Source: Data for the LAC countries: OECD (2014), *Revenue Statistics in Latin America* (database). Data for the OECD average: OECD (2013), *Revenue Statistics* (database).

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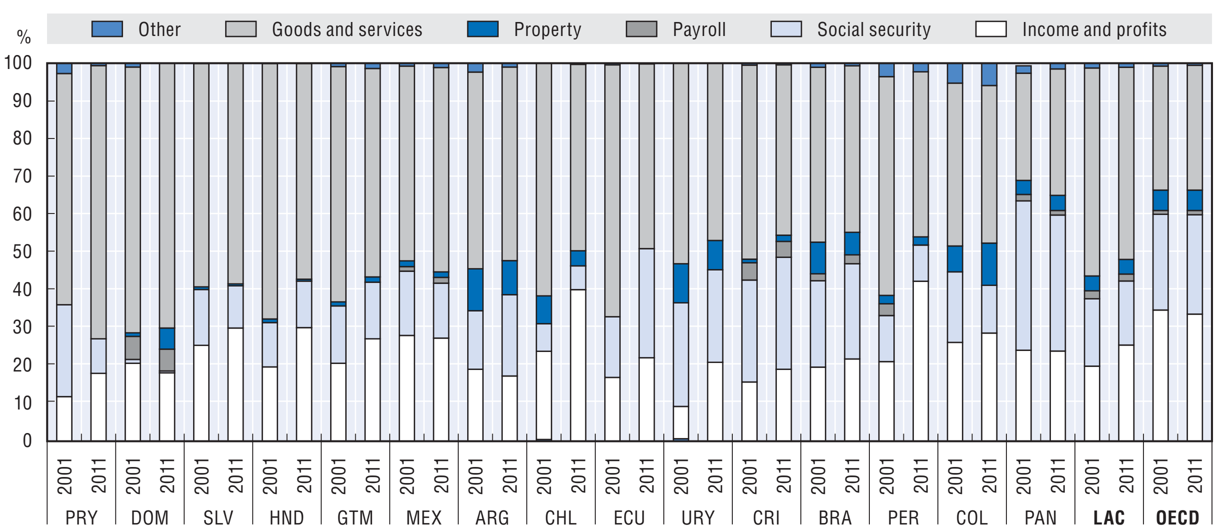
2.5. Breakdown of tax revenues as percentage of total taxation (2001 and 2011)



Source: Data for the LAC countries: OECD (2014), *Revenue Statistics in Latin America* (database). Data for the OECD average: OECD (2013), *Revenue Statistics* (database).

StatLink http://dx.doi.org/10.1787/888933089472

National tax administrations collect domestic taxes, providing governments with the resources to fund public programmes and deliver goods and services. They also interpret and enforce tax policy, and in some cases administer local taxes. Besides core tax collection functions, in almost two-thirds of LAC countries studied, tax administrations also oversee customs administration. Furthermore, in Argentina, Brazil and Peru they administer contributions to social security. Of the tax administrations with available information, 60% are independent or autonomous bodies, while the rest are entities within the Ministry of Finance.

Over the past two decades, most LAC countries have strengthened their tax administrations through increased technical and financial autonomy, better human resources and better information and communications technologies (ICT). However, problems such as pervasive tax evasion remain, reducing the tax revenue potential of the region. Less than 50% of Latin Americans believe that tax evasion is a completely unjustifiable act (*Latinobarómetro*, 2010). Due to this, there is growing government interest in making tax administrations more efficient, in order to fight fraud, improve services and increase transparency.

One commonly used performance indicator for tax administrations is their total revenue body expenditure as a percentage of GDP, a measure that decreased slightly in LAC countries between 2009 and 2011. In 2009, 0.16% of GDP was spent on tax administration on average while in 2011 this figure was 0.15% of GDP. Generally, Honduras spend the most whereas El Salvador and Mexico spend the least on tax administration expenditure. OECD member countries have experienced a more pronounced declining trend in total tax agency expenditure (0.1 percentage point between 2009 and 2011). On average LAC countries spent 0.04 p.p. of GDP less than OECD member countries on tax administration in 2011.

An additional efficiency measure is the cost of collection ratio, which compares the aggregate tax administration cost per 100 units of net tax revenue collected. This figure varies widely among LAC countries. For example, the cost of collecting one unit of tax revenue in Paraguay is almost five times higher than in Panama. This may be explained by the fact that tax policy and tax administrations in LAC countries vary in terms of structure, equity, coverage and performance. In the period 2006-10 the average tax administration cost per 100 units of net revenue collection was 1.4 in LAC countries. Although tax administration expenditure as a share of GDP is lower on average in LAC countries than in OECD member countries, the cost of collection ratio is lower in OECD member countries. On average, between 2006 and 2010, OECD member countries spent 0.92.

Factors that may influence the efficiency ratios presented here include macroeconomic conditions affecting tax receipts, the presence of sizeable natural resource tax revenues, differences in tax administrations' legal framework, variations in tax procedures and differences in institutional arrangements that can influence cost structures.

Methodology and definitions

For LAC countries, data are provided by the Inter-American Development Bank (IDB), the Inter-American Center of Tax Administrations (CIAT), Economic Commission for Latin America and the Caribbean (ECLAC).

For OECD countries, data are provided by surveyed revenue agencies or extracted from official country reports. Data for GDP were supplied by member countries' ministries of finance, OECD *Revenue Statistics*, CIA *World Factbook* or the IMF *Statistical Database*.

Tax administration expenditures include three categories: administrative costs, salaries and ITC costs. ITC expenditure was defined as the total costs of providing ITC support for all administrative operations (both tax and non-tax related) in tax agencies.

Further reading

Corbacho, A., V. Fretes Cibils and E. Lora (eds.) (2012), *More Than Revenue: Taxation as a Development Tool*, Inter-American Development Bank, Washington, DC.

IDB, Regional Technical Assistance Center for Central America, Panama, and the Dominican Republic, Inter-American Center of Tax Administrations (2013), *State of the Tax Administration in Latin America: 2006-2010*, Inter-American Development Bank, Washington, DC.

Jiménez, J. and J. Gómez Sabaini (2012), *Tax structure and tax evasion in Latin America*, ECLAC Publishing, Santiago, Chile.

Figure notes

2.7: Data for OECD and LAC averages refers to available countries in both years 2009 and 2011. Data for Colombia refer to 2010 rather than 2009.

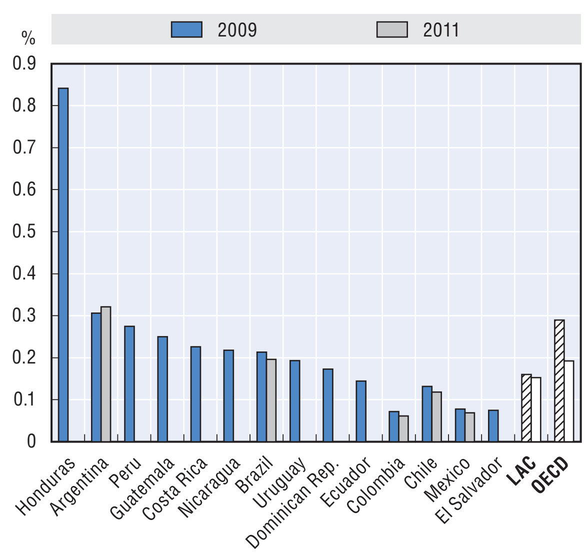
2.8: Data for OECD is average of 2007 and 2009.

2.6. Legal character and functions of tax administrations in LAC

	Legal structure		Functions		
	Entity within the structure of the Ministry of Finance (or its equivalent)	Independent entity or an entity dependent on the Ministry of Finance (or its equivalent), with some autonomy or total autonomy in human resources and budgeting in relation to the rest of the public administration	Administration of domestic taxes	Administration of customs	Administration of social security contributions
Argentina	❍	●	●	●	●
Brazil	●	❍	●	●	●
Chile	❍	●	●	❍	❍
Colombia	❍	●	●	●	❍
Costa Rica	●	❍	●	❍	❍
Dominican Republic	❍	●	●	❍	❍
Ecuador	❍	●	●	❍	❍
El Salvador	●	❍	●	❍	❍
Guatemala	❍	●	●	●	❍
Honduras	❍	●	●	●	❍
Mexico	❍	●	●	●	❍
Panama	●	❍	●	❍	❍
Paraguay	●	❍	●	❍	❍
Peru	❍	●	●	●	●
Uruguay	●	❍	●	❍	❍
Total	**6**	**9**	**15**	**7**	**3**

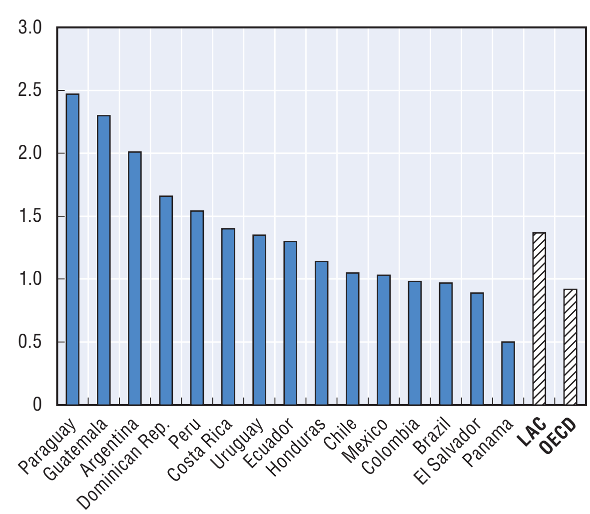
● Yes
❍ No
Source: Corbacho, A. and V. Fretes (2012), *More than Revenue: Taxation as a Development Tool*, Table 6.1, p. 101, IDB Publishing, Washington, DC.
StatLink http://dx.doi.org/10.1787/888933090498

2.7. Total revenue body expenditure as a percentage of GDP (2009 and 2011)



Sources: Data for the LAC countries: ECLAC (2012), *Tax structure and tax evasion in Latin America*, Macroeconomics for Development Series, No. 118. Data for the OECD average: OECD (2013), *Tax Administration 2013: Comparative Information on OECD and Other Advanced and Emerging Economies*.
StatLink http://dx.doi.org/10.1787/888933089738

2.8. Ratio of aggregate tax administration costs per 100 units of net revenue collection (average 2006-10)



Sources: Data for the LAC countries: CIAT (2012), *State of Tax Administrations*, Comparative series (2012). Data for the OECD average: OECD (2011), *Tax Administration in OECD and Selected Non-OECD Countries: Comparative Information Series (2010)*.
StatLink http://dx.doi.org/10.1787/888933089757

Governments provide goods and services, redistribute income and pursue economic development objectives, while trying to allocate resources efficiently and effectively. Government spending as a share of GDP is a good proxy indicator of government size. Macroeconomic conditions, fiscal policy and political decisions based on citizen demands all affect how much government spends and invests. Nevertheless, the size of government does not necessarily reflect its performance.

General government expenditures in LAC countries amounted to 27.8% of GDP in 2011. However, there is much variation in expenditure among LAC countries: Barbados, Argentina and Ecuador show expenditures above 40% of GDP, while Paraguay, Peru, Costa Rica, Dominican Republic and Guatemala show expenditure levels below 20%. LAC governments spend markedly less in relation to their GDP than OECD member governments. In 2011, for example, government expenditures in OECD member countries accounted for 45.4% of GDP. Government spending in LAC has gradually risen in the past decade, increasing by 4.3 percentage points between 2001 and 2011. Haiti experienced the largest increase, followed by Ecuador and Argentina.

Many LAC countries experienced fluctuations in government expenditure as a result of the global financial and economic crisis in 2008-09. Between 2001 and 2007 government expenditures increased on average 0.9 p.p. compared to an increase of 2.9 percentage points of GDP between 2007 and 2009. The bulk of the increase occurred as output fell and governments were forced to increase anti-cyclical discretionary spending in order to stimulate the economy. The largest increases occured in Ecuador (8.4 p.p.), Jamaica (7.3 p.p.) and Haiti (7 p.p.). As economies recovered and fiscal policy tightened, government expenditures as a share of GDP increased slightly, by 0.6 p.p. between 2009 and 2011.

The size of government expenditures per capita differs greatly across LAC countries. Barbados, with the highest level of per capita expenditures, spent 25 times more per person than Haiti, the lowest, in 2011. Although government expenditures per capita increased by 4.4% between 2001 and 2011, compared to an increase of 2.2% in OECD member countries, the average LAC country still spent about five times less per capita than the average OECD member country in 2011.

Methodology and definitions

Data are drawn from the IMF *World Economic Outlook Database* (IMF WEO) (October 2013), which is based on the *Government Finance Statistics Manual 2001* (GFSM 2001) framework. The GFSM 2001 provides a comprehensive conceptual and accounting framework suitable for analysing and evaluating fiscal policy. It is harmonised with the other macroeconomic statistical frameworks, such as the overarching *System of National Accounts 1993* (1993 SNA). However, some differences exist between the GFSM 2001 and the 1993 SNA frameworks in several occurrences (detailed information can be found in Appendix 3 of the GFSM 2001) which led to the establishment, to a large extent, of correspondence criteria between the two statistical systems. General government consists of central, state and local governments and social security funds. Total expenditures include intermediate consumption, employee compensations, subsidies, social benefits, other current expenditures (including interest spending), capital transfers and other capital expenditures. Therefore, total expenditures consist of total expenses and the net acquisition of non-financial assets. Gross domestic product (GDP) is the standard measure of the value of the goods and services produced by a country during a period. Government expenditures per capita were calculated by converting total government expenditures to USD 2011 using the implied IMF purchasing power parities (PPP) conversion rate and dividing it by population. PPP is the number of units of country B's currency needed to purchase the same quantity of goods and services in country A. For the OECD average, data are from the *OECD National Accounts Statistics* (database), which is based on the *System of National Accounts*, and published in the OECD *Government at a Glance 2013* edition.

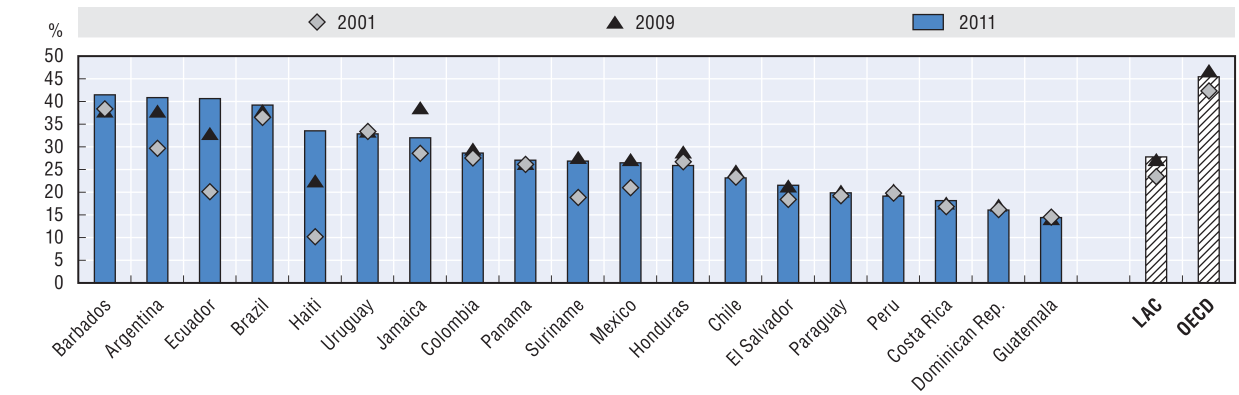
Further reading

ECLAC (2013), *Preliminary Overview of the Economies of Latin America and the Caribbean 2013*, ECLAC Publishing, Santiago, Chile.

IDB (2013), *Rethinking Reforms: How Latin America and the Caribbean Can Escape Suppressed World Growth*, Inter-American Development Bank, Washington, DC.

IMF (2013), "Regional Economic Outlook Update-Latin America and the Caribbean", *World Economic Outlook*, International Monetary Fund, Washington, DC, *www.imf.org/external/pubs/ft/reo/2013/whd/eng/pdf/wreo1013.pdf*.

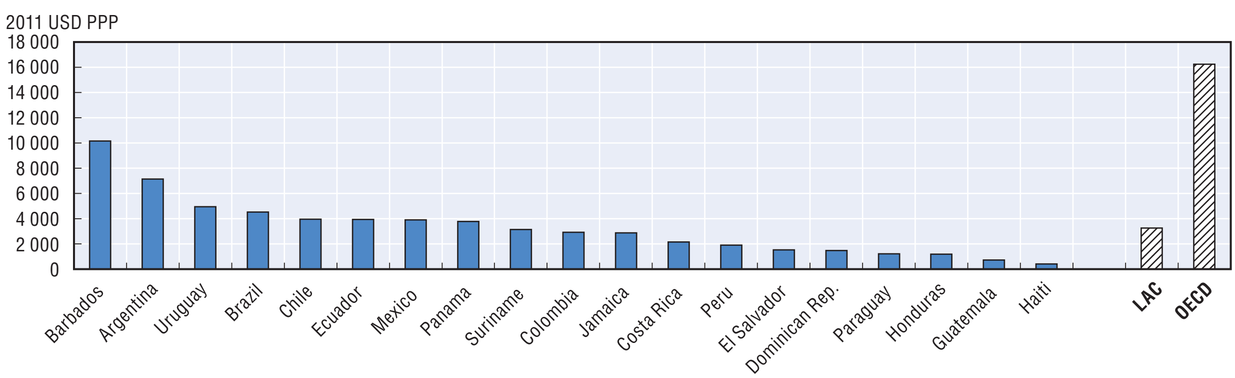
2.9. General government expenditures as a percentage of GDP (2001, 2009 and 2011)



Sources: Data for the LAC countries: IMF, *World Economic Outlook Database* (IMF WEO) (October 2013). Data for the OECD average: *OECD National Accounts Statistics* (database).

StatLink http://dx.doi.org/10.1787/888933089776

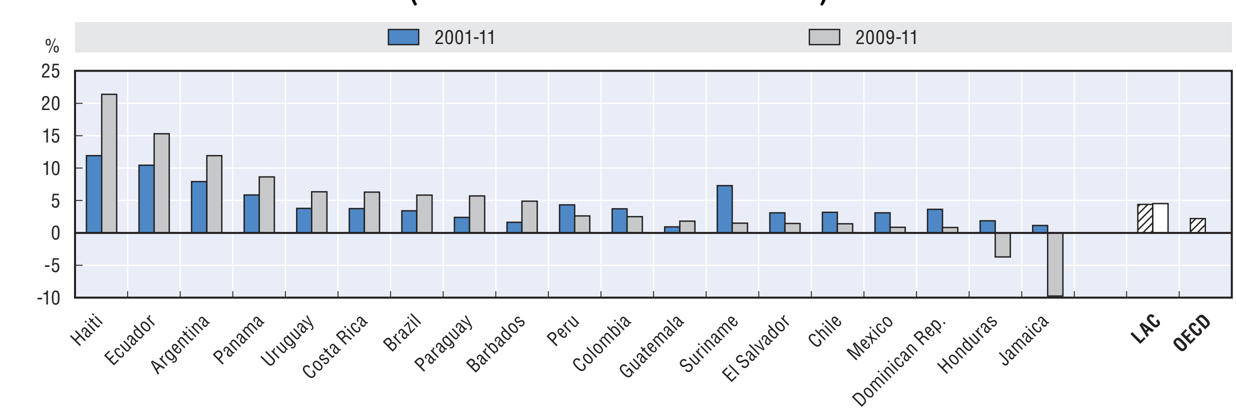
2.10. General government expenditures per capita (2011)



Sources: Data for the LAC countries: IMF, *World Economic Outlook Database* (IMF WEO) (October 2013). Data for the OECD average: *OECD National Accounts Statistics* (database).

StatLink http://dx.doi.org/10.1787/888933089795

2.11. Annual average growth rate of real government expenditures per capita (from 2001 to 2011 and 2009 to 2011)



Sources: Data for the LAC countries: IMF, *World Economic Outlook Database* (IMF WEO) (October 2013). Data for the OECD average: *OECD National Accounts Statistics* (database).

StatLink http://dx.doi.org/10.1787/888933089814

Central, state and local governments vary in terms of their ability to levy taxes and collect social contributions, depending on economic, institutional and social factors. Different government levels also share responsibility for financing public goods and services. Greater flexibility might promote economic efficiency as local governments would have better information about the needs and preferences of the population, and thus could better tailor services. Additionally, local-level service provision could strengthen sub-national governments' fiscal responsibilities.

In 2011, LAC central governments collected the majority of government revenues (72.9% on average). Sub-national governments collected 27.1% on average. The revenue structure by level of government varies considerably among LAC countries. While in most cases the central level collected over 60% of total revenues, in Brazil state-level governments collected 78.7% of the total revenues followed by Mexico (30.4%). Among local governments, Colombia (18.5%) and Peru (14.5%) collected the highest share of total revenues, while in Brazil (5%) and Paraguay (5.8%) local governments collected the lowest.

Between 2003 and 2011, the share of revenues collected by central governments increased in Chile (1.8 percentage points), Colombia (1.6 p.p.) and Honduras (1.9 p.p.), and decreased in El Salvador (3.7 p.p.), Peru (3.1 p.p.) and Mexico (1.7 p.p.). Colombia (0.6 p.p.) and Mexico (0.4 p.p.), El Salvador (3.7 p.p.) and Peru (4.6 p.p.) saw an increase in the share of local government revenue during this period.

Expenditures are also shared between different levels of government. However, research has shown that an important share of sub-national government expenditure is mandated by central government and thus very difficult to cut, which limits sub-central government's flexibility. On average, 78% of general government expenditures were made by central government in 2011, with state and local governments covering 22%. However, the degree of spending decentralisation varies. For example, in El Salvador 91% of government expenditures is carried out by central government, but in Brazil it's only 50% of total government expenditures.

The share of local government expenditures in total public spending has increased in the past decade; for example, between 2003 and 2011, it rose in Colombia (3.7 percentage points), El Salvador (3.6 percentage points), Peru (4.3 percentage points) and Mexico (0.5 percentage points).

Methodology and definitions

Data are drawn from the IMF *Government Finance Statistics* (IMF GFS) (database), which applies the concepts set out in the *Government Finance Statistics Manual 2001* (GFSM 2001). The GFSM 2001 provides a comprehensive conceptual and accounting framework for analysing and evaluating fiscal policy, harmonised with the other macroeconomic statistical frameworks, such as the overarching *System of National Accounts 1993* (1993 SNA). However, some differences exist between the GFSM 2001 and the 1993 SNA frameworks in several occurences (detailed information can be found in Appendix 3 of the GFSM 2001) which led to the establishment, to a large extent, of correspondence criteria between the two statistical systems. General government consists of central, state and local governments and social security funds. In the IMF GFS database, social security funds are included in central government. State government is applicable to the federal states of Brazil and Mexico and the highly decentralised countries of Colombia, Paraguay and Peru. For detailed information on the components of revenues and expenditures, see "Methodology and definitions" sections on "General government revenues" and "General government expenditures" respectively. Data on government revenues and expenditures at the central, state and local levels include transfers between the different levels of government. For Mexico, data are from the *OECD National Accounts Statistics* (database), based on the 1993 SNA.

Further reading

Blöchliger, H. and C. Vammalle (2012), *Reforming Fiscal Federalism and Local Government: Beyond the Zero-Sum Game*, OECD Fiscal Federalism Studies, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264119970-en*.

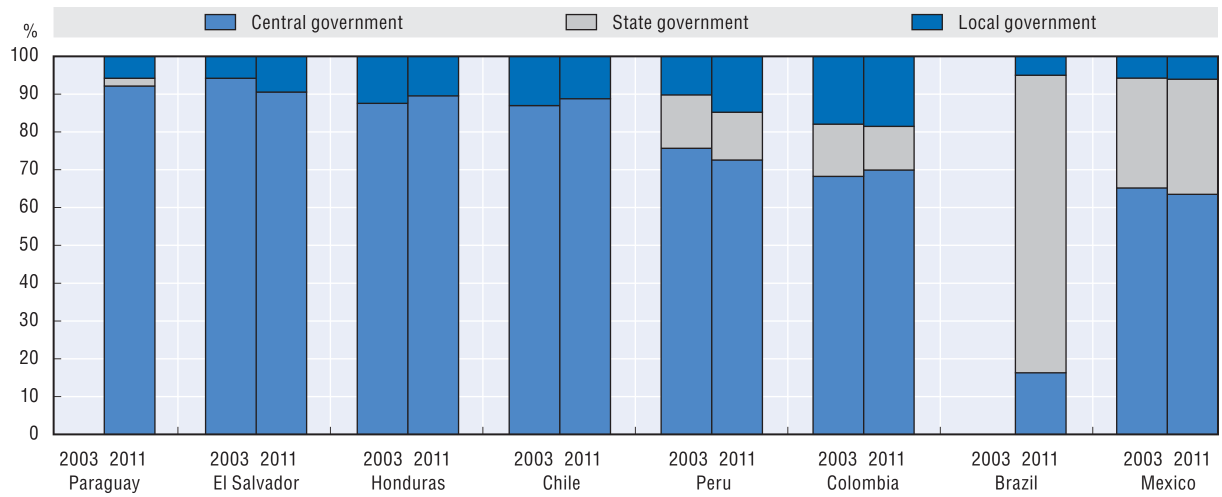
Ter-Minassian, T. and J. Jiménez (2011), *Macroeconomic challenges of fiscal decentralization in Latin America in the aftermath of the global financial crisis*, United Nations, ECLAC Publishing, Santiago, Chile.

Vammalle, C. and C. Charbit (2010), *Fiscal Federalism: Recent Developments and Future Trends*, in *Local public sector in transition: A Nordic perspective*, Antti Moisio (ed.), Government Institute for Economic Research (VATT), Helsinki.

Figure notes

2.12 and 2.13: Data for Brazil, Peru and Paraguay are recorded on a cash basis. Transfers between levels of government are included. Social security funds are included in central government.

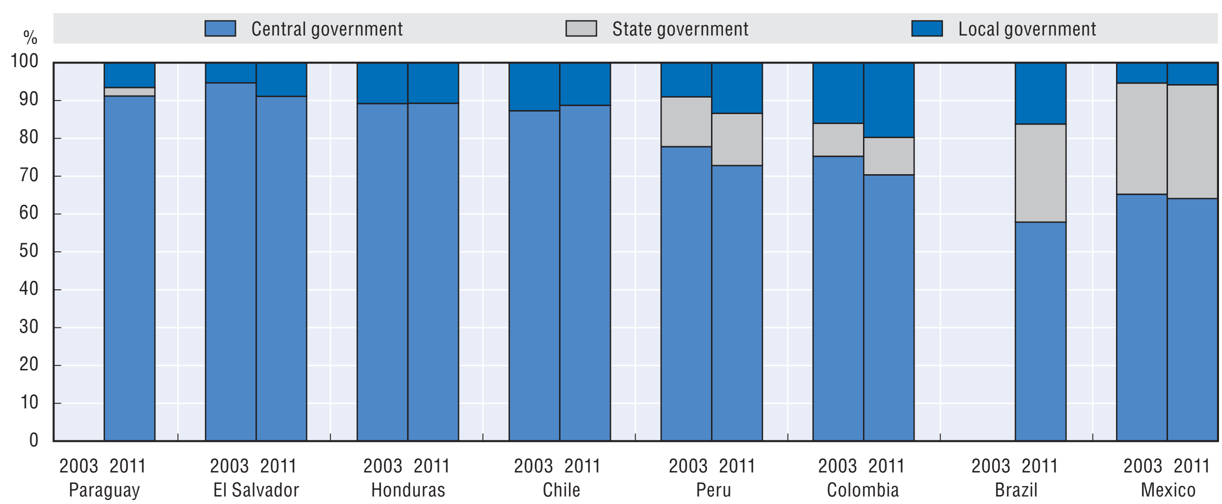
2.12. Distribution of general government revenues across levels of government (2003 and 2011)



Sources: IMF, *Government Finance Statistics* (IMF GFS) (database). Data for Mexico are based on the *OECD National Accounts Statistics* (database).

StatLink http://dx.doi.org/10.1787/888933089833

2.13. Distribution of general government expenditures across levels of government (2003 and 2011)



Sources: IMF, *Government Finance Statistics* (IMF GFS) (database). Data for Mexico are based on the *OECD National Accounts Statistics* (database).

StatLink http://dx.doi.org/10.1787/888933089852

Governments invest in infrastructure in order to increase social welfare and improve productivity and competitiveness. Governments can invest in roads and railroads, in expanding telecommunication systems, in improving electrical power networks, and in increasing the number of schools and hospitals. In addition, governments can also invest in research to improve the health care system, or in education and training, to give some examples. Overall, government investment is a critical factor for long-term growth and can also attract foreign direct investment. Historically, infrastructure investment has been low in LAC countries compared to other advanced and emerging economies as a result of institutional constraints and limited access to long-term financing.

In 2011, government direct investment represented, on average, 11% of total government expenditures in LAC countries. Between 2009 and 2011, this figure decreased, on average, by 1.8 percentage points in the LAC region, with only Brazil experiencing an increase (1.1 p.p.) and Colombia experiencing the largest decrease (7.8 p.p.). However, between 2003 and 2011, direct investment as a share of total government expenditures increased in Peru (12.1 p.p.), Mexico (5.1 p.p.) Colombia (1.4 p.p.) and Chile (0.6 p.p.), and decreased in El Salvador (4.3 p.p.) and Honduras (0.5 p.p.). As share of GDP, investment in LAC represents 2.6% on average and varies from 4.7% (Peru) to 1.4% (Chile and Costa Rica).

Investment can have higher economic returns in regions with a relatively lower level of development. Investment spending across levels of government is crucial for securing long-term growth and reducing inequality. For countries with available information, 33% of direct investment spending by LAC governments took place at the local level in 2011. Nevertheless, the share of investment spending carried out by local government varies widely. In 2011, local direct investment spending in Chile and Paraguay was 4.7% and 9.8%, whereas it was 60.5% in Colombia in the same year. Direct investments at the state level were important in Mexico, Brazil and Peru reaching 46.6%, 26.6% and 20.7%, respectively, in 2011. On average for LAC countries, 45.3% of government expenditures on direct investment was carried out by sub-national governments compared to 54.7% undertaken by the central government. The distribution of a country's investment spending across levels of government is closely determined by its political and administrative structures and its history.

Methodology and definitions

Data are drawn from the IMF *Government Finance Statistics* (IMF GFS) (database), which applies the concepts set out in the *Government Finance Statistics Manual 2001* (GFSM 2001). The GFSM 2001 provides a comprehensive conceptual and accounting framework for analysing and evaluating fiscal policy, harmonised with the other macroeconomic statistical frameworks, such as the overarching *System of National Accounts 1993* (1993 SNA). However, some differences exist between the GFSM 2001 and the 1993 SNA frameworks in several occurences (detailed information can be found in Appendix 3 of the GFSM 2001) which led to the establishment, to a large extent, of correspondence criteria between the two statistical systems. General government investment includes direct investment (measured by gross fixed capital formation) and indirect investment (measured by capital transfers). Gross fixed capital formation consists mainly of road infrastructure but also includes infrastructure such as office buildings, housing, schools and hospitals. In this analysis, only direct investment has been taken into account and the recording of gross fixed capital formation does not include the consumption of fixed capital.

General government consists of central, state and local governments and social security funds. State government is applicable to the federal states of Brazil and Mexico and the highly decentralised countries of Colombia, Paraguay and Peru. For Mexico, data are from the *OECD National Accounts Statistics* (database), which is based on the 1993 SNA.

Further reading

IDB (2013), *Rethinking Reforms: How Latin America and the Caribbean Can Escape Suppressed World Growth*, Inter-American Development Bank, Washington, DC.

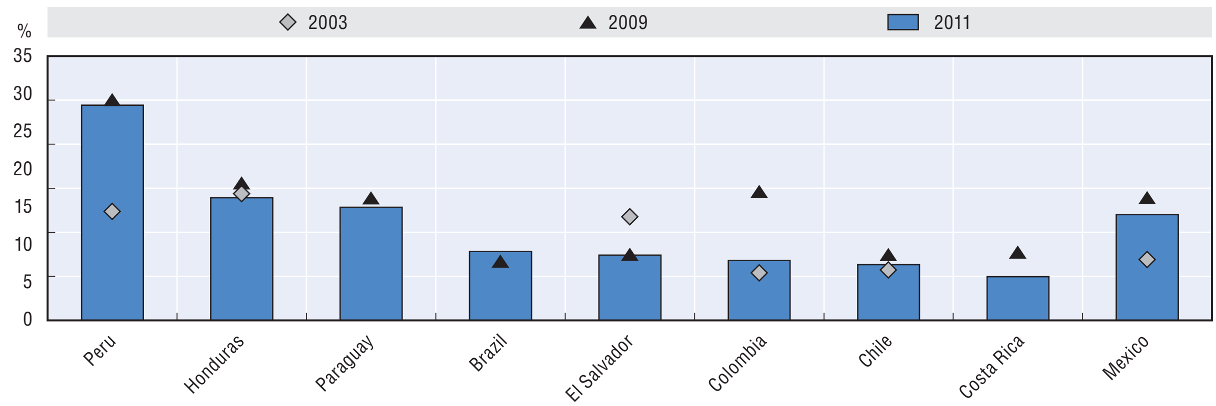
OECD (2011), *Making the Most of Public Investment in a Tight Fiscal Environment: Multi-level Governance Lessons from the Crisis*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264114470-en*.

OECD/Korea Institute of Public Finance (2012), *Institutional and Financial Relations across Levels of Government*, OECD Fiscal Federalism Studies, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264167001-en*.

Figure notes

2.14, 2.15 and 2.16: Data for Brazil, Peru and Paraguay are recorded on a cash basis. Transfers between levels of government are included. Social security funds are included in central government.

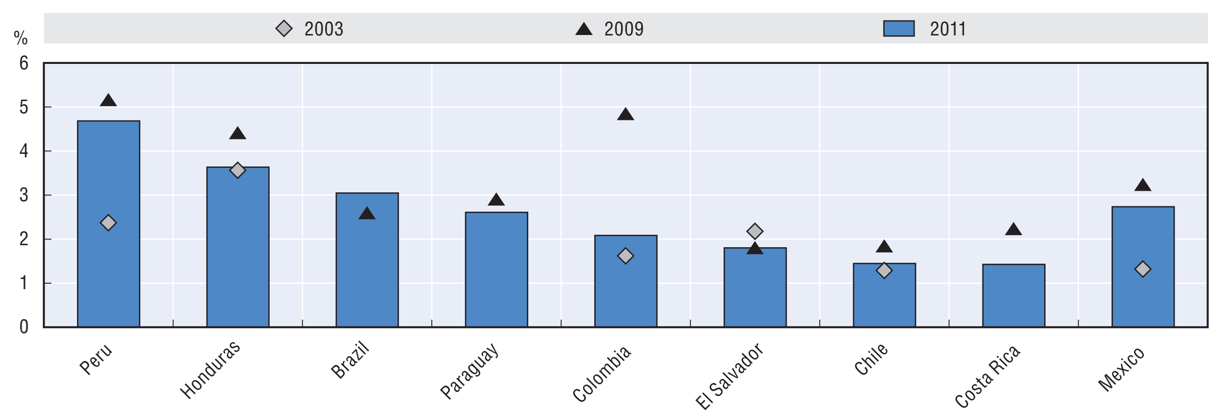
2.14. Government investment as a percentage of total government expenditures (2003, 2009 and 2011)



Sources: IMF, *Government Finance Statistics* (IMF GFS) (database). Data for Mexico are based on the *OECD National Accounts Statistics* (database).

StatLink http://dx.doi.org/10.1787/888933089871

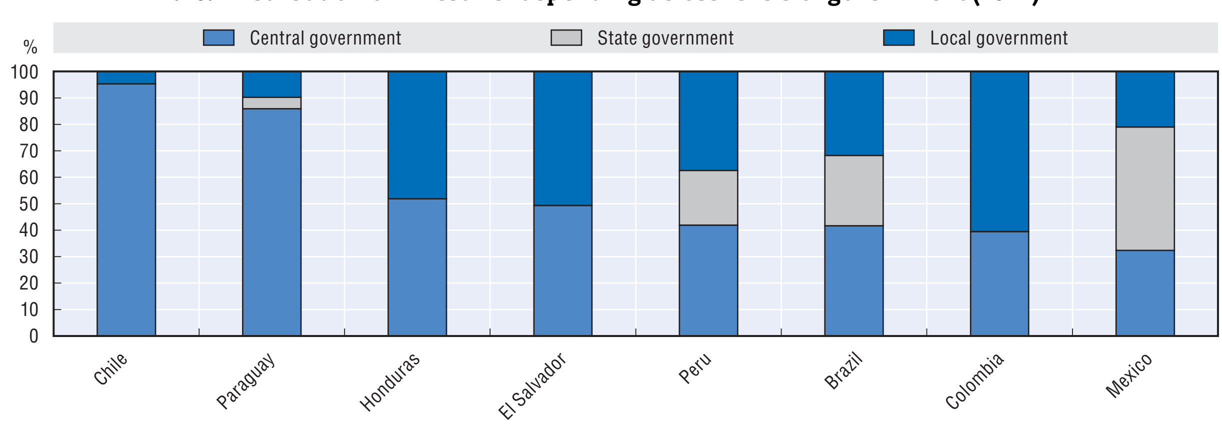
2.15. Government investment as a percentage of GDP (2003, 2009 and 2011)



Sources: IMF, *Government Finance Statistics* (IMF GFS) (database). Data for Mexico are based on the *OECD National Accounts Statistics* (database).

StatLink http://dx.doi.org/10.1787/888933089890

2.16. Distribution of investment spending across levels of government (2011)



Sources: IMF, *Government Finance Statistics* (IMF GFS) (database). Data for Mexico are based on the *OECD National Accounts Statistics* (database).

StatLink http://dx.doi.org/10.1787/888933089909

A country's fiscal balance is the difference between government revenues and expenditures. There are multiple factors that affect it, such as economic fluctuations, demographic trends that could put pressure on health care and pensions spending, and temporary limits or expansions of public spending. Governments may also choose to incur short-term deficits in order to promote long-term growth.

When expenditures exceed revenues, governments need additional resources and thus borrow money increasing public debt. It is important to note that exchange rate and interest rate fluctuations can have a strong effect on government debt when it has a significant foreign currency component. This introduces a degree of volatility into public finances that can have detrimental effects on the credibility of LAC countries' fiscal policy and their ability to obtain long-term loans at low premiums.

Among LAC countries fiscal deficits are relatively small but vary widely. In 2011, LAC fiscal deficits averaged 2.1% of GDP. Jamaica had the highest deficit (6.4%) of GDP, mainly due to substantial interest payments on government debt. Barbados and Costa Rica also had large fiscal deficits (over 4% of GDP). Ecuador, Paraguay, Suriname, Chile and Peru were the only LAC countries to experience a fiscal surplus in 2011. The average fiscal deficit in OECD member countries was higher, amounting to 3.5% of GDP.

On average, government debt as a share of GDP reached 40.9% in 2011. Among LAC countries, Jamaica, Barbados, Brazil and Uruguay had the highest level of government debt, while debt levels were lowest in Chile, Haiti and Paraguay. Overall, debt levels as a share of GDP have dropped in the past decade. Although the crisis led to an increase in government spending, the average LAC debt as a share of GDP fell by 6.7 percentage points between 2001 and 2011.

The debt burden per capita shows the vast range of government debt among LAC countries. In 2011, the level of government debt per capita in Barbados reached USD 19 105 PPP, whereas it accounted for only USD 149 PPP in Haiti. In the same year, average debt per capita reached USD 26 774 PPP in OECD member countries.

Methodology and definitions

Data are drawn from the IMF *World Economic Outlook Database* (IMF WEO) (October 2013), which is based on the *Government Finance Statistics Manual 2001* (GFSM 2001). The GFSM 2001 provides a comprehensive conceptual and accounting framework for analysing and evaluating fiscal policy, harmonised with the other macroeconomic statistical frameworks, such as the overarching *System of National Accounts 1993* (1993 SNA). However, some differences exist between the GFSM 2001 and the 1993 SNA frameworks in several occurences (detailed information can be found in Appendix 3 of the GFSM 2001) which led to the establishment, to a large extent, of correspondence criteria between the two statistical systems. Fiscal balance is calculated as total general government revenues minus total general government expenditures. It represents the extent to which general government is either putting financial resources at the disposal of other sectors, or utilising the financial resources generated by other sectors. Debt is commonly defined as a specific subset of liabilities identified according to the types of financial instruments. Debt is generally defined as all liabilities requiring payment(s) of interest or principal by the debtor to the creditor at a date(s) in the future. Thus all debt instruments are liabilities, but some liabilities (e.g. shares, equity and financial derivatives) are not debt. Data are not always comparable across countries due to different definitions or treatment of debt components. Under the GFSM 2001 framework, unfunded government sponsored retirement schemes are included in the debt components. In consequence, the debt position for the countries whose source is the IMF WEO is, in principle, overstated relative to other countries that have large unfunded liabilities for pensions, and that are not recorded in the core accounts of the 1993 SNA, which instead recommends their inclusion as a memorandum item. For information on the calculation of the debt per capita, see the "Methodology and definitions" sections "General government revenues" and "General government expenditures" respectively. For the OECD average, data are from the *OECD National Accounts Statistics* (database), which is based on the *System of National Accounts*.

Further reading

Martner, R. and V. Tromben (2004), "Public debt sustainability", *ECLAC Review*, No. 84, ECLAC Publishing, Santiago, Chile.

OECD (2012), "Fiscal Consolidation: How Much is Needed to Reduce Debt to a Prudent Level?", *OECD Economics Department Policy Notes*, No. 11, April, OECD Publishing, Paris, *www.oecd.org/tax/public-finance/50100974.pdf*.

Schick, A. (2009), "Budgeting for fiscal space", *OECD Journal on Budgeting*, Vol. 9/2, OECD Publishing, Paris, *http://dx.doi.org/10.1787/budget-9-5ksb4ssm56q2*.

Figure notes

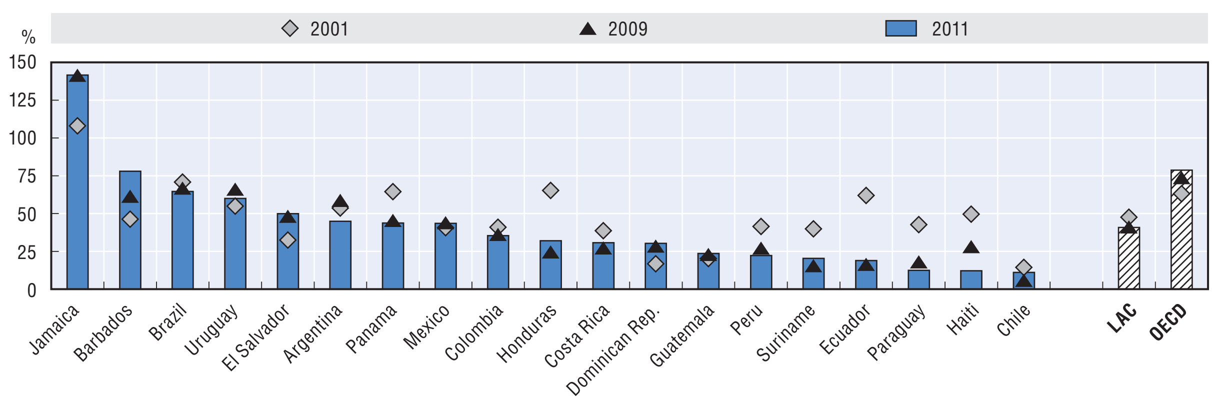
2.18 and 2.19: Debt for Haiti was cancelled due to the 2010 earthquake.

2.17. General government fiscal balance as a percentage of GDP (2001, 2009 and 2011)

Sources: Data for the LAC countries: IMF, *World Economic Outlook Database* (IMF WEO) (October 2013). Data for the OECD average: *OECD National Accounts Statistics* (database).

StatLink http://dx.doi.org/10.1787/888933089928

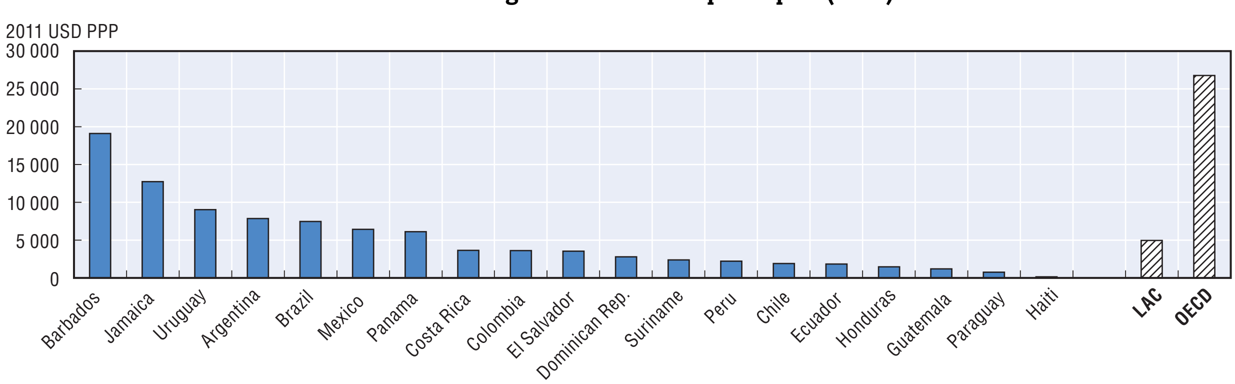
2.18. General government debt as a percentage of GDP (2001, 2009 and 2011)



Sources: Data for the LAC countries: IMF, *World Economic Outlook Database* (IMF WEO) (October 2013). Data for the OECD average: *OECD National Accounts Statistics* (database).

StatLink http://dx.doi.org/10.1787/888933089947

2.19. General government debt per capita (2011)



Sources: Data for the LAC countries: IMF, *World Economic Outlook Database* (IMF WEO) (October 2013). Data for the OECD average: *OECD National Accounts Statistics* (database).

StatLink http://dx.doi.org/10.1787/888933089966

On average, the LAC region grew at 3.5% between 2001 and 2011, a positive performance given the 2007-09 global financial crisis. This was in part driven by a commodities boom, thanks to increasing demand from other developing countries, such as China, which contributed to high prices and thus to GDP growth. Many LAC countries also introduced fiscal reforms that increased the state's share of natural resource during 2003-08 boom period. Some LAC countries, particularly those with important mining sectors, have also introduced other appropriation mechanisms, including royalties and specific taxes, in order to guarantee that minimum payments are made for the resources.

Given the finite nature of non-renewable natural resources and the volatility and uncertainty of the revenue stream, certain LAC countries, such as Chile, Colombia, Ecuador and Mexico, have developed stabilisation and savings mechanisms. These funds allow governments to insulate fiscal management and budget planning from price shocks, and to generate savings to support long-run fiscal sustainability and inter-generational equity.

In 2012, fiscal revenues from the mining and hydrocarbons sectors represented 14.7% of GDP in Ecuador and 4.4% in Colombia. In the case of Mexico, revenues were 7.7% in large part due to the important role that crude oil plays in the Mexican economy. Although Brazil is the largest exporter of iron ore (which experienced a 1 297% price increase between 2000-11), non-renewable resources revenues are only 2.2% of GDP.

In some LAC countries, revenues arising from non-renewable natural resources, as a share of total revenues, are very high. For countries that are highly dependent on commodities, revenues from non-renewable resources (mining and hydrocarbons) accounted for over 30% of total revenues between 2009 and 2012. In Mexico, this share has decreased by 4 percentage points since the 2005-08 period. Between 2009 and 2012, Chile experienced the most important decrease (11.3 percentage points) in commodity-based revenue as prices were stabilising. However, this could be due to decreased profit margins as a consequence of increasing production costs and exchange rate appreciation. In Argentina, the share has remained at a constant level (around 10%) since 2000.

Methodology and definitions

Data are from the *CEPALSTAT* databases and publications by the Economic Commission for Latin America and the Caribbean (ECLAC). Non-renewable natural resources refer to mining and hydrocarbons. Revenues from non-renewable natural resources typically refer to government levies from corporations and are distributed along the categories of tax revenues, non-tax revenues and social contributions. Fiscal regimes for such revenues relate to royalties, income tax, other taxes on income and other levies. For example, royalty payments refer to the right to extract oil and gas or exploit other mineral resources and are normally regarded as non-tax revenues as they are property income from government-owned land or resources. General government comprises central, state, and local governments and social security funds and includes core ministries, agencies, departments and non-profit institutions controlled and mainly financed by public authorities. Public corporations are legal units mainly owned or controlled by the government, and produce goods and services for sale in the market. Public corporations can be classified as financial and non-financial enterprises (in the case of non-renewable natural resources they refer to the second group). General government and public corporations together constitute the public sector. Gross domestic product (GDP) is the standard measure of the value of goods and services produced by a country during a period of time.

Further reading

Aquatella, J. (2012), "Rentas de recursos naturales no-renovables en América Latina y el Caribe: Evolución 1990-2010 y participación estatal", Seminario "Gobernanza de los Recursos Naturales en ALC", División de Recursos Naturales e Infraestructura, ECLAC Publishing, Santiago, Chile, April 2012.

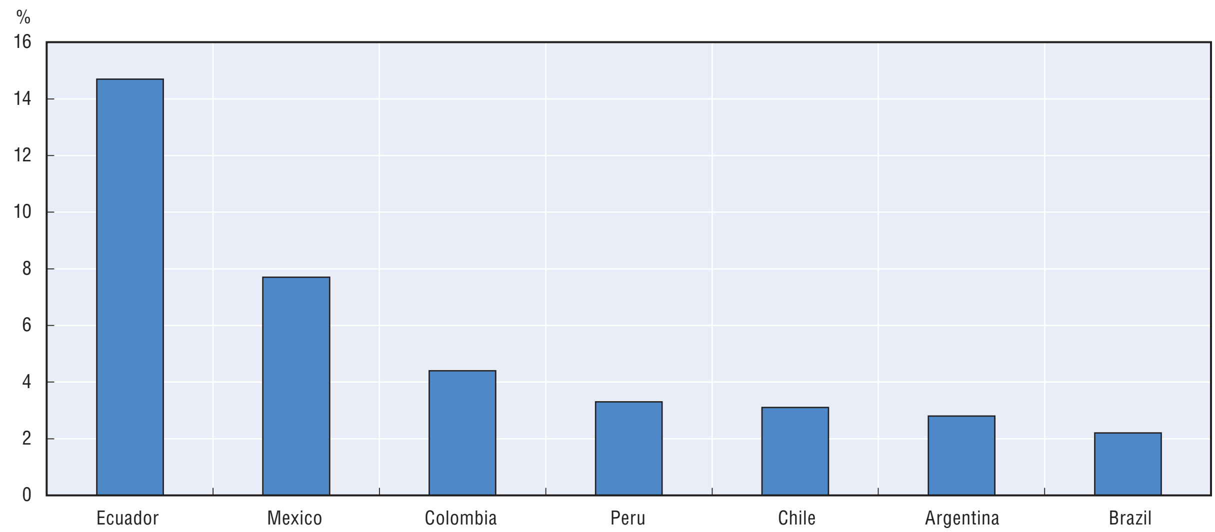
IMF (2012), *Fiscal Regimes for Extractive Industries: Design and Implementation*, International Monetary Fund, Washington, DC.

OECD (2014), *Revenue Statistics in Latin America 2014*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264207943-en-fr*.

Figure notes

2.20 and 2.21: Data for Argentina are for the non-financial national public sector. Data for Brazil and Peru are for general government. Data for Chile and Colombia are for central government. Data for Ecuador are for the non-financial public sector. Data for Mexico are for the public sector. In the case of Mexico, PEMEX represents 64% of all non-renewable natural resources revenues. In the case of Chile, taxing of private mining is included since 1994.

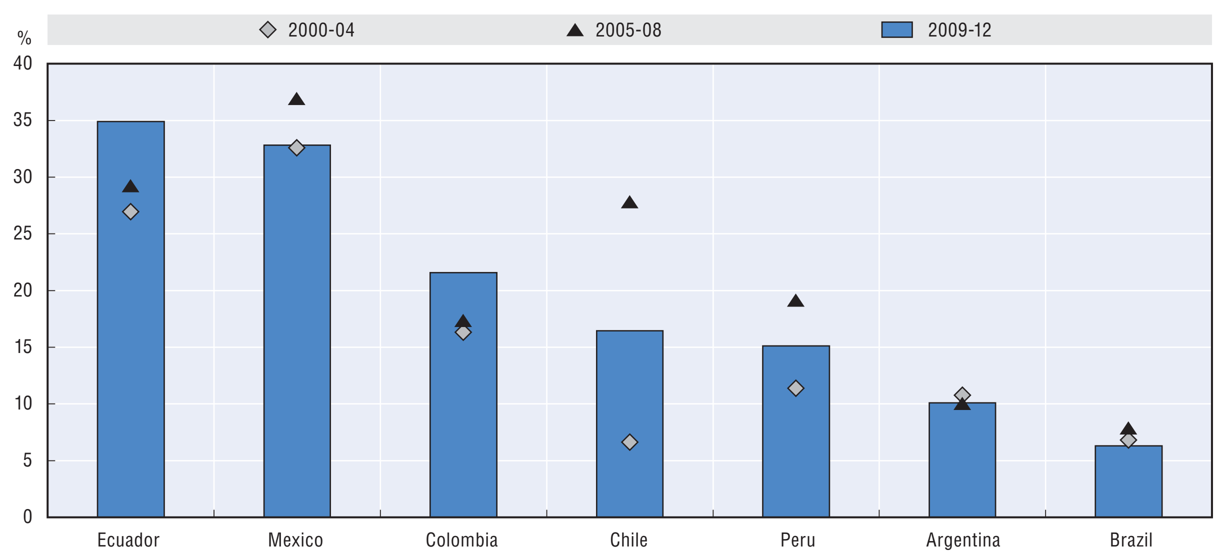
2.20. Fiscal revenues from non-renewable natural resources as a percentage of GDP (2012)



Source: OECD/ECLAC/CIAT (2014) based on ECLAC (2013).

StatLink http://dx.doi.org/10.1787/888933089985

2.21. Relative participation of revenues from non-renewable natural resources as a share of total revenues



Source: OECD/ECLAC/CIAT (2014) based on ECLAC (2013).

StatLink http://dx.doi.org/10.1787/888933089586

Government at a Glance:
Latin America and the Caribbean 2014
Towards Innovative Public Financial Management

Chapter 3

Public employment and pay

Governments rely on labour as a key input for the production of goods and services. The number of people working for government stands as a measure of the government size in the economy. Furthermore, public employment is a core determinant of public sector costs, quality and productivity. Public employees are at the forefront of upholding the values that form the ethical infrastructure of government, such as impartiality, legality and integrity. In addition, many governments strive to have a workforce that reflects the diversity of society in order to better understand the needs, aspirations and experiences of citizens.

This chapter examines the trends in public sector employment for the years 2001 and 2010. Moreover, taking into account that governments have adopted a variety of steps to guarantee equal opportunities for female and male employees, this chapter also looks at the representation of women within general government employment. Furthermore, it considers the representation of women in ministerial positions and as parliamentarians, as well as the existence of legislative quotas.

In the area of public employment data, few other topics attract more interest than how much government employees are paid. The compensation level is essential for attracting, motivating and retaining qualified workers. Moreover, it also provides insight on how well the public sector is remunerated when compared to the overall economy. This chapter presents the compensation levels for senior managers, middle managers, professionals and secretaries. Data include not only salaries and wages, but also social benefits and future pension earnings. It should also be noted that differences in compensation policies can be the result of different bargaining powers, the varying attractiveness of government as an employer and differences in the labour markets (such as compensation in the private sector for similar positions or specific labour shortages).

Governments are key providers of goods and services to citizens. They depend to a significant extent on public sector employees to fulfil their obligations. As a result, the proportion of the labour force working for the government is one indicator of how public services are delivered, and may also have implications for the quality and cost of service delivery.

As a result of the general economic crisis that hit the Latin American region in the late 1980s, many governments underwent a process of restructuring and adherence to strict fiscal discipline in the early 1990s. More recently, public sector employment as a share of the total labour force remained constant at 10.7% between 2001 and 2010. Nevertheless, there is substantial heterogeneity across LAC countries regarding public employment. In Argentina, for example, employment in general government in 2010 (14.8%) was 4.1 percentage points higher than the average for LAC countries. General government employment in Colombia, on the other hand, reached 3.7% in 2010 making it the lowest in the LAC region.

On average, employment in general government is higher in OECD member countries. In 2010, 15.3% of the total labour force was employed by the government. Similarly, this figure was also higher for OECD member countries (16%) in 2001 than for LAC countries (10.7%).

In LAC countries with available information, government employment in public corporations constitutes 2.3% of the labour force. With the exception of Costa Rica, employment in public corporations as a share of the total labour force decreased in all countries between 2001 and 2010. However, very large differences exist in the size of public corporation employment. For example, in 2010, Panama employed 5.4% of the total labour force in public corporations in contrast to Peru, whose government employed only 0.05% of the labour force in public corporations. In comparison, OECD member countries employ a higher percentage of the total labour force in public corporations (4.7%). Similar to LAC countries, this share decreased by 1.2 percentage points between 2001 and 2010, dropping from 5.9% to 4.7% of the total labour force.

Methodology and definitions

Data refer to 2001 and 2010 and were collected by the International Labour Organization (ILO). The data are based on *System of National Accounts* (SNA) definitions and cover employment in general government and public corporations, which together comprise the public sector. The general government sector comprises all levels of government (e.g. central, state, regional and local) and includes core ministries, agencies, departments and non-profit institutions that are controlled and mainly financed by public authorities. Public corporations are legal units mainly owned or controlled by the government, which produce goods and services for sale in the market. In LAC countries, the most common examples of public corporations include telecommunications, water and energy. Public corporations also include quasi-corporations.

The labour force comprises all persons who fulfil the requirements for inclusion among the employed or the unemployed.

Further reading

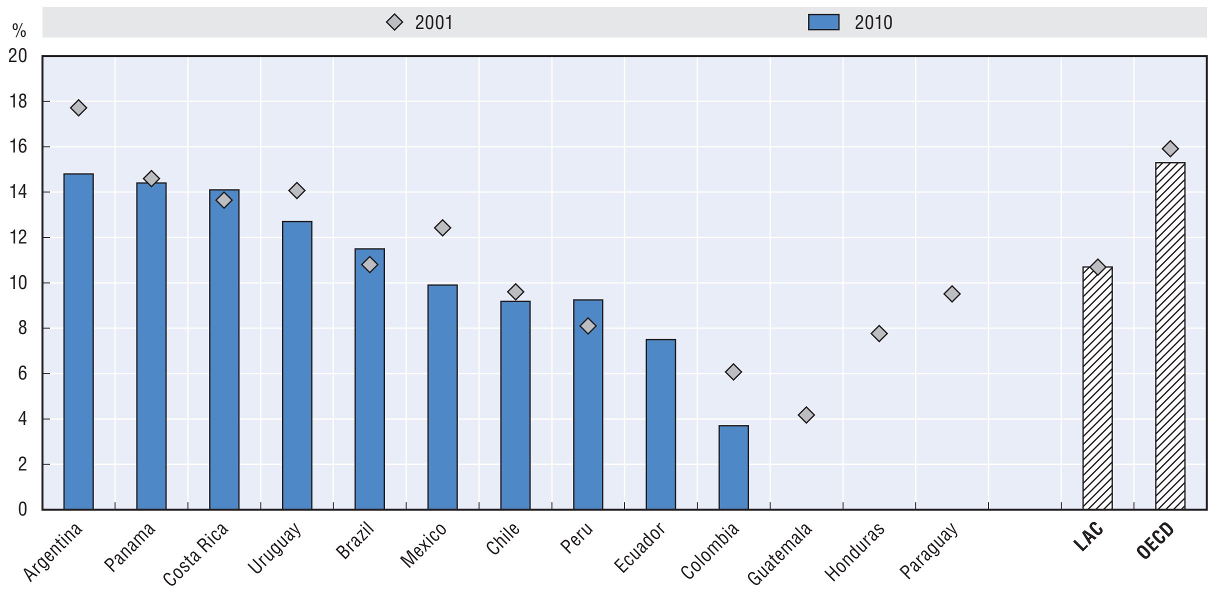
Lora, E. (2007), *The State of State Reform in Latin America*, Inter-American Development Bank, Washington, DC.

Figure notes

3.1: Data for Argentina are for 2003 and 2006, rather than 2001 and 2010. Data for Panama are for 2002 and 2007, rather than 2001 and 2010. Data for Uruguay are for 2006, rather than 2010. Data for Brazil are for 2004 and 2009, rather than 2001 and 2010. Data for Mexico are for 2009, rather than 2010. Data for Peru are for 2004 and 2007, rather than 2001 and 2010. Data for Ecuador are for 2000 and 2008, rather than 2001 and 2010. Data for Guatemala are for 2004, rather than 2001. Data for Paraguay are for 2002, rather than 2001. For Peru, data for the labour force are from the National Institute of Statistics and comprise main cities and metropolitan Lima. Data exclude population below 15 years.

3.2: Data for Panama are for 2002, rather than 2001.

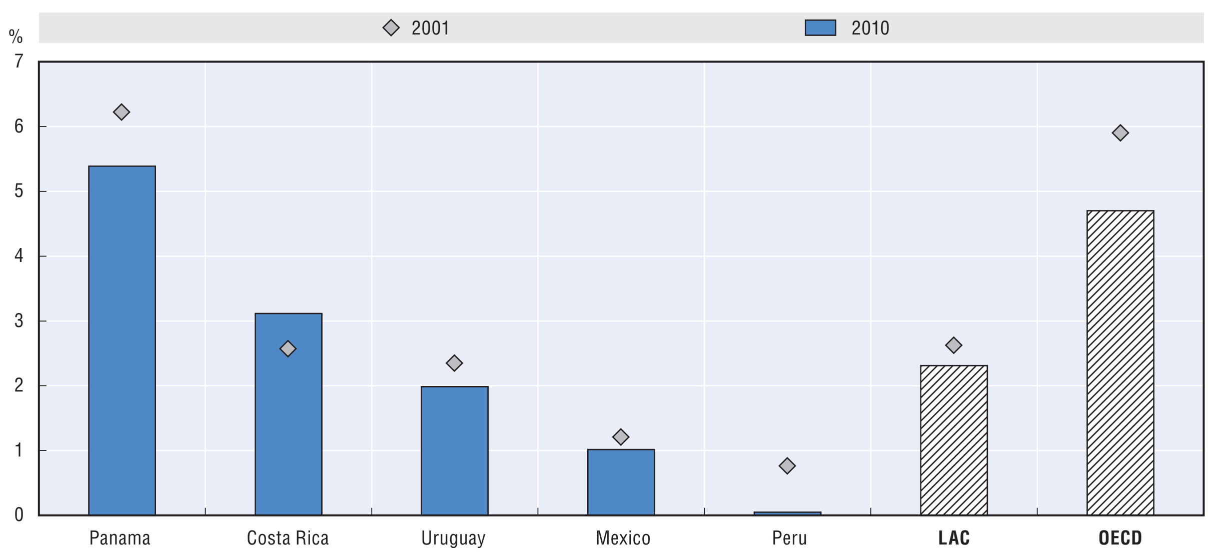
3.1. Employment in general government as a percentage of the labour force (2001 and 2010)



Sources: International Labour Organization (ILO), *LABORSTA* (database).

StatLink http://dx.doi.org/10.1787/888933090004

3.2. Employment in public corporations as a share of the total labour force (2001 and 2010)



Sources: International Labour Organization (ILO), *LABORSTA* (database).

StatLink http://dx.doi.org/10.1787/888933090023

Female labour participation has increased greatly among LAC countries in the past two decades. Nevertheless, gender gaps in the labour market persist, particularly in Central American countries. In addition to potential economic growth, a strong female labour force has complex welfare implications. For example, higher female labour force participation will increase the need for supplementary care, for both children and the elderly, but it also increases the contributions to the pensions systems.

Governments can play an important role in promoting openness and fairness in their own workforce. Policies to level the public sector playing field include equal pay rules, leadership training and mentor programmes for women, flexible work arrangements and providing formal childcare. Furthermore, the adoption of these policies leads to a public sector workforce that is more representative of the general population and more aware of citizen needs, thereby increasing the quality of services and boosting labour productivity as governments tap into a larger talent pool.

In LAC, on average, 50% of central government positions are filled by women. Although variance among countries is relatively small, this share is only higher than 50% in Argentina and Chile where it represents 56% and 55%, respectively. For OECD member countries the share is on average 57%. Between 2001 and 2010 the share of women in central government position increased by 2.7 percentage points in the OECD and 1.9 p.p. in LAC. It is important to note that the data does not demonstrate the extent to which women hold managerial leadership positions within general government (see section on "Women in politics").

Although women now represent a larger share of general government employment in the region, women in the public sector, as a share of the women's total labour force, decreased slightly in LAC countries during the past decade. Between 2001 and 2010, for instance, average employment of women in the public sector dropped from 13.3% to 12.7%, while the share of men employed in general government remained almost stable (+0.2 p.p.). This result can be explained by the fact that women in LAC countries have entered the labour market at a higher pace than men. Thus, the female labour force has increased significantly more over the last decade. In contrast, the share of women employed in the general government in OECD member countries increased 1.8 p.p. between 2001 and 2010, while the number of males employed in the public sector decreased by 1.3 p.p.

Methodology and definitions

Data for women in the general government refer to 2001 and 2010 and were collected by the International Labour Organization (ILO). The general government sector comprises all levels of government, including all units of central, state or local government; all social security funds at each level of government; and all non-market non-profit institutions that are controlled and mainly financed by government units. The labour force comprises all persons who fulfil the requirements for inclusion among the employed or the unemployed.

Further reading

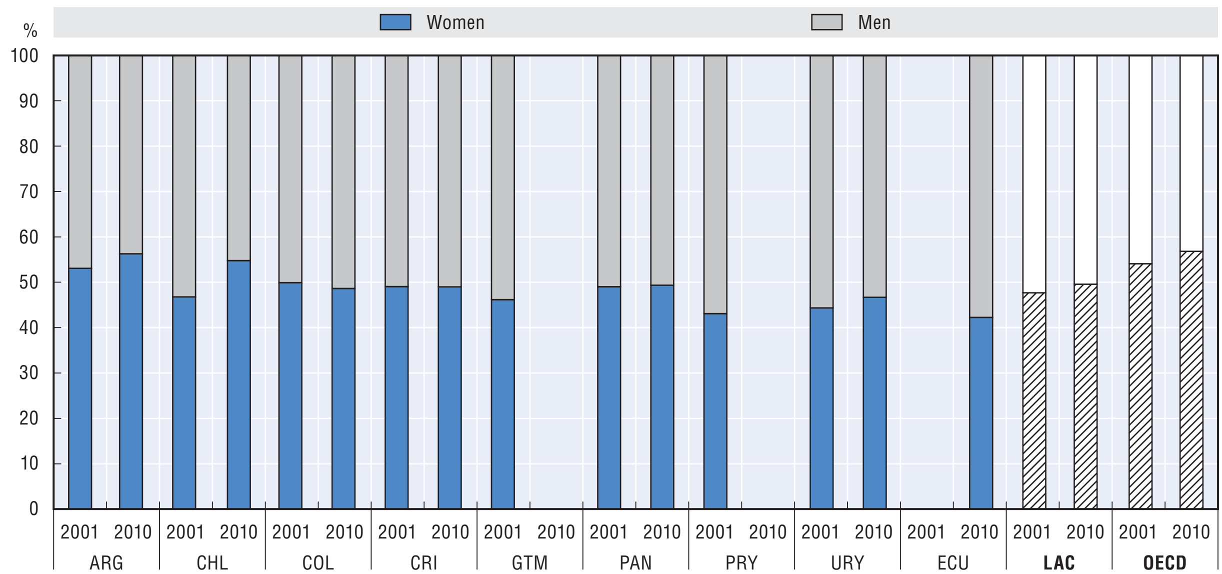
Elborgh-Woytek, K. et al. (2013), *Women, Work, and the Economy: Macroeconomic Gains From Gender Equity*, International Monetary Fund, Washington, DC.

OECD (2012), *Closing the Gender Gap: Act Now*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264179370-en*.

Figure notes

3.3, 3.4 and 3.5: Data for Argentina are for 2003 and 2006, rather than for 2001 and 2010. Data for Panama are for 2002 and 2007, rather than for 2001 and 2010. Data for Uruguay are for 2006, rather than for 2010. Data for Brazil are for 2004 and 2009, rather than for 2001 and 2010. Data for Mexico are for 2009, rather than for 2010. Data for Peru are for 2004 and 2007, rather than for 2001 and 2010. Data for Ecuador are for 2000 and 2008, rather than for 2001 and 2010. Data for Guatemala are for 2004, rather than for 2001. Data for Paraguay are for 2002, rather than for 2001. For Peru, data for the labour force are from the National Institute of Statistics and comprise main cities and metropolitan Lima. With the exception of Colombia and Ecuador, data excludes population below 15 years.

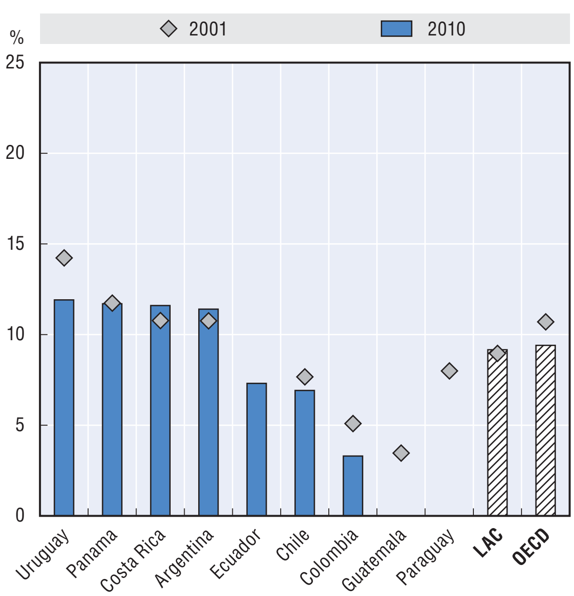
3.3. Share of general government employment filled by women and men (2001 and 2010)



Sources: International Labour Organization (ILO), *LABORSTA* (database).

StatLink http://dx.doi.org/10.1787/888933090042

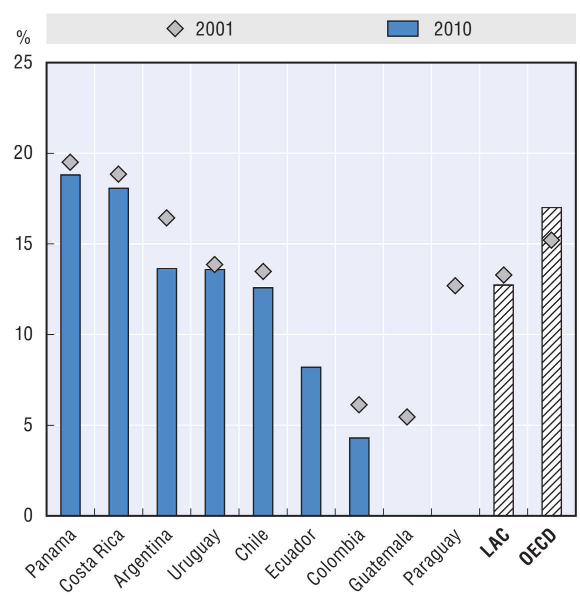
3.4. Employment of men in general government as a share of men's total labour force (2001 and 2010)



Sources: International Labour Organization (ILO), *LABORSTA* (database).

StatLink http://dx.doi.org/10.1787/888933090061

3.5. Employment of women in general government as a share of women's total labour force (2001 and 2010)



Sources: International Labour Organization (ILO), *LABORSTA* (database).

StatLink http://dx.doi.org/10.1787/888933090080

Increasing female participation in politics offers multiple benefits to developing countries, where the empowerment of women has the potential to increase economic and social well-being. Greater representation of women in politics may lead to the promotion of better gender equality and may improve the quality and responsiveness of public policy by focusing attention on issues such as equal pay, work-life balance and gender violence.

In most LAC countries the social, cultural and political transformations of the last decade have led to increased women's participation in politics. Today, the LAC region boasts the largest number of female heads of government than any other region in the world, with six women currently serving as heads of state. Nevertheless, women are still substantially under-represented as heads of line ministries and in parliament.

In 2012, on average 20% of ministers in LAC countries were women. Ecuador had the most female ministers, at 40%. Guatemala, Paraguay and Uruguay had the fewest, 7% or lower. On average, the share of women ministers increased by 0.9 percentage points between 2005 and 2012. Brazil, Ecuador and Panama saw the largest increase (15 p.p. and higher). In comparison, on average across OECD member countries, 25% of ministers were women in 2012, while in Norway, Sweden and Finland the share was more than 50%.

On average in LAC countries, women held 20% of parliamentary seats in lower or single houses of parliament in 2013, up from 14% in 2002. The percentages were highest in Costa Rica, Argentina, Mexico and Ecuador, with all four surpassing the 30% minimum threshold recommended by the United Nations and the Inter-Parliamentary Union. In Brazil and Panama, women held fewer than 10% of the seats. Between 2002 and 2012, Mexico and Ecuador had the largest increase of women in parliament (more than 16 p.p.), followed by Honduras (14 p.p.). Panama is the only country to have experienced a slight drop in this figure. Compared to OECD member countries, women in LAC countries represented a lower share of seats in parliament. In 2012 the difference between both regions corresponded to 5.6 p.p.

LAC countries have introduced quotas for parliamentary representation. However, application of these quotas varies from those applied during the nomination process to results-based quotas whereby a certain share or number of seats in parliament are reserved for women. For Argentina, the Dominican Republic and Ecuador, the quotas have a constitutional basis. Eight LAC countries have also implemented voluntary agreements regarding political party quotas. Quotas have been effective in increasing female representation and providing them with impartial conditions in the hiring and promotion conditions.

Methodology and definitions

Data on women ministers were obtained from the Inter-Parliamentary Union's "Women in politics" posters. Data represent appointed women ministers as of 1 January 2012 and 1 January 2005. Data show women as a share of total ministers, including deputy prime ministers and ministers. Prime ministers/heads of government also included when they held ministerial portfolios. Vice-presidents and heads of governmental or public agencies are included in the total.

Data for women parliamentarians refer to lower or single houses of parliament and were obtained from the Inter-Parliamentary Union's *PARLINE* (database). Data refer to share of women parliamentarians recorded as of 31 October 2012 and 25 October 2002. Legislative quotas are enshrined in the election law, political party law or other comparable law of a country. Data on gender quotas were obtained from the Inter-Parliamentary Union's *PARLINE* (database) and the Institute for Democracy and Electoral Assistance (IDEA) *Global Database on Quotas for Women*. The information is for the latest election year of each country.

Further reading

Elborgh-Woytek, M. et al. (2013), *Women, Work, and the Economy: Macroeconomic Gains From Gender Equity*, International Monetary Fund, Washington, DC.

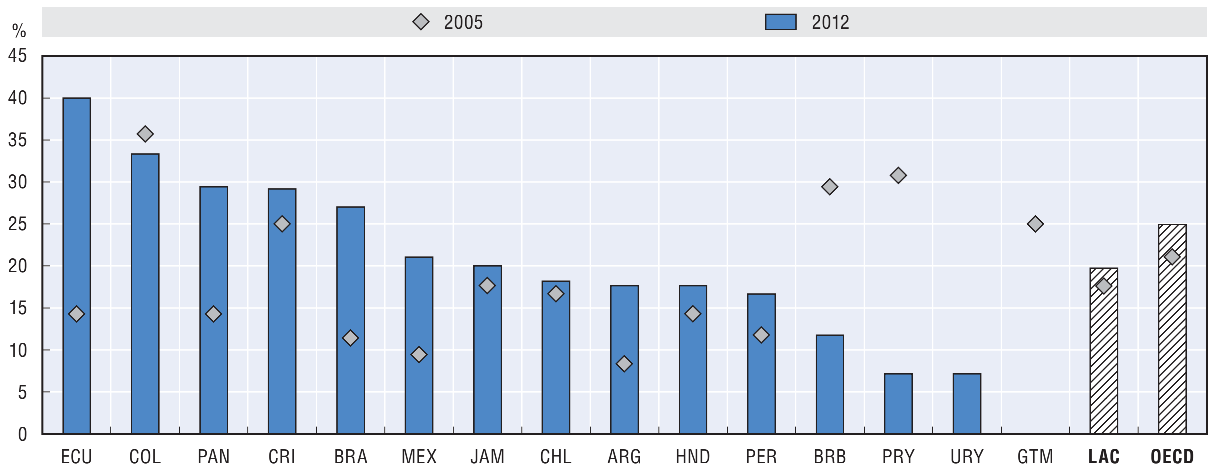
OECD (2012), *Closing the Gender Gap: Act Now*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264179370-en*.

Figure notes

3.6: Data are for appointed women ministers as of 1 January 2012 and 1 January 2005.

3.7: Data for Bolivia, Ecuador, Barbados, Paraguay and Guatemala correspond to the seats filled in parliament. Data for Ecuador are for January 2013; however, the most recent election took place in February 2013. Data for Brazil corresponds to 23 December 2002. Data for Ecuador corresponds to 31 January 2003. Data for Jamaica corresponds to 1 March 2003. OECD data refer to share of women parliamentarians recorded as of 31 October 2012 and 25 October 2002.

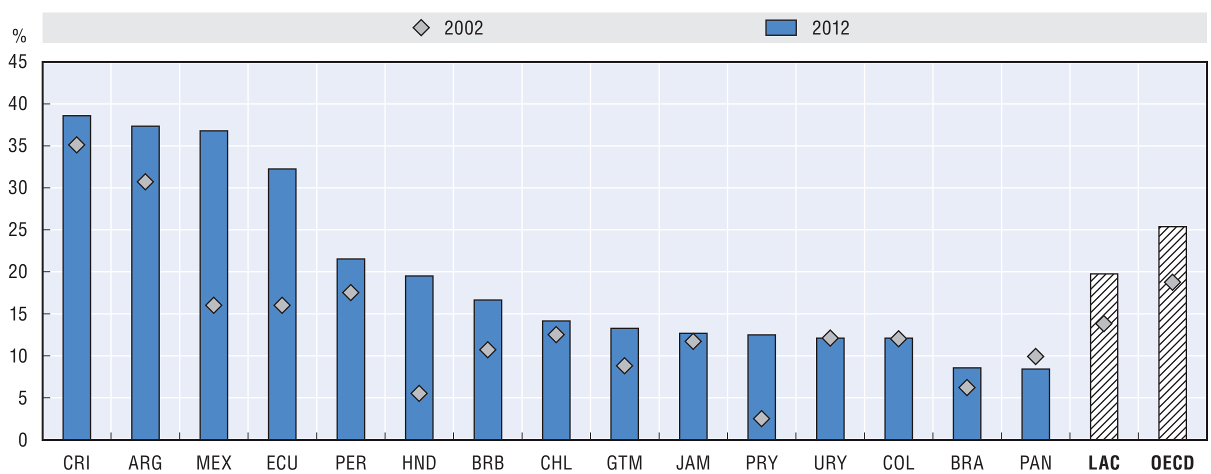
3.6. Share of women ministers (2005 and 2012)



Sources: Inter-Parliamentary Union, "Women in Politics" posters 2012 and 2005.

StatLink http://dx.doi.org/10.1787/888933090099

3.7. Share of women parliamentarians: Lower or single house of parliament (2002 and 2012)



Sources: Inter-Parliamentary Union (IPU), *PARLINE* (database).

StatLink http://dx.doi.org/10.1787/888933090118

3.8. Type of legislative quotas for women participation and legal foundation (unicameral or lower chamber)

Type of quota/legal foundation	Constitution	Law	Voluntary
Reserved seats			
Legislated candidate quotas	Argentina, Dominican Republic, Ecuador	Argentina, Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, Honduras, Mexico, Panama, Paraguay, Peru, Uruguay	
Political party quotas			Argentina, Chile, Costa Rica, El Salvador, Guatemala, Mexico, Paraguay, Uruguay

Sources: Inter-Parliamentary Union, *PARLINE* (database); and IDEA, *Global Database on Quotas for Women*.

StatLink http://dx.doi.org/10.1787/888933090517

To maximise value and quality of public goods and services, the public sector should seek to have highly qualified staff to fulfil government responsibilities. The level of compensation is one indicator of the attractiveness of public sector positions and the ability of governments to retain the most qualified people. Although compensation for senior managers represents a small share of public expenditures, it holds a symbolic value as it provides an incentive framework for staff who have a leading role in government policy making and execution, and whose appointment is done under particular conditions.

Differences in compensation levels across countries can result from differing organisational structures, differences in the share of highly qualified employees, seniority levels (number of years in office), the overall productivity of the public sector and the share of women in senior occupations. Compensation relative to GDP per capita may also account for differences in economic development and income distribution across countries.

D1 managers are top public servants performing duties below the minister or Secretary of State, and D2 managers are those serving below D1 managers (see Annex A for details). On average, compensation levels of D1 and D2 positions in LAC countries represent 11.3 and 8.1 times the GDP per capita, respectively. Among LAC countries, the largest ratios for D1 managers are found in Colombia, Mexico, Paraguay and Argentina, and the lowest in Costa Rica. To better frame these figures it is important to note that, on average, LAC countries have larger compensation differentials and lower GDP per capita levels than OECD countries. Furthermore, high wage differentials could be more prevalent in the private sector due to the presence of a significant informal sector.

On average, D1 level senior managers' annual compensation amounts to USD 166 339 PPP, including 9.2% in employers' social contributions and 13% for working time correction. D2 level managers' total compensation reaches USD 113 727 PPP, including employers' social contributions and holidays. In comparison to LAC countries, compensation levels for D1 and D2 positions in OECD member countries are 39% and 54% higher, respectively.

On average, D1 managers earn 46% more than D2 managers in LAC countries. This difference is higher than in the OECD member countries where the gap is 32%. However, there is a broad range in compensation differentials between D1 and D2 managers among LAC countries. The largest difference between positions is in Panama, where compensation for D1 managers is 154% higher than that of D2 managers. In Colombia the difference is 14%. The wide variation across countries can be attributed to different regimes for salary-setting and compensation managements. For instance, while Colombia applies a unified system of pay and grading, Panama has a more flexible regime.

Methodology and definitions

Data refer to 2011 and were collected by the 2013 OECD Survey on Compensation of Employees in Central/Federal Governments for LAC countries and the 2012 OECD Survey on Compensation of Employees in Central/Federal Governments for OECD member countries. Officials from central ministries were contacted through the LAC Senior Budget Officials Network.

Data are for five central government ministries/departments (interior, finance, justice, education, health). The classification and the definition of the occupations are an adaptation of the International Standard Classification of Occupation (ISCO) developed by the International Labour Organization (ILO). Compensation levels are calculated by averaging the compensation of the staff in place.

Total compensation includes wages and salaries, and employers' social contributions, both funded and unfunded. Social contributions are restricted to health and pensions systems, in order to have consistent data across countries.

Compensation was converted to USD using PPPs for GDP from the IMF *World Economic Outlook (WEO)*. The data are not adjusted for hours worked per week, since managers are formally or informally expected to work longer hours but adjusted for the average number of holidays.

See Annex A for the full methodology.

Further reading

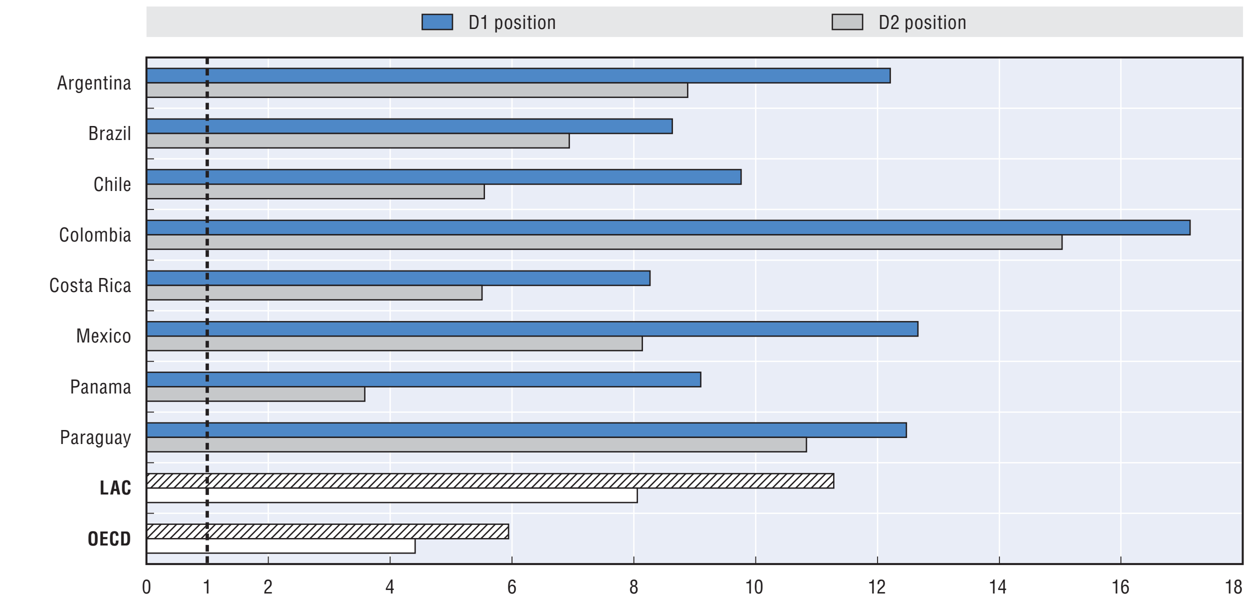
OECD (2012), *Public Sector Compensation in Times of Austerity*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264177758-en*.

Figure notes

3.9 and 3.10: For Brazil, the Ministry of Justice belongs to the Ministry of Interior. Brazil provided the average compensation. For Paraguay data for D2 do not include Ministry of Justice due to missing number of employees in this category. For Panama, data are for 2012.

3.9. Average annual compensation of senior managers in central government relative to GDP per capita

Ratio in 2011



Sources: For LAC countries, data are from the 2013 OECD Survey on Compensation of Employees in Central/Federal Governments; IMF, *World Economic Outlook (WEO)*. For OECD countries, data are from the 2012 OECD Survey on Compensation of Employees in Central/Federal Governments and *OECD STAN/National Accounts Statistics* (database).

StatLink http://dx.doi.org/10.1787/888933090137

3.10. Average annual compensation of central government senior managers (2011)

Adjusted for differences in holidays

Sources: For LAC countries, data are from the 2013 OECD Survey on Compensation of Employees in Central/Federal Governments; IMF, *World Economic Outlook (WEO)*. For OECD countries, data are from the 2012 OECD Survey on Compensation of Employees in Central/Federal Governments and *OECD STAN/National Accounts Statistics* (database).

StatLink http://dx.doi.org/10.1787/888933090156

Middle managers fulfil an essential role in public administrations as they are located between senior managers and professionals. They are crucial for the co-ordination between high-level mandates and the execution of policies and projects. Furthermore, they are in charge of implementing human resource management reforms, and building trust and social dialogue with all public employees. D3 managers provide leadership and management to teams of professionals within their particular areas. They establish and manage budgets, control expenditure and ensure the efficient use of resources. D4 managers formulate and administer policy advice and control selection, training and performance of staff.

On average, a D3 middle manager's compensation is 6.6 times higher relative to GDP per capita. Similarly, D4 middle managers compensation is 4.4 times higher relative to GDP per capita. In OECD member countries, the average compensation of D3 and D4 managers, relative to GDP, is 3.2 and 2.7 times respectively. It should be stressed that on average, LAC countries have a more unfair distribution of income and higher poverty rates, and an important share of the population works in informal labour markets. In addition, differences in compensation levels can also result from differences in national labour markets and institutional arrangements.

In absolute terms, compensation of D3 level middle managers in LAC countries amounts to USD 94 092 PPP, of which 13.5% represents the employers' social contributions, and 17.2% represents the working time adjustment. D4 middle managers' total compensation reaches USD 61 739 PPP including employers' social contributions and holidays. The total compensation of D4 managers is significantly lower than that of senior managers, representing only 37% of the total compensation of D1 managers. However, the difference between middle managers D3 and D4 is very similar to the difference between the two senior positions (see section on "Compensation of senior managers"). In comparison to OECD member countries, compensation levels for D3 and D4 positions in LAC countries are 34% and 84% lower, respectively.

Among LAC countries, Argentina and Colombia have the highest compensation levels for D3 positions. Costa Rica and Paraguay, on the other hand, have the lowest. In the case of D4 managers, Argentina and Mexico stand out as the countries with the highest level of compensation and Panama as the lowest. Moreover, for both positions, Argentina has the highest share of employer social contributions and Mexico the lowest.

Methodology and definitions

Data refer to 2011 and were collected by the 2013 OECD Survey on the Compensation of Employees in Central/Federal Governments for LAC countries and the 2012 OECD Survey on the Compensation of Employees in Central/Federal Governments for OECD member countries. Officials from central ministries were contacted through the LAC Senior Budget Officials Network.

Data are for five central government ministries/departments (interior, finance, justice, education, health). The classification and the definition of the occupations are an adaptation of the International Standard Classification of Occupation (ISCO) developed by the International Labour Organization (ILO). Compensation levels are calculated by averaging the compensation of the staff in place.

Total compensation includes wages and salaries, and employers' social contributions, both funded and unfunded. Social contributions are restricted to health and pensions systems, in order to have consistent data across countries.

Compensation was converted to USD using PPPs for GDP from the IMF *World Economic Outlook (WEO)*. The data are not adjusted for hours worked per week, since managers are formally or informally expected to work longer hours but adjusted for the average number of holidays.

See Annex A for the full methodology.

Further reading

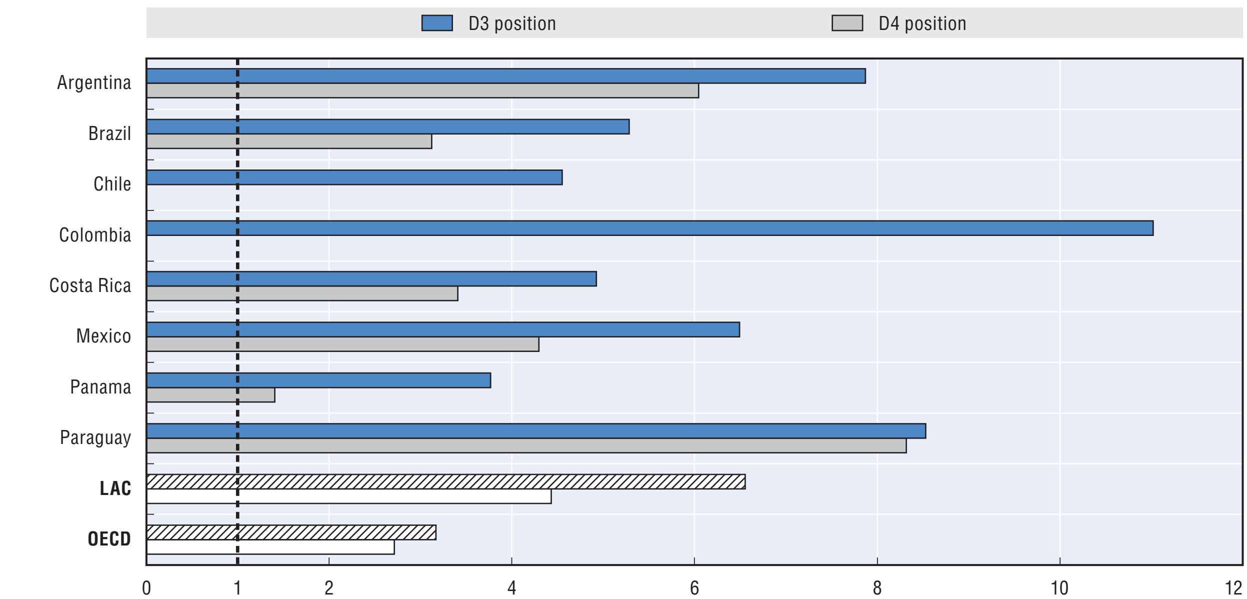
OECD (2012), *Public Sector Compensation in Times of Austerity*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264177758-en*.

Figure notes

3.11 and 3.12: For Brazil, the Ministry of Justice belongs to the Ministry of Interior. Brazil provided the average compensation. For Paraguay data for D3 and D4 positions do not include Ministry of Justice due to missing number of employees in this category. For Panama, data are for 2012.

3.11. Average annual compensation of middle managers in central government relative to GDP per capita

Ratio in 2011

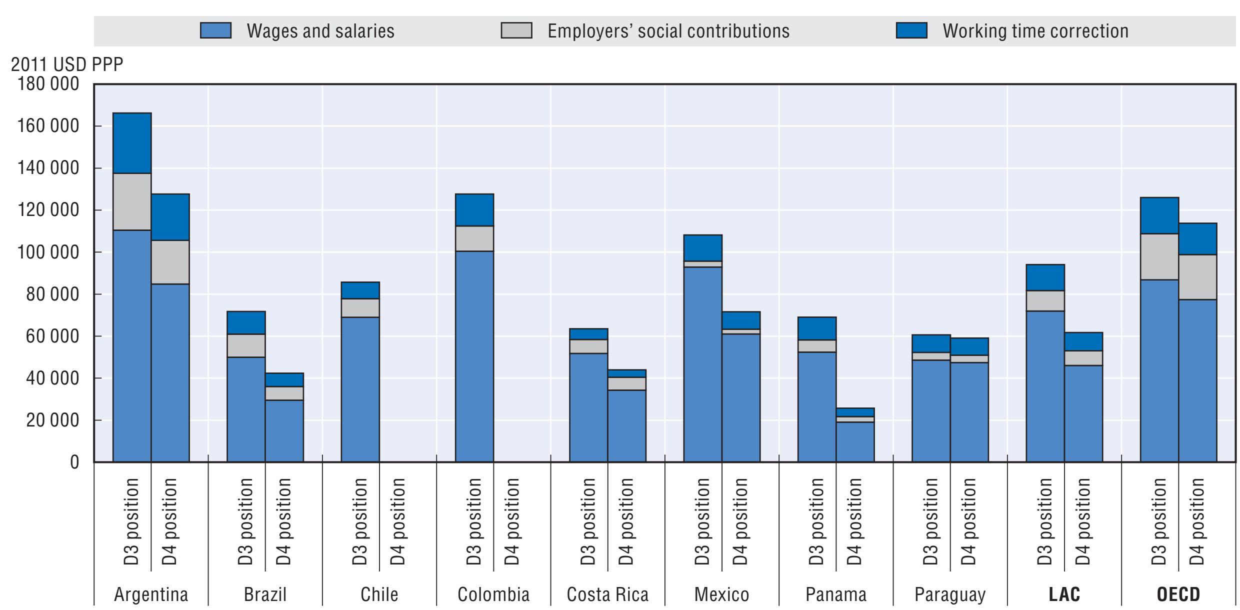


Sources: For LAC countries, data are from the 2013 OECD Survey on Compensation of Employees in Central/Federal Governments; IMF, *World Economic Outlook (WEO)*. For OECD countries, data are from the 2012 OECD Survey on Compensation of Employees in Central/Federal Governments and *OECD STAN/National Accounts Statistics* (database).

StatLink http://dx.doi.org/10.1787/888933090175

3.12. Average annual compensation of central government middle managers (2011)

Adjusted for differences in holidays



Sources: For LAC countries, data are from the 2013 OECD Survey on Compensation of Employees in Central/Federal Governments; IMF, *World Economic Outlook (WEO)*. For OECD countries, data are from the 2012 OECD Survey on Compensation of Employees in Central/Federal Governments and *OECD STAN/National Accounts Statistics* (database).

StatLink http://dx.doi.org/10.1787/888933090194

The management of professionals in central government represents a key task for human resources units in ministries and departments. Professionals, narrowly defined as both economists and policy analysts, play a critical role in a government's decision-making processes by contributing analytical skills to the assessment of policy choices and allocations based on evidence. Senior and junior professionals do not hold managerial responsibilities (beyond managing a team of maximum three individuals).

A comparison of compensation levels across LAC countries can be performed by analysing professionals' earnings relative to GDP per capita. Senior professionals in Paraguay (6 times) and Brazil (5.4 times) attained the highest compensation levels relative to GDP per capita, while Costa Rica (2.4 times), Mexico (2.2 times) and Panama (1.3 times) experienced the lowest relative earnings. Similar findings were revealed for junior professionals' earnings. Evidence from the LAC countries shows that, on average, professionals' earnings among OECD member countries are substantially lower relative to GDP per capita in the case of both senior and junior professionals. Differences across countries can be attributed to various market factors that are not controlled for.

Among LAC countries, senior professionals earn on average USD 54 412 PPP, whereas junior professionals' compensation amounts to USD 39 425 PPP. Furthermore, compensation of senior managers (category D1) is three times higher than compensation of senior professionals. For both professional categories, wages and salaries represent the higher share (77% and 76%, respectively) of the average annual compensation, adjusted for differences in working hours and holidays. The remainder is divided in nearly equal shares between employers' social contributions and the working time corrections. Compensation of professionals is lowest in Costa Rica and Panama and highest in Argentina. In addition, Argentina has the highest value for the working time correction (the increase on the compensation level when correcting by the number of hours worked per week, the legal or average holiday entitlement and the number of public holidays that apply to the civil service), whereas Chile's working time correction is almost negligible.

On average, OECD member countries reward their professionals with significantly higher compensation than LAC countries in the case of both senior (USD 89 202 PPP) and junior (USD 71 981 PPP) professionals. Compensation of junior professionals in OECD member countries amounts to 81% of the average compensation of senior professionals. The same relation for LAC countries shows that junior professionals earn 72% of the average compensation of senior professionals.

Methodology and definitions

Data refer to 2011 and were collected by the 2013 OECD Survey on the Compensation of Employees in Central/Federal Governments for LAC countries and the 2012 OECD Survey on the Compensation of Employees in Central/Federal Governments for OECD member countries. Officials from central ministries were contacted through the LAC Senior Budget Officials Network.

Data are for five central government ministries/departments (interior, finance, justice, education, health). The classification and the definition of the occupations are an adaptation of the International Standard Classification of Occupation (ISCO) developed by the International Labour Organization (ILO). Compensation levels are calculated by averaging the compensation of the staff in place.

Total compensation includes wages and salaries, and employers' social contributions, both funded and unfunded. Social contributions are restricted to health and pensions systems, in order to have consistent data across countries.

Compensation was converted to USD using PPPs for GDP from the IMF *World Economic Outlook* (*WEO*). Working time adjustment compensates for differences in time worked, taking into account both the average number of working days/hours and the average number of holidays.

See Annex A for the full methodology.

Further reading

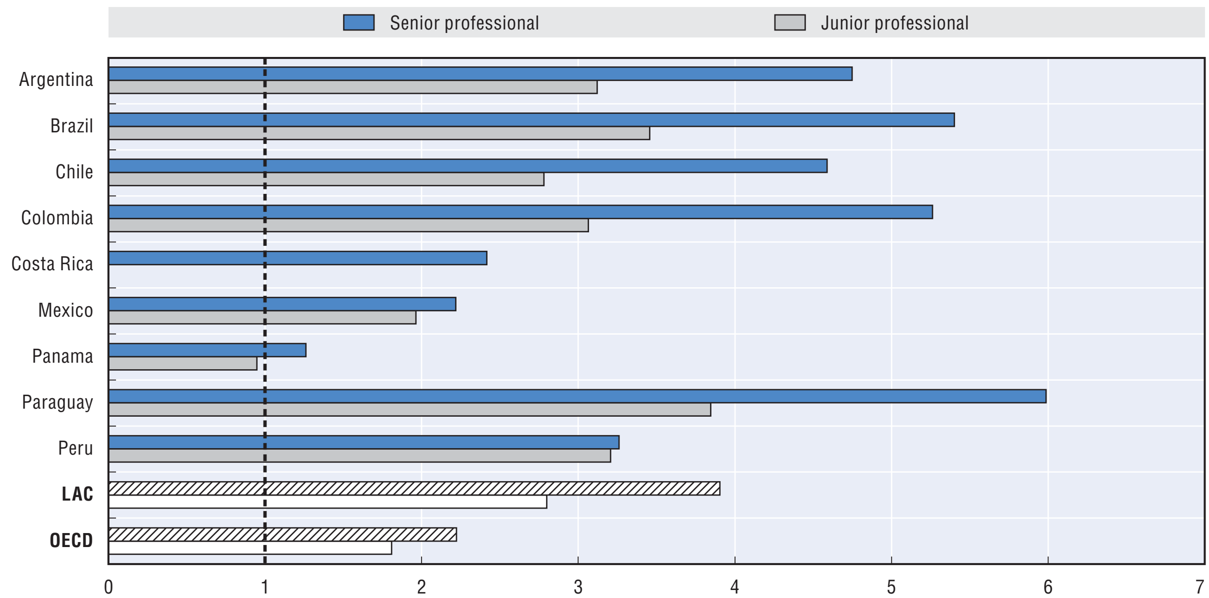
OECD (2012), *Public Sector Compensation in Times of Austerity*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264177758-en*.

Figure notes

3.13 and 3.14: For Brazil, the Ministry of Justice belongs to the Ministry of Interior. For Brazil and Paraguay, the average is calculated assuming the same number of employees across all ministries (unweighted average). For Peru, the average refers to arithmetic mean between the minimum and the maximum levels of compensation and not the actual average. For Costa Rica, junior and senior professionals are mixed. For Panama, data refer to 2012. For Peru, data refer to 2013.

3.13. Average annual compensation of senior and junior professionals in central government relative to GDP per capita

Ratio in 2011

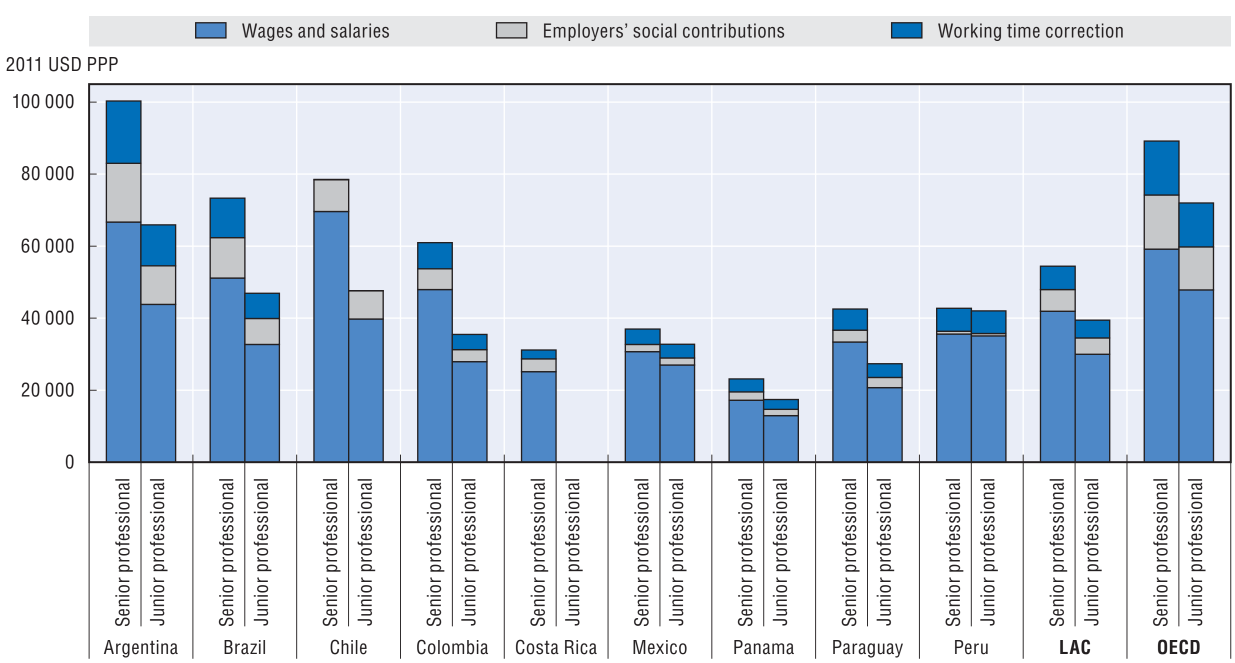


Sources: For LAC countries, data are from the 2013 OECD Survey on Compensation of Employees in Central/Federal Governments; IMF, *World Economic Outlook (WEO)*. For OECD countries, data are from the 2012 OECD Survey on Compensation of Employees in Central/Federal Governments.

StatLink http://dx.doi.org/10.1787/888933090213

3.14. Average annual compensation of senior and junior professionals in central government (2011)

Adjusted for differences in working hours and holidays



Sources: For LAC countries, data are from the 2013 OECD Survey on Compensation of Employees in Central/Federal Governments; IMF, *World Economic Outlook (WEO)*. For OECD countries, data are from the 2012 OECD Survey on Compensation of Employees in Central/Federal Governments and *OECD STAN/National Accounts Statistics* (database).

StatLink http://dx.doi.org/10.1787/888933090232

In LAC countries, compensation of secretarial staff in the central government shows the lowest cross-country variation among the different central government occupations (for information on the definitions and functions of this position see Annex A).

In 2011, compensation for the public secretarial staff in LAC countries was on average 1.9 times the GDP per capita, a higher ratio than the OECD member countries' correspondent (1.2). Among LAC countries, Paraguay, Colombia and Brazil attain the highest compensation levels, whereas Costa Rica, Chile and Panama remunerated their secretarial staff less generously relative to GDP per capita.

Across the LAC region, secretarial staff earns on average USD 24 924 PPP, of which 76% is represented by wages and salaries. Employers' contributions and the monetary value of working time correction (the amount of time actually worked) cover only minor shares (11% and 13% respectively) of the total average annual compensation. To account for the total amount of contributions to the social security system, one should add employees' social contributions that are included in the gross wages. The structure of the total remuneration of secretarial staff, with regard to wages and employers' social contributions, varies across countries. Historical, cultural and political consensus on social security system funding, significantly account for differences in how compensation is structured. Secretarial positions in Argentina, Brazil and Colombia attain the highest earnings, whereas Costa Rica and Panama pay these positions the lowest compared to the LAC country average. Senior managers (category D1) earn on average 6.7 times more than secretarial staff.

On average, remuneration of public secretarial staff in OECD member countries is substantially higher than in LAC countries. Secretarial positions earn around USD 50 500 PPP, about twice than the corresponding LAC average. Employers' social contributions also seem to represent a higher share of the total remuneration (17%) for OECD member countries, suggesting a higher relative weight of such social contributions.

Methodology and definitions

Data refer to 2011 and were collected by the 2013 OECD Survey on the Compensation of Employees in Central/Federal Governments for LAC countries and the 2012 OECD Survey on the Compensation of Employees in Central/Federal Governments for OECD member countries. Officials from central ministries were contacted through the LAC Senior Budget Officials Network.

Data are for five central government ministries/departments (interior, finance, justice, education, health). The classification and the definition of the occupations are an adaptation of the International Standard Classification of Occupation (ISCO) developed by the International Labour Organization (ILO). Compensation levels are calculated by averaging the compensation of the staff in place.

Total compensation includes wages and salaries, and employers' social contributions, both funded and unfunded. Social contributions are restricted to health and pensions systems, in order to have consistent data across countries. Compensation was converted to USD using PPPs for GDP from the IMF *World Economic Outlook (WEO)*. Working time adjustments compensate for differences in the time worked taking into account both the average number of working days/hours and the average number of holidays.

See Annex A for the full methodology.

Further reading

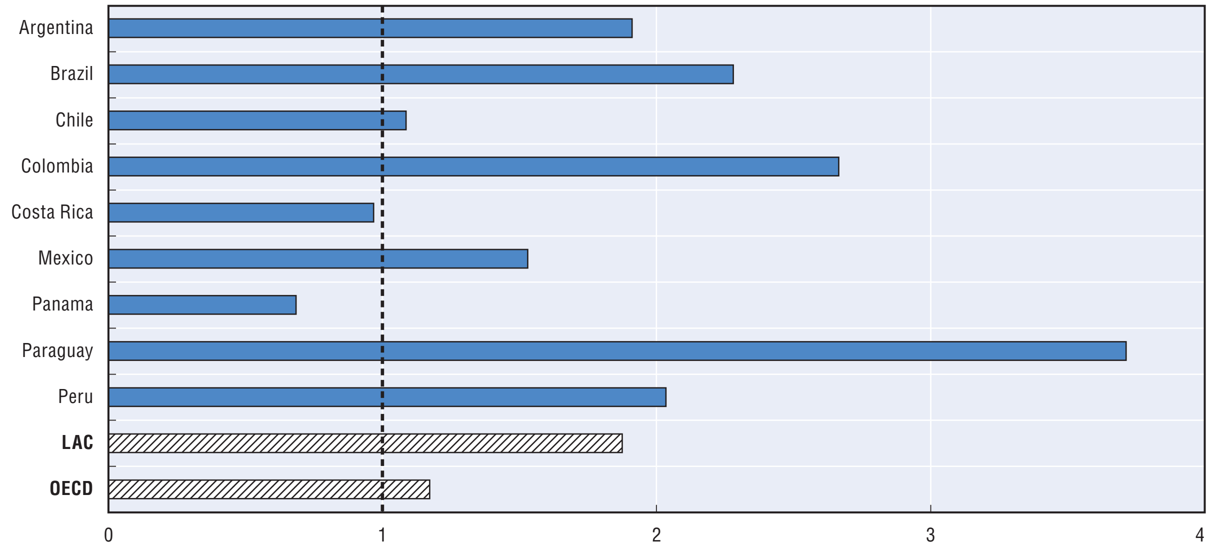
OECD (2012), *Public Sector Compensation in Times of Austerity*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264177758-en*.

Figure notes

3.15 and 3.16: For Brazil, the Ministry of Justice belongs to the Ministry of Interior. For Brazil and Paraguay, the average is calculated assuming the same number of employees across all ministries (unweighted average). For Peru, data are for 2013 and the average refers to arithmetic mean between the minimum and the maximum levels of compensation and not the actual average. For Panama, data refer to 2012.

3.15. Average annual compensation of secretarial positions in central government relative to GDP per capita

Ratio in 2011

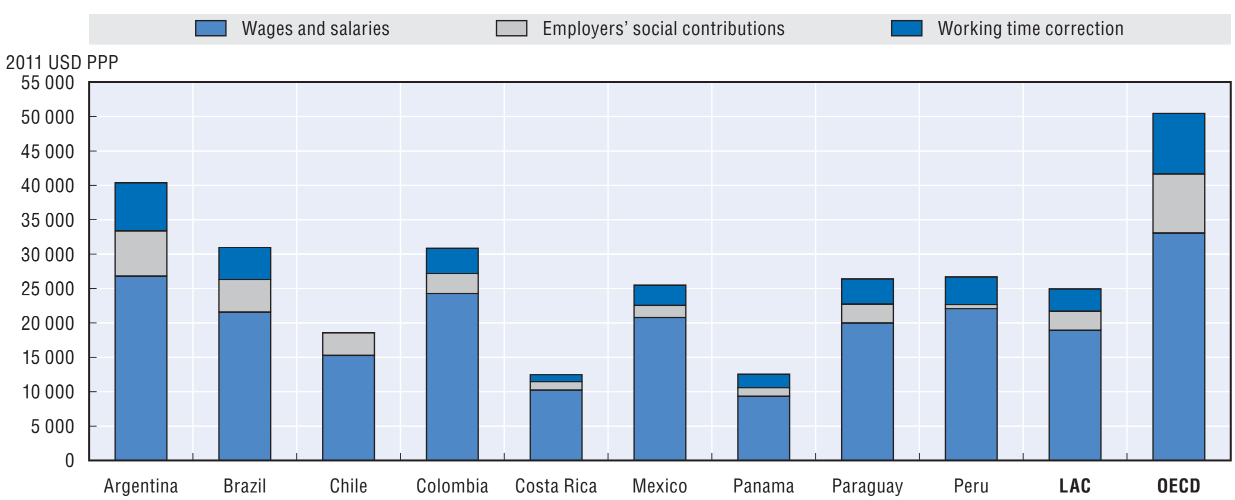


Sources: For LAC countries, data are from the 2013 OECD Survey on Compensation of Employees in Central/Federal Governments; IMF, *World Economic Outlook (WEO)*. For OECD countries, data are from the 2012 OECD Survey on Compensation of Employees in Central/Federal Governments.

StatLink http://dx.doi.org/10.1787/888933090251

3.16. Average annual compensation of employees in secretarial positions (2011)

Adjusted for differences in working hours and holidays



Sources: For LAC countries, data are from the 2013 OECD Survey on Compensation of Employees in Central/Federal Governments; IMF, *World Economic Outlook (WEO)*. For OECD countries, data are from the 2012 OECD Survey on Compensation of Employees in Central/Federal Governments and *OECD STAN/Nationals Accounts Statistics* (database).

StatLink http://dx.doi.org/10.1787/888933090270

Government at a Glance:
Latin America and the Caribbean 2014
Towards Innovative Public Financial Management

Chapter 4

Budgeting practices and procedures

A variety of factors can contribute to a government's fiscal situation, including current spending and revenue policies; debt-servicing costs; and socio-economic, macroeconomic and environmental factors. Successful fiscal outcomes are mainly the result of three features: the general performance of the economy, political commitment to fiscal discipline and the institutional arrangements for budgeting.

This chapter focuses on the last of these features, as well-functioning budget institutions are a necessary condition to improve fiscal health, achieve stable taxes and guarantee inter-generational fairness.

The chapter analyses key budgetary institutional features within the budget process. These are: the existence and implementation of budgetary constraints in the form of fiscal rules; the use of a medium-term perspective of the budget process to ensure that multi-year consequences of expenditure measures are taken into consideration; the degree of transparency throughout the budget process; and legislative capacity to ensure congressional overview of the budget process. Other aspects considered are the degree of autonomy delegated to government organisations, the use of performance information, the existence and relevance of budgetary earmarks, accounting standards and internal auditing requirements, and finally the use and limitations of public-private partnerships. Although these are presented as separate features of sound budgetary designs, they build on each other and should be viewed as a package of sound practices and procedures.

The results of this chapter are based upon countries' responses to OECD surveys and represent their own assessment. The composite indexes represent calculations by staff members to summarise discrete, qualitative information of budgetary practices into aggregated indicators, which are easier to interpret than several separated variables. Composite indexes are calculated with the purpose of furthering the discussion and consequently may evolve over time.

During the last decade, several LAC countries have implemented fiscal responsibility laws to improve the sustainability and transparency of fiscal policy, and to increase macroeconomic stability. As part of this, some countries have implemented fiscal rules that place long-term restrictions on fiscal policy through explicit numeric limits on fiscal aggregates. Fiscal rules typically cover revenue, expenditure, budget balance or debt. They are meant to be observable and permanent, irrespective of changes in government.

By essentially restricting the degree of discretionary spending, fiscal rules help ensure consolidation efforts are respected in the short term, leading to a more sustainable fiscal position in the medium term. Furthermore, fiscal rules help governments signal their commitment to strengthening the institutional basis of fiscal responsibility laws.

There is no one-size-fits-all approach for fiscal rules as the specific economic, political and social factors that influence fiscal policy in each country must be considered. Steps to be taken include determining the appropriate type of rule, the objective of the rule, its anti-cyclical capacity and escape clauses; and adjusting budget procedures to align them with the fiscal rule.

The majority of LAC countries favour budget balance rules, which can be in terms of the overall balance, structural balance or cyclically adjusted balance. These rules mainly help to reduce budget discretionality and ensure debt sustainability. LAC countries have also implemented expenditure rules, mainly to limit the size of government, and can be placed on total, primary or current expenditure. Debt rules are less prevalent, although they are very effective at limiting public indebtedness and ensuring the long-term sustainability of fiscal policy. The majority of these rules are founded on primary or secondary legislation. Revenue rules have not been implemented by any LAC country. Seven countries have not yet implemented any kind of fiscal rule. This is in stark contrast to the prevalence of fiscal rules among OECD member countries, particularly among European Union countries, which have committed to adopting debt and balance rules and to enshrining them in their laws or constitutions.

In order to guarantee compliance, many countries have enforcement mechanisms in place outlining the procedures in the event of a deviation from the rule. By following explicit and transparent guidelines, governments are also able to circumvent the rule in a temporary and responsible manner, so as to not erode the credibility of the tool and the sustainability of fiscal policy.

Many LAC countries have opted for mechanisms in which the entity responsible for the overrun must implement corrective measures, or submit a proposal to the legislature outlining future steps to correct deviations from the fiscal rule. Currently, Costa Rica does not have enforcement mechanisms in place.

Methodology and definitions

Data refer to 2013, drawing on country responses to the 2013 OECD Survey on Budgeting Practices and Procedures. Respondents were predominately senior budget officials in LAC countries and OECD member countries. Responses represent the countries' own assessments of current practices and procedures. Data refer only to central/federal governments and exclude practices at state/local levels.

A numeric fiscal rule is defined as a permanent, long-term restriction on fiscal policy aggregates. The majority of fiscal rules are based on international treaties, constitutional decrees, or primary legislation. In exceptional cases, fiscal rules can be based on political commitments. However, the commitment must be solid and involve all relevant actors in the long run. In sum, the fiscal rule is meant to be applied on a permanent basis by subsequent administrations.

Further reading

García López, R. and M. García Moreno (2010), *La gestión para resultados en el desarrollo*, Inter-American Development Bank, Washington, DC.

IDB (2012), *The Fiscal Institutions of Tomorrow*, Inter-American Development Bank, Washington, DC.

Ter-Minassian, T. (2010), "Preconditions for a Successful introduction of Structural Fiscal Balance-based Rules in Latin America and the Caribbean: A Framework Paper", Inter-American Development Bank, Washington, DC.

Table notes

4.1 and 4.2: Data reflect countries' multiple fiscal rules. Data on debt rule are not available for Peru. Barbados, Brazil, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras and Paraguay do not have fiscal rules in place. Budget balance rules for Colombia and Peru are based on IMF dataset and not direct answers. Debt rule for Panama is based on IMF dataset and not direct answers. Data for Chile and Mexico refer to 2012.

4.2: For the expenditure rule, Colombia also enforces a "political punishment" mechanism.

4.1. Types and legal foundation of fiscal rules (2013)

	Expenditure rule(s)	Budget balance (deficit/surplus) rule(s)	Debt rule(s)	Revenue rule(s)
Argentina	❐	❐		
Barbados	x	x	x	x
Brazil	❐		●	
Chile	❐	❐		
Colombia	❐	❐		
Costa Rica		❐		
Dominican Republic	x	x	x	x
Ecuador	❐		❐	
El Salvador	x	x	x	x
Guatemala	x	x	x	x
Haiti	x	x	x	x
Honduras	x	x	x	x
Jamaica		❐	❐	
Mexico		❐		
Panama		❐	❐	
Paraguay	x	x	x	x
Peru	❐	❐		
LAC total	**6**	**8**	**4**	**0**
OECD total	**21**	**28**	**23**	**5**

● Constitution
■ International treaty
❐ Primary legislation/Secondary legislation
✧ Internal rules/policy
❍ Political commitment
x Not applicable
Source: 2013 OECD Survey on Budget Practices and Procedures.

StatLink http://dx.doi.org/10.1787/888933090536

4.2. Enforcement mechanisms for fiscal rules (2013)

Type of rule/correction mechanisms	Automatic correction mechanisms	Proposal with corrective measures presented to the legislature	Entity must implement measures	Automatic sanctions	None
Expenditures		Argentina, Chile, Ecuador, Peru	Brazil, Colombia, Jamaica		
Budget balance		Argentina, Chile, Colombia, Peru	Jamaica, Mexico, Panama		Costa Rica
Debt		Ecuador	Brazil, Jamaica, Panama		
Revenues					

Source: 2013 OECD Survey on Budget Practices and Procedures.

StatLink http://dx.doi.org/10.1787/888933090555

Along with fiscal responsibility laws, some LAC countries have implemented medium-term expenditure frameworks (MTEFs) as a way of linking the budgetary process to broad fiscal policy goals beyond the annual budgetary cycle. MTEFs allow authorities to adopt broad budget aggregates and detailed expenditure plans, typically spanning three to five years including the budgeted fiscal year, and combine prescriptive yearly ceilings and descriptive forward estimates. Expenditure estimates based on sector strategies and estimated costs form the baseline for future budgets, while a macro-fiscal framework establishes expenditure ceilings for future spending.

Adopting MTEFs has many benefits. They ensure fiscal discipline, as public expenditure is limited by available resources. They improve the effectiveness of public spending by harmonising public expenditure with national priorities. They allow line ministries and agencies to foresee the general direction of policy and the predictability of financial flows, affording time to adjust and plan annual and multi-year operations accordingly.

A major challenge in implementing successful MTEFs is ensuring that expenditure estimates and ceilings are based on high-quality projections. There must also be active co-ordination with line ministries and sub-national governments, both of which account for large levels of government expenditure.

The majority of LAC countries have adopted some form of multi-year budgetary framework. However, only eight countries have adopted MTEFs, three of which are stipulated in legislation. Among these, the depth and focus of MTEFs vary widely. Expenditure ceilings range from two to five years, covering different expenditure levels. Most expenditure ceilings cover total aggregate expenditures for a period of three years. Guatemala and Paraguay have ceilings in place by organisation, and Colombia has ceilings in place by programme.

Although Brazil, Ecuador, El Salvador and Peru do not have MTEFs, certain elements within their budget processes reflect MTEF practices. For example, line ministries have the ability to carry over unused funds or appropriations from one year to another, which facilitates multi-year budgeting for discretionary, operational and investment spending. Argentina has the main elements of a MTEF, however it serves mainly informative purposes.

MTEFs are widespread in the OECD. In 2012, only 4 out of 34 OECD member countries did not have an MTEF. In comparison, 9 out of 17 LAC countries surveyed did not have an MTEF in 2013.

Methodology and definitions

Data refer to 2013, drawing on the 2013 OECD Survey on Budgeting Practices and Procedures. Respondents were predominately senior budget officials in LAC countries and OECD member countries. Responses represent the countries' own assessments of current practices and procedures. Data include only central/federal governments and exclude state/local budgeting practices.

An MTEF was defined as a framework for integrating fiscal policy and budgeting over the medium-term. Aggregate fiscal forecasts are linked to medium-term budget estimates by ministries, reflecting existing government policies. Forward estimates of expenditures become the basis of budget negotiations in the years following the budget and the forward estimates are reconciled with final outcomes in fiscal outcome reports.

The composite index contains ten variables that cover information on the existence of a medium-term perspective in the budget process, the number of years the estimate covers, the types of expenditures included in the frameworks, the possibility of carrying over unused funds from one year to the next and how those funds are monitored. Annex B describes the methodology used to construct this index, including the specific weights assigned to each variable.

Further reading

Filc, G. and C. Scartascini (2010), "Is Latin America on the Right Track? An Analysis of Medium-Term Frameworks and the Budget Process", Inter-American Development Bank, Washington, DC.

García López, R. and M. García Moreno (2010), *La gestión para resultados en el desarrollo*, Inter-American Development Bank, Washington, DC.

World Bank (2013), "Beyond the Annual Budget: Global Experience with Medium Term Expenditure Frameworks", World Bank, Washington, DC.

Figure and table notes

4.3 and 4.4: Panama's MTEF legislation does not prescribe expenditure ceilings. Jamaica first implemented an MTEF in 2013, restricted to seven line ministries. Data for Chile and Mexico refer to 2012.

4.4: Argentina, Brazil, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Honduras, Panama and Peru are 0 as they reported not having an MTEF in place.

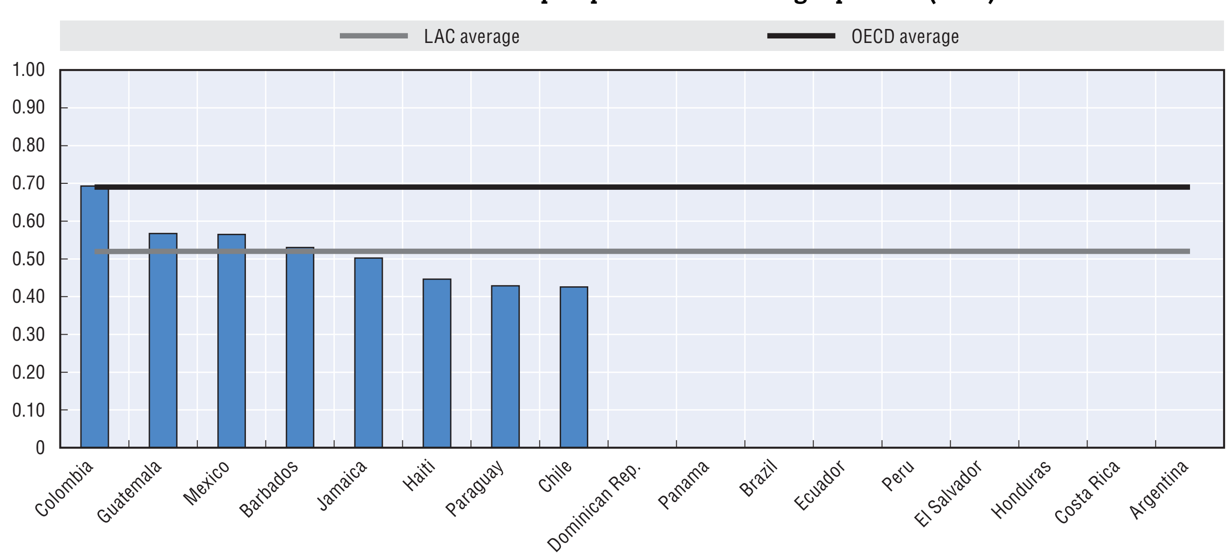
4.3. Medium-term perspective in the budget process at the central level of government (2013)

	Existence and legal basis of MTEF	Length of ceilings (including upcoming fiscal year)	Target(s) of expenditure ceilings		
			Total expenditures	Programme or sector expenditures	Organisational expenditures
Argentina	❍	x	x	x	x
Barbados	✧	3 years	✓		
Brazil	❍	x	x	x	x
Chile	✧	3 years	✓		
Colombia	●	4 years		✓	
Costa Rica	❍	x	x	x	x
Dominican Republic	❍	x	x	x	x
Ecuador	❍	x	x	x	x
El Salvador	❍	x	x	x	x
Guatemala	■	3 years			✓
Haiti	✧	3 years	✓		
Honduras	❍	x	x	x	x
Jamaica	✧	5 years	✓		
Mexico	●	5 years	✓		
Panama	❍	x	x	x	x
Paraguay	✧	2 years			✓
Peru	❍	x	x	x	x
Total			**5**	**1**	**2**
● Yes in a law which stipulates both the existence of a MTEF and budget ceilings	2				
■ Yes in a law stipulating the creation of a MTEF which should be based on budget ceilings	1				
❐ Yes in a law stipulating that spending thresholds should not exceed medium term estimates	0				
✧ Yes in a strategy/policy stipulating the MTEF and/or budget ceilings	5				
❍ No	9				
x Not applicable (e.g. No MTEF in place)					

Source: 2013 OECD Survey on Budget Practices and Procedures.

StatLink http://dx.doi.org/10.1787/888933090574

4.4. Use of a medium-term perspective in the budget process (2013)



Sources: 2013 OECD Survey on Budget Practices and Procedures.

StatLink http://dx.doi.org/10.1787/888933090289

As governments begin to focus on performance as the basis of budget allocation decisions, the role of public managers at the line ministry and agency level becomes increasingly relevant. Delegating authority to managers regarding the allocation of funds within their own budget envelopes could lead to more effective public spending, as agency heads may be in the best position to choose the most efficient mix of inputs to carry out the institutional mission. This is expected to lead to the adoption of more comprehensive approaches to annual and multi-annual planning. Further, making expectations clear and resources available to line ministries can facilitate budget accountability. Spending flexibility can also play a major role in light of changing economic conditions and political priorities.

Excessive budget flexibility and discretion, however, can lead to a misuse of public resources. Particularly in low and middle-income countries, sub-limits on lump sum appropriations serve to align expenditures and revenues, ensuring the availability of public resources for future spending initiatives. Further, countries that are particularly subject to natural disasters and unexpected macroeconomic shocks may benefit from having tighter control over public finances.

A key aspect of executive budget flexibility is the granting of global operating budgets to line ministries. The majority of LAC countries have not adopted this practice. With the exception of Barbados, the Dominican Republic, El Salvador and Guatemala, lump sum appropriations in LAC countries are accompanied by sub-limits related to wages, capital spending, travel expenses and/or office administration expenses. The extent of the restrictions varies substantially. For example, in Honduras and Jamaica, there are sub-limits on all operating expenses, whereas in Haiti and Paraguay they only apply to salaries and wages.

A budget carry-over is the ability of line ministries to transfer unused funds or appropriations from one fiscal year to the next. This form of spending allows line ministries to use, with some restrictions, previous budget appropriations for their undertakings the following fiscal year. Only five LAC countries have this kind of budget arrangement, primarily for operational expenditures. In Central America, only El Salvador and Guatemala allow the carry-over of operational expenditures up to a certain threshold. In the case of Brazil, line ministries are allowed to carry over expenditures in both categories without a threshold. However, more than 75% of OECD countries allow carry-overs, with or without thresholds.

Only 2 out of 17 LAC countries allow line ministries to borrow against future appropriations. In Ecuador, this kind of flexibility is allowed for investment expenditures, and up to a certain threshold. Similarly, very few OECD member countries allow line ministries to borrow against future appropriations. In 2012, this practice took place in four countries for operational expenditure and in six countries for investment spending, both up to a certain threshold.

Additionally, public managers in seven LAC countries are allowed to use savings achieved through efficiency gains in order to finance other expenditures. This practice can give an incentive to public managers to reduce costs in order to reallocate excess funds to alternative activities within priority programmes.

Methodology and definitions

Data refer to 2013, drawing on the 2013 OECD Survey on Budgeting Practices and Procedures. Respondents were predominately senior budget officials in LAC countries and OECD member countries. Responses represent the countries' own assessment of current practices and procedures. Data refer only to central/federal governments and exclude practices at a sub-national level.

The possibility to carry over funds refers to the use of an unspent appropriation beyond the time period for which it was originally granted. This allows for spending agencies to transfer unspent resources of the previous fiscal year to the current year's budget allocation.

Further reading

Cangiano, M., T. Curristine and M. Lazare (2013), *Public Financial Management and its Emerging Architecture*, International Monetary Fund, Washington, DC.

Lienert, I. and G. Liungman (2009), "Carry-Over of Budget Authority", International Monetary Fund, Washington, DC.

Table notes

4.5 and 4.6: Data for Chile and Mexico refer to 2012.

4.5: In Brazil, only credits opened in the last four months of the fiscal year can be carried over. In Guatemala, line ministries can carry over unused funds for operating expenditure or appropriations only when they correspond to accrued funds. In Peru, unused funds for operating expenditure can be carried over if approved by congress; only what is left for a given fiscal year can be carried over in the case of investment expenditure. In El Salvador, support documentation on future commitments must exist to allow the carrying-over of operating expenditure.

4.6: Data for Haiti are not available.

4.5. Ability of line ministries to carry over unused funds and borrow against future appropriations (2013)

	Number of sub-limits on line ministries' lump sum appropriations	Ability of line ministries to carry over unused funds or appropriations from one year to the next		Ability of line ministries to borrow against future appropriations	
		Operating expenditure	Investment expenditure	Operating expenditure	Investment expenditure
Argentina	2	❍	❍	❍	❍
Barbados	0	❍	❍	❍	❍
Brazil	3 or more	●	●	❍	❍
Chile	3 or more	❍	❍	❍	❍
Colombia	1	❍	❍	■	■
Costa Rica	2	❍	❍	❍	❍
Dominican Republic	0	❍	❍	❍	❍
Ecuador	3 or more	●	❍	❍	■
El Salvador	0	■	❍	❍	❍
Guatemala	0	■	❍	❍	❍
Haiti	1	❍	❍	❍	❍
Honduras	3 or more	❍	❍	❍	❍
Jamaica	3 or more	❍	❍	❍	❍
Mexico	3 or more	❍	❍	❍	❍
Panama	2	❍	❍	❍	❍
Paraguay	1	❍	❍	❍	❍
Peru	1	■	■	❍	❍
LAC total					
● Yes, without threshold		2	1	0	0
■ Yes, up to certain threshold		3	1	1	2
❍ No, not permitted		12	15	16	15
OECD total					
● Yes, without threshold		11	14	0	0
■ Yes, up to certain threshold		10	11	4	6
❍ No, not permitted		11	7	29	27
x Not applicable		1	1	0	0

Source: 2013 OECD Survey on Budget Practices and Procedures.

StatLink http://dx.doi.org/10.1787/888933090593

4.6. Ability to keep savings from previous efficiency gains (2013)

	Ability of managers in government organisation to re-allocate savings achieved through efficiency gains in order to finance other expenditures
Yes, it is used to some extent	Brazil, Colombia, Dominican Republic, Jamaica, Panama, Paraguay, Peru
No	Argentina, Barbados, Chile, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico

Source: 2013 OECD Survey on Budget Practices and Procedures.

StatLink http://dx.doi.org/10.1787/888933090612

Performance budgeting allows countries to systematically incorporate performance data into the budget process and many LAC countries have begun to adopt it. The implementation of performance budgeting requires adopting financial management information systems that facilitate the collection of performance data, adjusting the budget process to incorporate the information into budget allocations, establishing appropriate incentives at the management level and developing institutional capacity to carry out the process.

The adoption of performance budgeting systems in LAC countries has been uneven. Although there is no consensus on the optimal type of regime that should be applied, the OECD has identified three broad categories of performance budgeting systems: presentational performance budgeting whereby performance information is produced and shown alongside funding allocations, but not necessarily utilised in spending decisions; performance-informed budgeting where such information explicitly influences allocation of resources; and direct performance budgeting in which funding is strictly linked to outputs and outcomes. Most LAC countries are in the first category, focusing primarily on approving and implementing laws regarding financial management, elaborating performance indicators and creating a financial management information system. Further, poor performance is rarely linked to a budget decrease; in most cases, it results in more intense monitoring, and it is sometimes made public.

Most LAC countries have adopted government-wide performance budgeting frameworks, uniformly applied to government agencies in order to provide common guidelines. Colombia, the Dominican Republic, El Salvador and Honduras are the only LAC countries that do not possess a framework at the central government level, but have a more decentralised system in which line ministries develop their own performance budgeting frameworks. In OECD countries, the practice is generally decentralised within central/federal governments. It is more common that line ministries apply their own performance budgeting practices in the allocation of their own budget envelopes across agencies/divisions.

The 2013 OECD Survey on Performance Budgeting shows that financial data is the main type of performance information used in budget negotiations. Many countries also use statistical information to inform allocation decisions. Few LAC countries use independent performance information from unsolicited organisations and/or programmes during budget negotiations. Further, spending reviews meant to identify specific budget savings throughout levels of government are only conducted in certain LAC countries. Brazil is the only LAC country to use all internal forms of performance information consistently. In OECD countries, the most commonly used information in budget negotiations are input measures like financial and operational data.

Methodology and definitions

Data refer to 2013, drawing on the 2013 OECD Survey on Performance Budgeting. Respondents were predominately senior budget officials in LAC and OECD countries. Responses represent countries' own assessments of current practices and procedures. Data refer only to central/federal governments and exclude performance budgeting practices at the sub-national level.

Spending reviews are a specific kind of government evaluation commissioned to identify budgetary savings across government. The OECD Value for Money Project differentiates spending reviews from other evaluation types through three main characteristics:

1. Spending reviews look at programme effectiveness and efficiency under current funding levels, and also examine the potential effect of alternative funding levels. They may be functional in nature and/or strategic.
2. Review procedure is under the responsibility of the Ministry of Finance or the prime minister's office.
3. The follow-up is decided during the budget process.

This composite index contains 11 variables that cover information on the availability and type of performance information developed, processes for monitoring and reporting on results, and whether (and how) performance information is used in budget negotiations and decision making by the central budget authorities, line ministries and politicians. Annex B contains a description of the methodology used to construct this index, including the specific weights assigned to each variable.

Further reading

Filc, G. and C. Scartascini (2012), *Budgeting for Results in Latin America: Conditions for its Deployment and Development*, Inter-American Development Bank, Washington, DC.

IDB (2012), *The Fiscal Institutions of Tomorrow*, Inter-American Development Bank, Washington, DC.

IDB (2008), "Presupuesto basado en resultados: Conferencia internacional", Inter-American Development Bank, Washington, DC.

Figure and table notes

Data for Chile and Mexico refer to 2011.

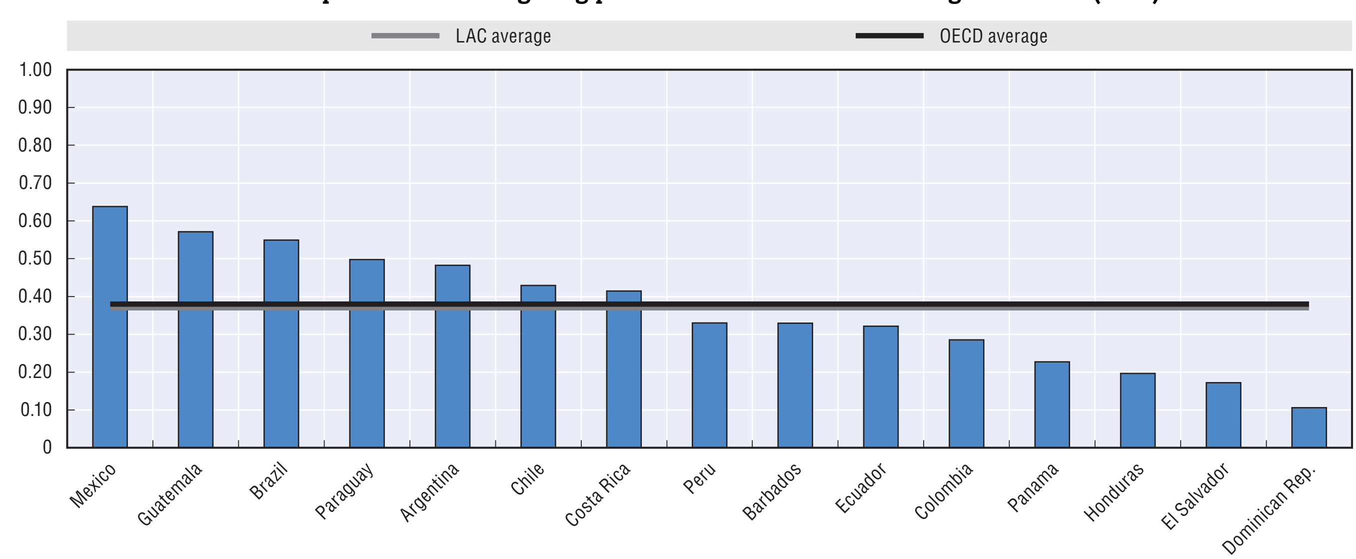
4.7. Performance budgeting practices at the central level of government (2013)

	Existence of standardised performance budgeting framework for central government	Use of performance information in negotiations with CBA: Financial data	Operational data and performance reports	Performance evaluations	Spending reviews	Independent performance information	Statistical information	Consequences for poor performance: No consequences	Organisational or programme's poor performance	More intense monitoring of organisation	Budget decreases
Argentina	Yes	●	❐	✧	x	✧	✧	✧	■	✧	❐
Barbados	Yes	●	❐	❐	■	✧	■	✧	✧	■	❐
Brazil	Yes	●	●	●	●	❍	●	●	✧	✧	✧
Chile	Yes	●	❐	■	x	❐	❐	❐	●	❐	❍
Colombia	No, line ministries/agencies have their own	❐	x	❐	●	❐	✧	❍	✧	❍	❍
Costa Rica	Yes	■	❐	✧	❐	❍	❍	■	●	■	❍
Dominican Republic	No, line ministries/agencies have their own	●	■	❍	■	❍	■	..	..	..	..
Ecuador	Yes	●	■	■	●	❐	●	❍	✧	■	❐
El Salvador	No, line ministries/agencies have their own	●	●	■	■	✧	■	..	..	..	..
Guatemala	Yes	●	❍	●	❍	●	■	●	❐	●	❍
Honduras	No, line ministries/agencies have their own	❐	✧	❍	❍	❍	❐	■	❍	■	✧
Mexico	Yes	●	●	■	●	❐	●	✧	●	●	✧
Panama	Yes	●	❐	❍	●	❍	●	●	❍	✧	❍
Paraguay	Yes	■	■	❐	❍	❐	❐	❍	❐	❐	✧
Peru	Yes	●	■	✧	❍	❍	❐	❍	✧	■	✧
Total											
● Always		11	3	2	5	1	4	3	3	2	0
■ Usually		2	4	4	3	0	4	2	1	5	0
❐ Occasionally		2	5	3	1	5	4	1	2	2	3
✧ Rarely		0	1	3	0	3	2	3	5	3	5
❍ Never		0	1	3	4	6	1	4	2	1	5
x Not applicable (information not produced or negotiations do not take place)		0	1	0	2	0	0	0	0	0	0
.. Not available		0	0	0	0	0	0	2	2	2	2

Source: 2013 OECD Survey on Performance Budgeting.

StatLink http://dx.doi.org/10.1787/888933090631

4.8. Use of performance budgeting practices at the central level of government (2013)



Sources: 2013 OECD Survey on Performance Budgeting; and 2013 OECD Survey on Budget Practices and Procedures.

StatLink http://dx.doi.org/10.1787/888933090308

The national budget is one of the main policy documents issued by governments. It is a tool for understanding government priorities and policy objectives, as well as how the executive branch plans to manage public finances. Budget transparency, as defined by the OECD, is the full disclosure of relevant fiscal information in a timely and systematic manner. Although countries might have different budget reporting systems, increasing the level of transparency throughout the budget process (preparation, approval, execution and audit) is essential for upholding public sector integrity and increasing the participation of citizens and non-government organisations in the budgetary process. Openness and transparency can ultimately lead to better public sector performance by facilitating citizen monitoring of governments and minimising the inappropriate and inefficient use of public resources.

Several factors affect the extent of budget disclosure, namely: governmental efforts to ensure the quality and integrity of information, the legal framework regulating the disclosure of information, the existence of a clear chain of responsibility within the budget process, and the degree of legislative participation in the budget process. These are core elements underlying transparency in the budget process.

The information included in the executive budget is increasing among LAC countries. Over three-quarters of the surveyed LAC countries (17) publish the government's medium-term fiscal policy objectives as well as the budget proposal. Furthermore, most LAC countries, with the exception of Barbados and Jamaica, produce a pre-budget report that is published prior to the budget proposal and is meant to encourage debate on budget aggregates and their potential effect on the economy. Eight LAC countries publish the methodology and macroeconomic assumptions underlying the budget. These assumptions determine budgetary calculations. Their failure to accurately replicate reality can have major implications on government deficit/surplus and its ability to uphold fiscal objectives and maintain the soundness of macroeconomic policy. Although the majority of LAC countries use models to conduct sensitivity analyses, Brazil, Mexico and Paraguay are the only countries that publicly provide such information.

Beyond publicly providing budgetary information, certain governments release citizens' budgets, which are easy-to-understand summary documents of the main features of the annual budget as presented to the legislature, including explanations and definitions of technical terms. In addition to reporting and explaining budget decisions with simplicity and clarity, citizens' budgets can help facilitate policy analyses and promote accountability. In LAC, 59% of the surveyed countries publish citizen budgets, compared to a lower percentage among OECD member countries (47%).

Methodology and definitions

Data refer to 2013, drawing on the 2013 OECD Survey on Budgeting Practices and Procedures. Respondents were predominately senior budget officials in LAC and OECD countries. Responses represent the countries' own assessment of current practices and procedures. Data refer only to central/federal governments and exclude budgeting practices at state/local levels.

A budget circular is a document/memorandum issued by the central budget authority to guide line ministries/agencies in the formulation of their initial budget proposals/budget estimates. A budget circular, for instance, may contain information or guidance on automatic productivity cuts, medium-term or annual expenditure ceilings, etc.

A citizens' guide to the budget is defined as an easy-to-understand summary of the main features of the annual budget presented to the legislature. It should be a self-contained document that explains what is in the annual budget proposals and what their effects are expected to be. While containing links or references to more detailed documents, the guide should not require readers to refer to them, or to know their contents, in order to understand the guide.

Further reading

Carlitz, R. (2013), "Improving Transparency and Accountability in the Budget Process: An Assessment of Recent Initiatives", in *Development Policy Review*, Vol. 31, S. 1, pp. 49-67.

OECD (2002), "OECD Best Practices for Budget Transparency", *OECD Journal on Budgeting*, Vol. 1/3, OECD Publishing, Paris, *http://dx.doi.org/10.1787/budget-v1-art14-en*.

Petrie, M. and J. Shields (2010), "Producing a Citizens' Guide to the Budget: Why, What and How?", *OECD Journal on Budgeting*, Vol. 10/2, OECD Publishing, Paris, *http://dx.doi.org/10.1787/budget-10-5km7gkwg2pjh*.

Figure and table notes

Data for Chile and Mexico refer to 2012.

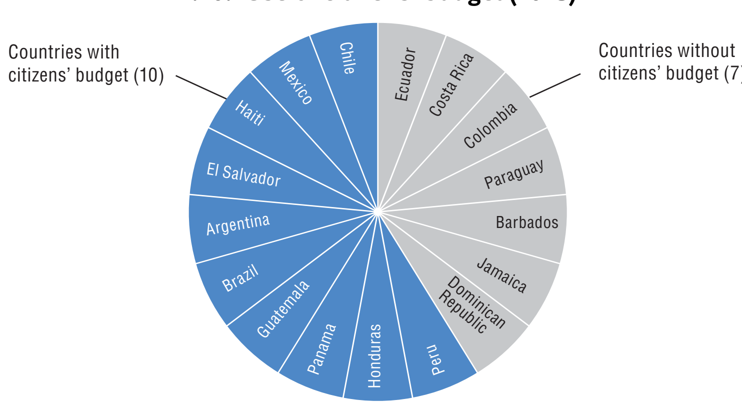
4.9. Budgetary information made publicly available (2013)

	Medium-term fiscal policy objectives	Budget proposal	Budget approved	Methodology and economic assumptions for establishing fiscal projections	Sensitivity analyses of fiscal and/or macroeconomic models	Budget circular	Independent reviews/analyses of macroeconomic and/or fiscal assumptions	Pre-budget report	Long-term perspective on total revenue and expenditure
Argentina	●	●	●	❍	x	❍	x	●	x
Barbados	●	❍	●	❍	x	❍	x	x	❍
Brazil	●	●	●	●	●	❍	x	●	x
Chile	●	●	●	●	❍	●	x	●	x
Colombia	●	●	●	●	❍	●	●	●	●
Costa Rica	●	●	●	●	❍	●	❍	●	x
Dominican Republic	●	●	●	❍	❍	❍	x	●	x
Ecuador	●	●	●	●	❍	●	x	●	x
El Salvador	●	●	●	❍	❍	●	x	●	❍
Guatemala	●	●	●	❍	❍	●	❍	●	x
Haiti	❍	●	●	❍	❍	❍	x	●	x
Honduras	●	●	●	❍	❍	●	❍	●	x
Jamaica	●	●	●	●	❍	❍	●	x	❍
Mexico	●	●	●	●	●	❍	x	●	x
Panama	❍	●	●	❍	❍	❍	❍	●	❍
Paraguay	x	●	●	●	●	●	x	●	x
Peru	●	●	●	❍	❍	❍	x	●	x
LAC total									
● Publicly available	14	16	17	8	3	8	2	15	1
❍ Not publicly available	2	1	0	9	12	9	4	0	4
x Not applicable	1	0	0	0	2	0	11	2	12
OECD total									
● Publicly available	31	32	32	27	20	17	16	14	14
❍ Not publicly available	1	0	0	6	11	14	9	3	3
x Not applicable	1	1	1	0	2	2	8	16	16

Source: 2013 OECD Survey on Budget Practices and Procedures.

StatLink http://dx.doi.org/10.1787/888933090650

4.10. Use of citizens' budget (2013)



Source: 2013 OECD Survey on Budget Practices and Procedures.

StatLink http://dx.doi.org/10.1787/888933090327

The legislature plays a crucial role in the budgetary process. The presentation of the budget and related documentation in legislature is normally the first opportunity for public scrutiny of a government's priorities, thus it becomes an essential component for transparency and public financial accountability. To meaningfully engage in the budget process, rather than simply serving as a rubber stamp, legislatures require reliable, unbiased information as well as strong analytical capacity. This support can result in different institutional arrangements, for instance specialised budget research units within congress/parliament, or independent congressional/parliamentary budget offices (PBOs). Furthermore, among OECD member countries, the establishment of fiscal councils has become quite common.

Of the 17 LAC countries surveyed, 14 countries have support available to congress/parliament in regards to budget matters. In 2013, Costa Rica, the Dominican Republic and Mexico are the only LAC countries with congressional budget offices; these are offices whose principal aim is the analysis of budget bills or additional legislative proposals regarding fiscal policies. Brazil, Chile, El Salvador, Panama and Paraguay are the only countries with specialised research units within congress. The majority of LAC countries, however, have specialised staff within the congressional/parliamentary budget or finance Committees. Contrary to many OECD member countries, LAC countries have not yet adopted fiscal councils as a form of independent fiscal institution. In Jamaica, House Committees (parliament) are provided with technical assistance from the Public Appropriations Committee and the Public Administration Committee.

Among those countries with support available to the legislative body regarding budget matters, only six produce specialised information in the form of reports or analyses. These reports consist of budgets, economic analyses, policy briefs and long-term analyses of fiscal sustainability that can be requested by the budget or finance committee, other legislative committees or individual members. Mexico is the only country in LAC that produces all four types of reports, through its congressional budget office. Budget offices in Costa Rica, the Dominican Republic and Mexico may produce reports based on their own initiative. However, Brazil, Costa Rica and Mexico are the only countries to make the reports available to the public.

Methodology and definitions

Data refer to 2013, drawing on the 2013 OECD Survey on Budgeting Practices and Procedures. Respondents were predominately senior budget officials in LAC countries. Responses represent the countries' own assessments of current practices and procedures. Data refer only to central/federal governments and exclude practices at sub-national level. Chile established a fiscal advisory body in early 2013.

Further reading

Cangiano, M., T. Curristine and M. Lazare (2013), *Public Financial Management and its Emerging Architecture*, International Monetary Fund, Washington, DC.

Kopits, G. (2011), "Independent Fiscal Institutions: Developing Good Practices", *OECD Journal on Budgeting*, Vol. 11/3, OECD Publishing, Paris, *http://dx.doi.org/10.1787/budget-11-5kg3pdgcpn42*.

OECD (forthcoming), "Principles for Independent Fiscal Institutions", OECD Publishing, Paris.

Santiso, C. and M. Varea (2013), "Strengthening the Capacities of Parliaments in the Budget Process", Inter-American Development Bank, Washington, DC.

Table notes

4.11 and 4.12: Data for Barbados and Haiti are not available. Data for Chile and Mexico refer to 2012.

4.12: Data for Guatemala are not available.

4.11. Types of support available to parliament and reports produced in LAC countries (2013)

	Type of support available to parliament for specialised advice on budget							
	Independent parliamentary/congressional budget office's	Fiscal council	In-house specialised research unit	Specialised staff of budget/finance committee	Specialised staff in political party secretariats	Individual member's staff	Other	Reports/analysis produced by the organisation
Argentina	❍	❍	❍	●	❍	●	❍	✧
Barbados	..	..	..	..	..	..	..	..
Brazil	❍	❍	●	●	❍	❍	❍	■ ❖ ✦
Colombia	❍	❍	❍	❍	❍	●	❍	✧
Costa Rica	●	❍	❍	❍	❍	❍	❍	■ ❖ ✦
Dominican Republic	●	❍	❍	❍	❍	❍	❍	❐ ❖ ✦
Ecuador	❍	❍	❍	●	❍	❍	❍	✧
El Salvador	❍	❍	●	❍	❍	❍	❍	■ ❐
Guatemala	❍	❍	❍	●	❍	❍	❍	..
Haiti	..	..	..	..	..	..	..	..
Honduras	❍	❍	❍	●	❍	❍	❍	✧
Jamaica	❍	❍	❍	❍	❍	❍	●	✧
Panama	❍	❍	●	●	●	●	❍	x
Paraguay	❍	❍	●	❍	❍	❍	❍	x
Peru	❍	❍	❍	❍	❍	❍	❍	x
Mexico	●	❍	❍	❍	❍	❍	❍	❐ ✦ ■ ❖
Chile	❍	❍	●	❍	❍	❍	❍	■
Total								
● Yes	3	0	5	6	1	3	1	
❍ No	12	15	10	9	14	12	14	
■ Budget options								5
❐ Economic analysis								3
❖ Policy briefs								4
✦ Long-term analysis								4
✧ No reports produced								5
x Not applicable								3
.. Not available								3

Source: 2013 OECD Survey on Budget Practices and Procedures.

StatLink http://dx.doi.org/10.1787/888933090669

4.12. Initiative to request reports in LAC countries (2013)

	Who can request reports and analysis				
	Budget/finance committee	Other legislative committees and sub-committees	Individual members of parliament/congress	Organisation itself on its own initiative	Reports are publically available
Argentina	❍	❍	❍	❍	x
Barbados	..	..	..	..	..
Brazil	●	●	●	❍	■
Colombia	❍	❍	❍	❍	x
Costa Rica	●	❍	●	●	■
Dominican Republic	●	●	●	●	✧
Ecuador	❍	❍	❍	❍	x
El Salvador	❍	●	●	●	✧
Guatemala	..	..	..	..	..
Haiti	..	..	..	..	..
Honduras	❍	❍	❍	❍	x
Jamaica	❍	❍	❍	❍	x
Panama	●	❍	●	❍	x
Paraguay	❍	❍	❍	❍	x
Peru	❍	❍	❍	❍	x
Mexico	●	❍	●	●	■
Chile	❍	●	❍	❍	✧
Total					
● Yes	5	4	6	4	
❍ No	9	10	8	10	
■ Yes, always available to the public					3
❐ Yes, sometimes available to the public					0
❖ Available upon request					0
✧ Not available to the public					3
x Not applicable					8
.. Not available					3

Source: 2013 OECD Survey on Budget Practices and Procedures.

StatLink http://dx.doi.org/10.1787/888933090688

Budget earmarks set aside a percentage of government funds, which can be estimated as a share of GDP for specific sectors such as health, education or defence, and are established by the constitution, or by primary or secondary legislation. Their purpose is to pre-commit a percentage of government spending to specific sectors. In the wake of the recent economic and financial crisis, earmarked funds have become increasingly relevant as governments seek to improve the efficiency and effectiveness of public spending. Furthermore, many LAC countries pre-assign a certain percentage of total expenditures as transfers to regions as a means to deepen the decentralisation processes.

Budget earmarks can result in budget rigidities and the inability of public officials to fund programmes that are in line with their policy priorities as opposed to those that are pre-committed. This, in turn, can lead to a lack of new and strategic initiatives, and a perpetuation of programmes that are no longer necessary or constitute an efficient use of resources. Excessive amounts of earmarks can also compromise macroeconomic stability by making it difficult for governments to adjust fiscal aggregates to changing macroeconomic perspectives, leading to further indebtedness in cases of sudden macroeconomic shocks. Finally, when calculated as a share of GDP, earmarks contribute to pro-cyclical spending by increasing expenditures when the overall economy is growing, and decreasing them in times of crisis.

From the point of view of line ministries, however, budget earmarks increase the predictability of resources in the medium- and long-term, giving them greater flexibility to plan annual and multi-annual operations. Earmarks also protect important social sectors from short-term fluctuations in funding that may hinder long-term national objectives.

Many countries in LAC have budget earmarks embedded in the constitution or created through primary legislation. In Brazil and Costa Rica, earmarks constitute between 81% and 100% of total central government expenditure destined primarily to health, education and security. Colombia has a similar level of earmarked funds, 61%-80%, which are destined for transfers to sub-national governments, pensions and public sector employee costs. Budget earmarks in Guatemala amount to 41%-60% of public expenditures and cover a variety of sectors ranging from health to justice. The specific public service that is most commonly committed through constitutional or legal mandates is education. Of the surveyed countries, Jamaica, Panama and Peru do not have budget earmarks.

Methodology and definitions

Data refer to 2013, drawing on the 2013 OECD Survey on Budgeting Practices and Procedures. Respondents were predominately senior budget officials in LAC countries. Responses represent the countries' own assessments of current practices and procedures. Data refer only to central/federal governments and exclude practices at the sub-national level.

A budget earmark is defined as a pre-assigned fund. It is a line item established by law, decree or constitutional mandate, and is independent of the executive. It corresponds to revenues from a specific source or other transfers. Earmarks do not correspond to those expenditures stemming from operational concepts such as payroll value or debt service.

Further reading

Bonilla, J., J. Echeverry and A. Moya (2006), "Rigideces Institucionales y Flexibilidad Presupuestaria: Origen, Motivación y Efectos sobre el Presupuesto", Inter-American Development Bank, Washington, DC.

Diamond, J. and B. Potter (1999), *Guidelines for Public Expenditure Management*, International Monetary Fund, Washington, DC.

Table notes

4.13: In the case of Peru, although no budgetary earmarks are reported, the country has "regular resources" and "specific resources". Regular resources are transfers to the regions that are not included in the budget. Specific resources are transfers resulting from specific sources of revenues such as customs revenues and royalties. For Guatemala, the percentage reflects the percentage of tax revenue that is earmarked. Data for Chile and Mexico refer to 2012.

4.13. Budget earmarks (2013)

	Percentage of total expenditure that is pre-assigned	Legal basis of budget earmark and corresponding sector					
		Health	Education	Defence	Security	Justice	Transfers to sub-national governments
Argentina	41-60	■	■	x	x	■	x
Brazil	81-100	●	●	x	■	x	●
Colombia	61-80	x	x	x	x	x	●
Costa Rica	81-100	■	● ■	x	■	● ■	x
Chile	0-20	x	x	■	x	x	■
Ecuador	0-20	● ■	● ■	x	x	x	● ■
El Salvador	0-20	x	x	x	x	●	■
Guatemala	41-60	● ■	● ■	● ■ ❐	● ■	● ■	● ■
Honduras	0-20	x	●	x	x	■	●
Jamaica	..	..	..	..	..	..	..
Mexico	41-60	x	x	x	x	x	■
Panama	..	..	..	..	..	..	..
Paraguay	21-40	x	● ■	x	x	■	x
Peru	x	x	x	x	x	x	x
Total							
● Constitution		3	6	1	1	3	5
■ Primary legislation		4	5	2	3	5	5
❐ Secondary legislation		0	0	1	0	0	0
❍ Other legal basis		0	0	0	0	0	0
x Not applicable/no budget earmark		7	5	10	9	6	4
.. Not available		2	2	2	2	2	2

Source: 2013 OECD Survey on Budget Practices and Procedures.

StatLink http://dx.doi.org/10.1787/888933090707

Accounting standards used by governments can provide differing figures, which in turn can result in varying estimates of their fiscal position. Governments use two main types of accounting basis: cash flow and accrual.

Cash flow basis reports a government's nominal surplus or deficit, and reflects the short-term impact of government finances on the economy. In essence, it reports the money received or disbursed by government entities within a specific fiscal period. Although a cash flow basis can be manipulated to reflect a more favourable fiscal position, as revenue collection is accelerated and payments are differed, this form of accounting is essential for fiscal management and the ability of governments to easily monitor the effect of government finances on the economy.

In contrast to a cash flow accounting basis, an accrual basis reports a government's assets and liabilities as well as its fiscal position. This form of accounting reports the money earned or liabilities accrued within a fiscal year. Events are recorded when they occur and not when the money is disbursed, therefore providing a more robust picture of government finances. By charging programmes or departments for those resources consumed, this form of accounting can also help to sensitise public managers to the full cost of programmes and promote a more efficient use of public resources.

Certain governments use a modified cash basis, which is a combination of the two accounting methods mentioned above. In this case, the cash basis is used for short-term elements on the balance sheet, and the accrual basis is used for long-term elements. In addition, governments commonly use a modified accrual basis to report money received and liabilities incurred.

The accrual or modified accrual basis is the method most commonly used by governments in LAC countries. Out of the 17 surveyed countries, over 15 countries use the accrual or modified accrual basis for the financial statements of the central government, line ministries and executive agencies. Similarly, the majority of LAC countries (12) use the accrual or modified accrual basis for the central government budget. Although Colombia uses the full accrual basis for financial statements, it reports the central government budget in a modified cash basis. Costa Rica reports line ministry financial statements and the central government budget in a full cash basis.

Certain LAC countries create multiple versions of financial statements and budgets using different accounting standards. In the case of Mexico, all four accounting standards are applied to financial statements and federal government budgets. In Brazil, both a modified cash basis and a full accrual basis are used for reporting. Panama produces the central government budget in both a full cash basis and a full accrual basis.

Methodology and definitions

Data refer to 2013, drawing on the 2013 OECD Survey on Budgeting Practices and Procedures. Respondents were predominately senior budget officials in LAC countries. Responses represent the countries' own assessment of current practices and procedures. Data refer only to central/federal governments and exclude practices at state/local levels.

Further reading

Cangiano, M., T. Curristine and M. Lazare (2013), *Public Financial Management and its Emerging Architecture*, International Monetary Fund, Washington, DC.

Table notes

4.14: Data for Haiti are not available. Data for Chile and Mexico refer to 2012.

4.14. Accounting standard basics (2013)

	Accounting basis used for the following accounting standards			
	Central/federal government financial statements	Line ministries' financial statements	Executive agencies' financial statements	Central/federal government budget
Argentina	✦	✦	✦	✦
Barbados	❒	❒	❒	❒
Brazil	■ ✦	■ ✦	■ ✦	■ ✦
Chile	✦	❒ ✦	✦	✦
Colombia	✦	✦	✦	■
Costa Rica	x	●	x	●
Dominican Republic	❒	❒	❒	❒
Ecuador	❒	x	❒	❒
El Salvador	✦	✦	✦	✦
Guatemala	❒	❒	❒	❒
Haiti	..	..	..	..
Honduras	❍	❍	❒	❒
Jamaica	●	●	✦	●
Mexico	● ■ ❒ ✦	● ■ ❒ ✦	● ■ ❒ ✦	● ■ ❒ ✦
Panama	✦	✦	●	● ✦
Paraguay	❒	❒	❒	❒
Peru	✦	✦	x	x
Total				
● Full cash basis	2	3	2	4
■ Modified cash basis	2	2	2	3
❒ Modified accrual basis	6	6	7	7
✦ Full accrual basis	8	8	7	6
❍ Other	1	1	0	0
x Not applicable	1	1	2	1
.. Not available	1	1	1	1

Source: 2013 OECD Survey on Budget Practices and Procedures.

StatLink http://dx.doi.org/10.1787/888933090726

The budget is arguably the government's key policy document as it contains important information regarding government policies and priorities, in both the medium and the short-term. The budget also provides a glimpse into the country's finances, and may disclose information on government expectations for economic performance. The disclosure of this information to the public is, therefore, essential for fiscal transparency. Budget reports, such as mid-year and year-end reports, are important documents that governments produce and disclose in order to inform citizens of the budget execution.

Reporting requirements for central governments in LAC countries are most often stipulated in law or policy that has been approved by the legislature (13). In some countries the laws are complemented by constitutional stipulations requiring mid-year and year-end reports (7). In Barbados and the Dominican Republic reporting requirements are stipulated in regulations that do not require approval from the legislature. In the case of Mexico, reporting requirements are stipulated in the constitution and laws that require approval by the legislature.

Mid-year reports are produced and made public in several LAC countries to provide a comprehensive update of the implementation of the budget. Although each country adapts the report according to its own budget practices and procedures, it is generally a description of major revenue, expenditure and financing items. According to survey results, over two-thirds of line ministries and agencies in LAC (11) publish mid-year reports. The most common method of publication is through a central government information portal (5), the central budget authority's website (3) or the individual websites of line ministries and agencies (4).

The year-end report of the consolidated central government is the main accountability document of the government. It demonstrates government compliance with the level of expenditures and revenue authorised by congress/parliament, and is normally audited by the country's supreme audit institution. The report generally includes any in-year adjustments to the budget, comparative information with results from previous years, a discussion of the government's financial assets and liabilities, and non-financial information such as the attainment of pre-established performance targets. This report is made public in all LAC countries surveyed (15). In the majority of cases, the report is published on the central budget authority's website (8) or in the websites of individual line ministries (4).

In the majority of LAC countries (14), line ministries and government agencies are also required to submit and disclose a year-end budget report. These documents are often published on the individual websites of the line ministry or agency (8).

Methodology and definitions

Data refer to 2013, drawing on the 2013 OECD Survey on Budgeting Practices and Procedures. Respondents were predominately senior budget officials in LAC countries. Responses represent the countries' own assessment of current practices and procedures. Data refer only to central/federal governments and exclude practices at state/local levels.

Further reading

IMF (2007), *Manual on Fiscal Transparency*, International Monetary Fund, Washington, DC.

OECD (2002), "OECD Best Practices for Budget Transparency", *OECD Journal on Budgeting*, Vol. 1/3, OECD Publishing, Paris, *http://dx.doi.org/10.1787/budget-v1-art14-en*.

Table notes

4.15: Data for Haiti are not available. Data for Chile and Mexico refer to 2012.

4.15. Reporting requirements in central/federal government (2013)

	Legal basis for reporting requirements in central/federal government						Mid-year	Year-end	
	Constitution	Stipulated in law or policy that requires approval by the legislature	Stipulated in regulation that do not require approval by legislature	Stipulated in organisational or internal rules	Private sector rules	No formal basis	Line ministries' and government agencies' reports	Consolidated central government reports	Line ministries' and government agencies' reports
Argentina	✓	✓						■	■
Barbados			✓				..	..	..
Brazil	✓	✓					x	●	●
Chile		✓		✓			●	●	● ❒
Colombia		✓					❒	❒	❒
Costa Rica		✓		✓			■ ❒	■	■ ❒
Dominican Republic		✓	✓				x	❒	❒
Ecuador	✓						✧	■	❒
El Salvador	✓	✓		✓			●	●	x
Guatemala	✓	✓					❒	■ ❒	❒
Haiti	..	..	..	..	..	..	..	..	..
Honduras		✓					● ■ ❒	■ ❍	■
Jamaica		✓					✧ ❍	■ ❍	● ❒
Mexico	✓	✓					●	●	●
Panama				✓			x	❒	❒
Paraguay	✓	✓					x	■	■
Peru		✓					■	■	❍
Total	**7**	**13**	**2**	**4**	**0**	**0**			
● A central government information portal							5	4	4
■ The Central Budget Authority's website							3	8	4
❒ Line ministries' and/or individual agencies' websites							4	4	8
✧ Available on paper only							2	0	0
❍ Other							1	2	1
x Not applicable (not publicly available)							4	0	1
.. Not available							2	2	2

Source: 2013 OECD Survey on Budget Practices and Procedures.

StatLink http://dx.doi.org/10.1787/888933090745

Internal auditing (IA) constitutes a key part of the public financial management system and can be carried out at different levels within the government. By providing senior management with independent evaluation and counsel to improve internal control, internal audit increases value for money and strengthens accountability. Furthermore, internal audit is a critical component of government control systems, with the external function audit carried out by supreme audit institutions (SAI). Although SAIs and internal auditors carry out differing tasks according to clearly defined roles, they collectively promote good governance through the promotion of transparency and accountability for the use of public resources. More specifically, however, internal auditors carry out the first review of the quality of budget, financial and accounting information, concerning the extent to which organisations have achieved previously established objectives, while SAIs have the responsibility of evaluating the effectiveness of the internal audit function. Internal audit units are subordinate to the head of the entity within which they reside, but are organisationally and functionally independent.

Internal audit findings and recommendations help facilitate informed and accountable decision making, which enhances effectiveness and produces greater value for money. Moreover, internal auditing allows decision makers and public managers to focus their attention on areas in need of improvement. Stringent internal auditing also serves to reassure partners and donors of the effective use of aid, which is of particular importance for those LAC countries that are recipients of foreign aid. The role of internal auditors is evolving in OECD member countries, from providing an assessment of compliance with procedures and rules to acting as strategic partners in the management of public organisations.

Within the LAC region, the most common legal foundation for IA policies are laws. Among the surveyed countries, however, some countries have alternative legal bases for IA policies. In Barbados and Chile, for instance policies are stipulated in regulation without any necessary approval from the legislature. In the case of Panama, they are solely stipulated in organisational rules. With the exception of publicly owned enterprises in Costa Rica, all ministries, agencies and publicly owned enterprises in the surveyed LAC countries are required to perform internal audits.

Although IA policies are largely determined by the individual characteristics of each country, many LAC countries share similar auditing policies. In most countries (16), internal audits are carried out in all central government agencies. In the case of Brazil, Guatemala and Peru, particular attention is paid to organisations that execute large amounts of public resources. In most LAC countries (13 out of 17), IA units are accountable to the head of the public sector entity; namely the minister, head of agency or head of the unit dealing with governance issues. Only in six LAC countries are IA units accountable to an external government institution in charge of corruption control within the central government.

Methodology and definitions

Data refer to 2013 and draw upon country responses to questions from the 2013 OECD Survey on Budgeting Practices and Procedures. Respondents were predominately senior budget officials in LAC countries. Responses represent the countries' own assessments of current practices and procedures. Data refer only to central/federal governments and exclude practices at state/local levels.

An audit is an examination by experts of legal compliance and/or financial performance. Audits can be performed to fulfil management requirements (internal auditing), or they can be executed for an external entity or independent auditor to meet legal obligations (external auditing).

Further reading

INTOSAI (2010a), "Coordination and Cooperation between SAIs and Internal Auditors in the Public Sector", INTOSAI GOV 9150.

INTOSAI (2010b), "Internal Audit Independence in the Public Sector", INTOSAI GOV 9140.

OECD (2011a), "Good Practices in Supporting Supreme Audit Institutions", OECD Publishing, Paris, *www.oecd.org/dac/effectiveness/Final%20SAI%20Good%20Practice%20Note.pdf*.

OECD (2011b), "Internal Control and Internal Audit: Ensuring Public Sector Integrity and Accountability", OECD Publishing, Paris, *www.oecd.org/governance/47638204.pdf*.

Sevilla, J. (2005), "Accountability and Control of Public Spending in a Decentralised and Delegated Environment", *OECD Journal on Budgeting*, Vol. 5/2, OECD Publishing, Paris, *http://dx.doi.org/10.1787/budget-v5-art8-en*.

Table notes

4.16 and 4.17: Data for Haiti are not available. Data for Chile and Mexico refer to 2012

4.16. Legal basis of internal audit policy (2013)

	Legal basis of internal audit policy in the central/federal government						Institutions bound by internal audit policies			
	Stipulated in the constitution	Stipulated in law or policy that requires approval by the legislature	Stipulated in regulation that do not require approval by legislature	Stipulated in organisational or internal rules	Private sector rules	No formal basis	Line ministries	Central government agencies	Public corporations, state-owned enterprises	Other
Argentina		✓					✓	✓	✓	
Barbados			✓				✓	✓	✓	
Brazil	✓	✓					✓	✓	✓	
Chile			✓				✓	✓	✓	
Colombia		✓					✓	✓	✓	
Costa Rica		✓		✓			✓	✓		
Dominican Republic	✓	✓	✓	✓			✓	✓	✓	✓
Ecuador		✓					✓	✓	✓	
El Salvador		✓		✓			✓	✓	✓	✓
Guatemala	✓	✓	✓				✓	✓	✓	
Haiti	..	..	..	..	..	..	..	..	..	..
Honduras		✓					✓	✓	✓	
Jamaica		✓					✓	✓	✓	
Mexico	✓	✓	✓	✓			✓	✓	✓	✓
Panama				✓			✓	✓	✓	
Paraguay		✓					✓	✓	✓	✓
Peru	✓						✓	✓	✓	
Total	**5**	**12**	**5**	**5**	**0**	**0**	**16**	**16**	**15**	**4**
.. Not available	1	1	1	1	1	1	1	1	1	1

Source: 2013 OECD Survey on Budget Practices and Procedures.

StatLink http://dx.doi.org/10.1787/888933090764

4.17. Accountability of internal auditing (2013)

	Recepient authority of internal audit reports in central government						
	Head of public sector entity	Head of the unit charged with governance	Chief accountant, financial director within public sector entity	Chief internal control, risk management officer within public sector entity	Central authority for internal control/corruption prevention within central government	Board of directors of public sector entity	Other
Argentina	✓						
Barbados		✓					
Brazil	✓	✓	✓	✓	✓		
Chile	✓	✓					
Colombia	✓						
Costa Rica	✓	✓	✓	✓			
Dominican Republic							✓
Ecuador	✓			✓	✓		
El Salvador	✓	✓			✓		
Guatemala	✓						
Haiti	..	..	..	..	..	..	..
Honduras	✓	✓			✓	✓	
Jamaica	✓	✓				✓	
Mexico	✓	✓	✓	✓	✓	✓	
Panama	✓	✓					
Paraguay					✓		
Peru	✓						
Total	**13**	**9**	**3**	**4**	**6**	**3**	**1**
.. Not available	1	1	1	1	1	1	1

Source: 2013 OECD Survey on Budget Practices and Procedures.

StatLink http://dx.doi.org/10.1787/888933090783

Public-private partnerships (PPPs) are long-term contractual agreements between the government and a private sector partner, regarding the delivery and funding of infrastructure and public services, in which project risks are shared. In most cases, the private partner is responsible for the design, construction, financing, operation, management and delivery of the public service, while the government provides payment for the delivery of infrastructure and services.

There are two main arguments in support of PPPs: value for money and fiscal constraints. The former views the private sector as having greater incentives and ability to deliver cost-effective assets. The latter is driven by pressures to reduce public spending in order to meet fiscal targets. However, PPPs are complex and may have effects on fiscal sustainability. It is important to have strong institutional capacity and a comprehensive legal and regulatory framework to deal with risk sharing, affordability and budget liabilities in the short term, as well as social impact and renegotiations in the long term.

To increase effectiveness, several LAC countries have created units within the Ministry of Finance or line ministries to deal specifically with PPP contracts. The units aid in the design and procurement process of PPPs. Slightly less than 50% of LAC countries have a PPP unit. Of these, Chile is the only to have two units, one reporting to the Ministry of Finance and one to line ministries. In comparison, 14 OECD countries have dedicated PPP units reporting to the Ministry of Finance, 9 have PPP units within line ministries and 15 do not have PPP units within central government.

PPP governance frameworks are very different across LAC countries, but many countries in the region carry out relative and absolute value for money assessments. Relative value for money assessment compares several forms of procurement to determine which form provides the best value for money. Absolute value for money tests determine whether a project provides overall value for money for society. The assessments judge whether PPPs or traditionally procured infrastructure projects (TIPs), are the most efficient way of service delivery.

Most LAC countries carry out absolute value for money assessments for PPPs. In countries that have more PPP experience, such as Brazil, Chile, Colombia and Mexico, the assessment is carried out for all projects. Other countries, such as Argentina and Peru, only do so above a certain monetary threshold.

In general, most LAC countries carry out absolute value for money assessments for TIPs. Nine out of 17 countries carry out relative value for money assessments (public sector comparators) testing whether PPPs are more efficient than TIPs. Only Colombia, Costa Rica and Mexico conduct both relative and absolute value assessments for all PPPs and TIPs.

Of those LAC countries able to evaluate the performance of PPPs versus TIPs, PPPs generally outperformed TIPs in timeliness, quality and affordability. This is similar to the assessment of PPPs made by OECD countries. In contrast to LAC countries, however, 32.3% of OECD countries regard PPP transaction costs, which may have future implications for the affordability of projects, as higher than those of TIPs.

Methodology and definitions

Data refer to 2013, drawing on the 2013 OECD Survey on Budgeting Practices and Procedures. Respondents were predominately senior budget officials in LAC and OECD countries. Responses represent the countries' own assessments of current practices and procedures. Data refer only to central/federal governments and exclude practices at sub-national level. Data for OECD member countries refer to 2012.

The PPP concept includes both pure PPPs and concessions.

Methodologies for relative value for money assessment and absolute value for money tests vary by country.

Further reading

Alborta, G., C. Stevenson and S. Triana (2011), *Asociaciones público-privadas para la prestación de servicios: Una visión hacia el futuro*, Inter-American Development Bank, Washington, DC.

Burger P. and I. Hawkesworth (2013), "Capital Budgeting and Procurement Practices", paper presented at the OECD Annual Network Meeting of Senior Public-Private Partnership Officials, Luxembourg, 15-16 April.

OECD (2012), "Recommendation of the Council on Principles for Public Governance of Public-Private Partnerships", OECD Publishing, Paris, *www.oecd.org/gov/budgeting/PPP-Recommendation.pdf*.

Figure and table notes

4.18 and 4.19: Data for Chile and Mexico refer to 2012.

4.18: For Panama, the unit dedicated to PPPs is semi-autonomous. For Guatemala it is a decentralised entity, supervised by a board of directors chaired by the Minister of Finance.

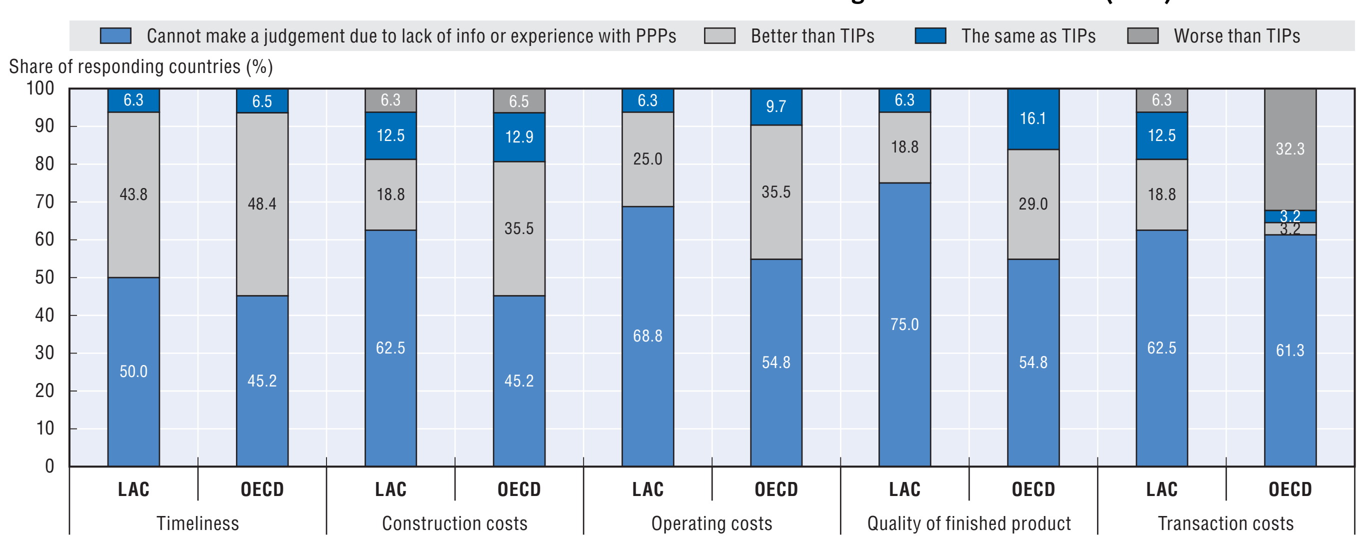
4.18. Dedicated PPP units and value for money assessments of PPPs and TIPs (2013)

	Use of public private partnerships	Dedicated PPP unit reporting to Ministry of Finance	Dedicated PPP units in line ministries	No dedicated PPP unit exists in central/federal government	Use of relative value for money assessments	Use of absolute value for money assessments	
					For PPPs	For PPPs	For TIPs
Argentina	✓			✓	■	■	■
Barbados	✓			✓	❍	●	●
Brazil	✓	✓			●	●	❒
Chile	✓	✓	✓		●	●	■
Colombia	✓			✓	●	●	●
Costa Rica	✓		✓		●	●	●
Dominican Republic	✓			✓	❍	❍	❍
Ecuador	✓			✓	■	■	●
El Salvador				✓	x	x	❍
Guatemala	✓	✓			●	●	■
Haiti	✓	✓			❒	❒	❍
Honduras				✓	❍	❍	❍
Jamaica	✓	✓			x	❍	❍
Mexico	✓			✓	●	●	●
Panama	✓	x	x	x	x	●	●
Paraguay				✓	x	x	x
Peru	✓	✓			x	■	●
LAC total	**14**	**6**	**2**	**9**			
● Yes, for all projects					6	8	7
■ Yes, for those above certain monetary threshold					2	3	3
❒ Yes, ad hoc basis					1	1	1
❍ No					3	3	5
x Not applicable					5	2	1
OECD total		**14**	**9**	**15**			

Source: 2013 OECD Survey on Budget Practices and Procedures.

StatLink http://dx.doi.org/10.1787/888933090802

4.19. Countries' assessments of PPPs relative to TIPs along various dimensions (2013)



Source: 2013 OECD Survey on Budget Practices and Procedures.

StatLink http://dx.doi.org/10.1787/888933090346

Government at a Glance:
Latin America and the Caribbean 2014
Towards Innovative Public Financial Management

Chapter 5

Public procurement

Public procurement is one of the largest government spending activities in most countries. In Latin America it represents on average 26% of total government expenditures. Due to its complexity, the size of the financial flows it generates and the close interaction between the public and the private sector, it is an activity that is vulnerable to waste, fraud and corruption. During the last decade, a key concern for Latin American countries has been how to improve public purchasing practices in order to increase transparency and achieve efficiency, thereby creating fiscal space for urgent public policies. As a result, many LAC countries have adopted innovative tools to achieve economies of scale.

In addition to addressing waste, fraud and corruption, public procurement policies are used to foster value for money and pursue other policy objectives. These policy objectives are designed to spur innovation, promote sustainable growth and level the playing field for access to economic opportunities. Information on these and other strategic approaches to public procurement are considered in this chapter. Further challenges in the field of public procurement remain, such as harmonising the availability of information with current accountability processes.

Governments purchase a significant variety of goods and services in order to improve citizen welfare and pursue specific social and economic objectives. Public procurement, the means by which governments and state-owned enterprises conduct purchases from private providers, is a key economic activity and accounts for a large percentage of GDP in most LAC and OECD member countries. Information on procurement is essential to improve value for money, avoid mismanagement of public resources, and increase the overall quality of government services.

In 2011, on average, general government spending via public procurement in LAC countries represented 26% of total government expenditures. Considering the spending power of government purchases, countries that manage to achieve efficiency gains in procurement spending stand to create considerable savings, gaining greater fiscal space for government policies. Efficiencies can be achieved through the adoption of ICT tools and exploiting economies of scale within individual government organisations as well as across sectors. According to the available data, there are significant variations in the size of public procurement among LAC countries. For example, the share of total government expenditure via procurement in Peru (50%) is roughly three times than that of Costa Rica (16%).

Expanding public procurement to the sub-central government level (state and local) should also be considered as a tool to improve the efficiency of public spending. On average among LAC countries, government procurement spending at the state and local levels in 2011 accounted for 38% of total general government procurement spending. This is particularly important in Mexico and Brazil (federal states), as spending at the state level accounts for 39% and 25% of total general government procurement, respectively. Nevertheless, procurement spending at the state level is also notable in Peru (15%) and Colombia (13%).

Methodology and definitions

The size of general government procurement spending is estimated using data from the IMF *Government Finance Statistics* (IMF GFS) (database), which applies the concepts set out in the *Government Finance Statistics Manual 2001* (GFSM 2001). The main purpose of the GFSM 2001 is to provide a comprehensive conceptual and accounting framework for analysing and evaluating fiscal policy. It is harmonised with the other macroeconomic statistical frameworks, such as the overarching *System of National Accounts 1993* (1993 SNA). However, some differences exist between the GFSM 2001 and the 1993 SNA frameworks in several occurrences which led to establish, to a large extent, of correspondence criteria between the two statistical systems. General government procurement includes intermediate consumption (goods and services purchased by governments for their own use, such as accounting or information technology services), and gross fixed capital formation (acquisition of capital excluding sales of fixed assets, such as building new roads). Costs of goods and services financed by general government, part of government procurement, are not included in this analysis as they are not accounted separately in the IMF GFS database. Moreover, the part of government procurement related to gross fixed capital formation does not include the consumption of fixed capital.

General government consists of central, state and local governments and social security funds (the sub-central level refers to state and local governments). In the IMF GFS database social security funds are included in central government. State government is applicable to the federal states of Brazil and Mexico and the highly decentralised countries of Colombia, Paraguay and Peru. For Mexico, data are derived from the *OECD National Accounts Statistics* (database), which is based on the 1993 SNA.

Further reading

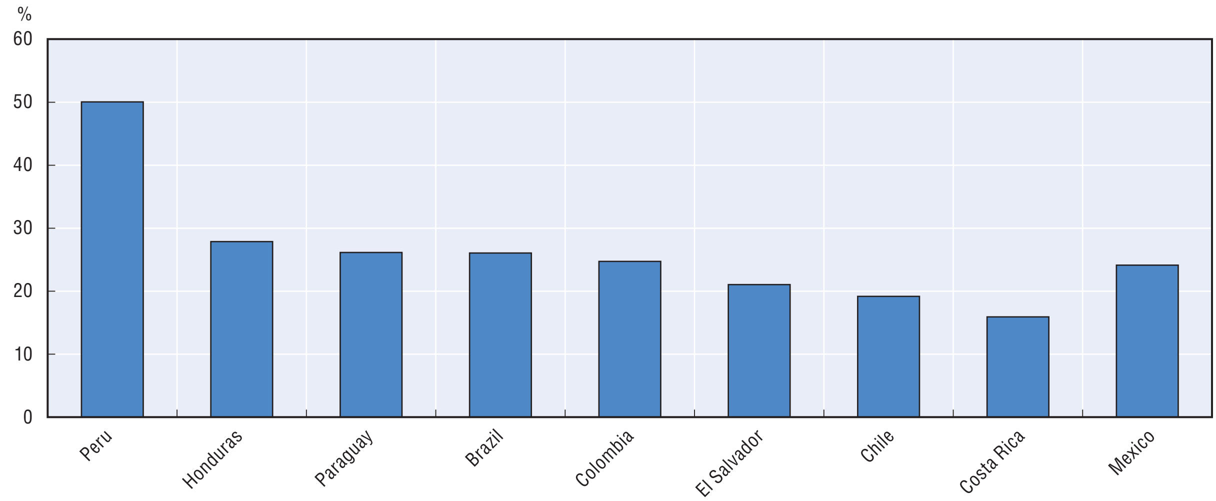
Audet, D. (2002), "Government Procurement: A Synthesis Report", *OECD Journal on Budgeting*, Vol. 2/3, OECD Publishing, Paris, *http://dx.doi.org/10.1787/budget-v2-art18-en*.

OECD (2013), *Implementing the OECD Principles for Integrity in Public Procurement: Progress since 2008*, OECD Public Governance Reviews, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264201385-en*.

Figure notes

5.1 and 5.2: Data for Brazil, Peru and Paraguay are recorded in cash basis.

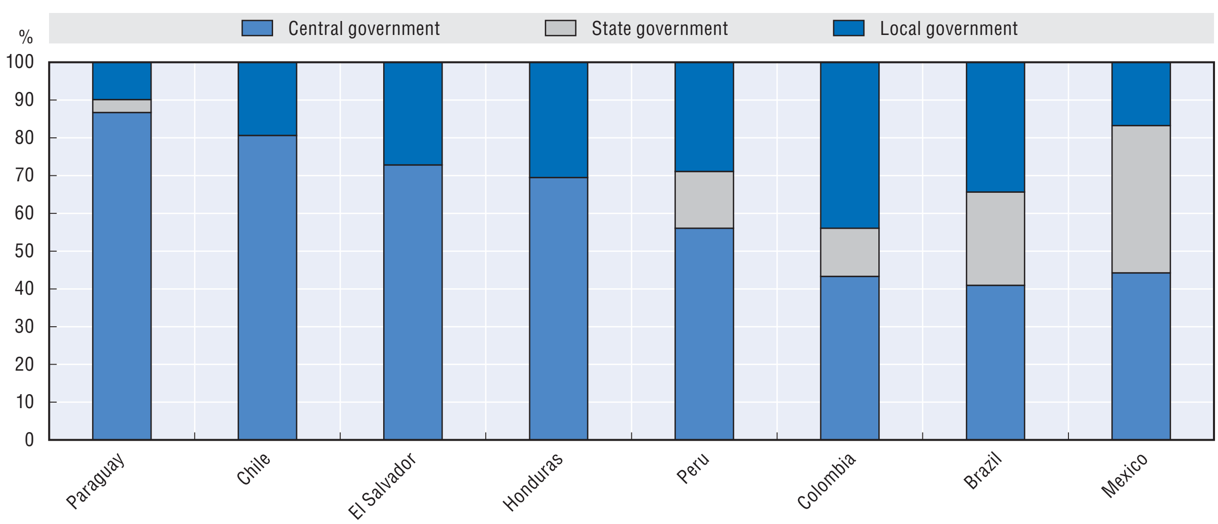
5.1. General government procurement as a share of total government expenditures (2011)



Source: IMF, *Government Finance Statistics* (IMF GFS) (database). Data for Mexico are based on the *OECD National Accounts Statistics* (database).

StatLink http://dx.doi.org/10.1787/888933090365

5.2. Share of general government procurement by level of government (2011)



Source: IMF, *Government Finance Statistics* (IMF GFS) (database). Data for Mexico are based on the *OECD National Accounts Statistics* (database).

StatLink http://dx.doi.org/10.1787/888933090384

Many LAC countries have sought to reform their procurement processes in recent years with the goal of making them more efficient and transparent. These reforms aim to tackle corruption and collusion, which pose serious problems in LAC countries, produce distortions to fair competition and waste taxpayer resources through unjustified high prices or low quality of procured goods and services. Beyond these challenges, reforms aim to increase access to procurement opportunities for bidders, potentially increasing public resources savings via strengthened competition. To boost transparency, many governments have increased the amount of publicly available procurement information and improved the quality of the information itself.

The public availability of procurement information is a widespread practice in LAC countries. Information regarding the pre-tendering and tendering phases of the procurement cycle is almost always publicly available in the 11 LAC countries surveyed. In addition, countries provide information on laws and policies, guidance on application procedures, and selection and evaluation criteria. Most LAC countries also publish information relating to events that occur after contracts are awarded, such as contract modifications (nine countries) and information that allows the tracking of procurement spending (eight countries). Chile, Costa Rica, Ecuador, Honduras and Mexico stand out for making the most procurement information available to the public. The Dominican Republic is the country with the lowest disclosure of procurement information with five out of ten different procurement documents always available. When compared to OECD member countries, the amount of public information related to the procurement process is greater in LAC countries, most likely due to stricter laws concerning corruption and collusion.

It is important that governments strive not only to make procurement information available, but also to present it in a format that citizens and non-government organisations may easily access and understand, in order to hold governments and businesses accountable. Furthermore, greater transparency must also be balanced with policies for the disclosure of information in order to protect the dissemination of sensitive documents.

Methodology and definitions

Data are from the 2013 OECD Survey on Public Procurement, which focused on the level of transparency and participation in central government procurement processes. Respondents to the survey were LAC country officials. A total of 11 LAC countries, and 34 OECD member countries responded to this survey. The information for OECD member countries is from 2010. Respondents to the survey were country officials responsible for procurement policies in central government.

The data focuses strictly on procurement at a central government level. Therefore, unless noted otherwise, the answers relate to the purchases made by ministries, agencies and departments at a central government level. The data excludes purchases made by state-owned enterprises.

Further reading

OECD, *Online Procurement Toolbox*, OECD Publishing, Paris, *www.oecd.org/governance/procurement/toolbox*.

OECD (2009), *OECD Principles for Integrity in Public Procurement*, OECD Publishing, *http://dx.doi.org/10.1787/9789264056527-en*.

Schapper, P. and J. Veiga (2011), *Public Procurement Reform in Latin America and the Caribbean*, World Bank Publishing, Washington, DC.

Table notes

5.3: Data for Chile and Mexico refer to 2010 and were published in *Government at a Glance 2011*.

5.3. Public availability of procurement information at the central level of government (2010 and 2013)

	Laws and policies	General information for potential bidders	Specific guidance on application procedures	Procurement plan of anticipated tenders	Tender documents	Selection and evaluation criteria	Contract award	Justification for awarding contract to selected contractor	Contract modifications	Tracking procurement spending
Argentina	●	●	●	❍	●	❐	●	❍	❍	●
Brazil	●	●	■	❍	●	●	●	■	●	●
Chile	●	●	●	●	●	●	●	●	●	●
Colombia	●	❍	●	●	●	●	●	●	●	❍
Costa Rica	●	●	●	●	●	●	●	●	●	●
Ecuador	●	●	●	●	●	●	●	●	●	●
Honduras	●	●	●	●	●	●	●	●	●	●
Mexico	●	●	●	●	●	●	●	●	●	●
Paraguay	●	●	●	●	●	●	●	●	●	●
Peru	●	●	●	●	●	●	●	●	●	❍
Dominican Republic	●	●	●	❐	●	●	❍	❍	❍	❍
LAC total (2013)										
● Always	11	10	10	8	11	10	10	8	9	8
■ Upon request	0	0	1	0	0	0	0	1	0	0
❐ Sometimes	0	0	0	1	0	1	0	0	0	0
❍ Not available	0	1	0	2	0	0	1	2	2	3
OECD total (2010)										
● Always	34	26	19	17	18	21	21	13	11	6
■ Upon request	0	1	1	0	5	1	0	10	7	6
❐ Sometimes	0	7	13	14	10	11	13	7	10	5
❍ Not available	0	0	1	3	1	1	0	4	6	17

Source: 2013 OECD Survey on Public Procurement.

StatLink http://dx.doi.org/10.1787/888933090821

Given the high amounts and volume of public contracts, the cost of corruption or mismanagement of public resources can be very high. Transparency International estimates that damage from corruption normally ranges from 10% to 25% of the contract value worldwide. Considering that public procurement transactions represent up to 20% of GDP in LAC, the potential savings from reducing corruption in procurement are substantial. In addition, corruption in public procurement processes can dissuade honest bidders, reduce competition and erode citizens' trust in government.

Corruption can manifest itself in various forms throughout the procurement cycle, from project inception to contract performance and project close-out. During the pre-tendering phase, for example, corruption may take the form of a fabricated demand for a good, which results from a bribe or illicit payment. Corruption can also manifest itself during the award phase through biased bidding criteria that favour a particular provider.

Although the situation regarding public procurement and corruption is by nature complex, and varies greatly across countries, the need for integrity and anti-corruption measures to ensure the transparency, good management, accountability and control of procurement systems is highly important in the LAC region. In order to assess the quality and effectiveness of procurement systems, seven governments in LAC have conducted and published a self-assessment of their procurement systems between 2008 and 2013. The *Methodology for Assessing Procurement Systems* (OECD, 2009) assesses countries across four pillars: the existing legal framework that regulates procurement in the country; the institutional architecture of the system; the operation of the system and the competitiveness of the national market; and the integrity of the procurement system. The pillar of integrity looks at the nature and scope of a country's anti-corruption measures in procurement, and provides a score for each sub-indicator, ranging from 0 to 3, with 3 meaning full achievement of the stated standards.

LAC countries have adopted some measures related to integrity and anti-corruption in procurement. The most common measure is a legal system that defines responsibilities, accountabilities and penalties for individuals and firms found to have engaged in fraudulent or corrupt practices (LAC average is 1.7). Within this category, the Dominican Republic stands out as achieving the highest mark (3). In addition, the regulatory framework for procurement in all seven countries addresses corruption, fraud, conflicts of interest and unethical behaviour to some extent, and sets out appropriate courses of action that can be taken with regard to such behaviour (LAC average is 1.6). Codes of conduct are not commonly used (LAC average is 1.1) and neither are special measures intended to prevent and detect fraud or corruption (LAC average is 1.1). In these categories, Costa Rica and the Dominican Republic are the only two countries achieving marks above a 1.

Methodology and definitions

Data are from individual country assessments that use the OECD *Methodology for Assessing Procurement Systems* (MAPS). MAPS is intended to provide a common tool that developing countries and donors can use to assess the quality and effectiveness of procurement systems. The methodology includes a numeric scoring with defined criteria that provides a qualitative scoring of the country's procurement system.

The scoring ranges from 3 to 0 for each baseline sub-indicator. A score of 3 indicates full achievement of the stated standard. A score of 2 is given when the system exhibits less than full achievement and needs some improvement in the area being assessed, and a score of 1 is for those areas where substantive work is needed for the system to meet the standard. A score of 0 is the residual indicating a failure to meet the proposed standard.

The individual country MAPS were carried out by government officials, with aid from civil society groups, private consultants, technical specialists and institutional aides. A total of seven LAC countries have published MAPS from 2008 to 2013.

Further reading

OECD (2013), *Implementing the OECD Principles for Integrity in Public Procurement: Progress since 2008*, OECD Public Governance Reviews, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264201385-en*.

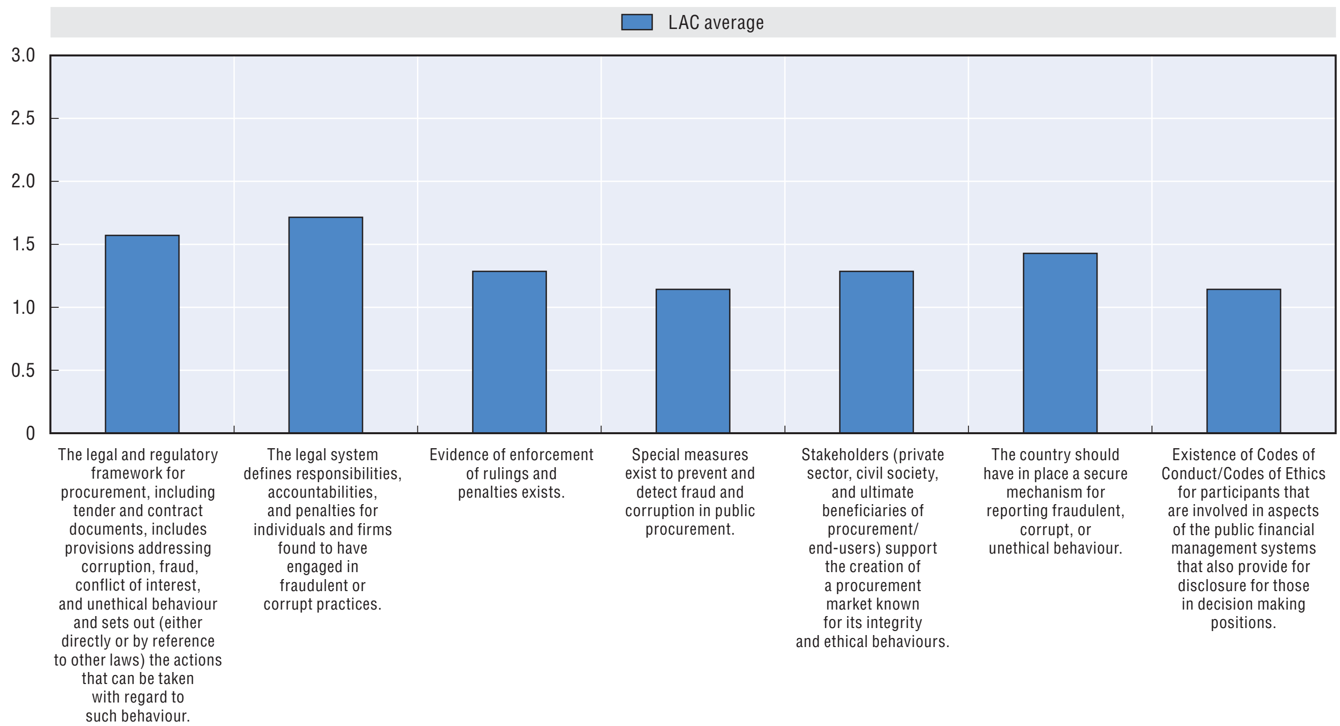
OECD (2010), "Methodology for Assessing Procurement Systems (MAPS)", OECD Publishing, Paris, *www.oecd.org/development/effectiveness/45181522.pdf*.

OECD (2009), *OECD Principles for Integrity in Public Procurement*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264056527-en*.

Figure and table notes

5.4 and 5.5: Data for Paraguay and the Dominican Republic are for 2012. Data for Ecuador are for 2011. Data for Honduras are for 2010. Data for Colombia and Costa Rica are for 2009. Data for Peru are for 2008.

5.4. Integrity and anti-corruption measures: Indicator 12 in MAPS



Source: Multiple sources (each country has its own MAPS assessment).

StatLink http://dx.doi.org/10.1787/888933090403

5.5. Individual country MAPS assessment

	Colombia	Costa Rica	Dominican Republic	Ecuador	Honduras	Paraguay	Peru
Indicator 12. The country has ethics and anti-corruption measures in place							
12(a) – The legal and regulatory framework for procurement, including tender and contract documents, includes provisions addressing corruption, fraud, conflict of interest, and unethical behaviour and sets out (either directly or by reference to other laws) the actions that can be taken with regard to such behavior	1	1	2	1	2	3	1
12(b) – The legal system defines responsibilities, accountabilities, and penalties for individuals and firms found to have engaged in fraudulent or corrupt practices	2	2	3	1	1	2	1
12(c) – Evidence of enforcement of rulings and penalties exists	2	1	1	2	0	1	2
12(d) – Special measures exist to prevent and detect fraud and corruption in public procurement	2	1	2	1	0	1	1
12(e) – Stakeholders (private sector, civil society, and ultimate beneficiaries of procurement/end-users) support the creation of a procurement market known for its integrity and ethical behaviors	2	0	3	1	0	2	1
12(f) – The country should have in place a secure mechanism for reporting fraudulent, corrupt, or unethical behavior	2	1	2	1	0	3	1
12(g) – Existence of Codes of Conduct/Codes of Ethics for participants that are involved in aspects of the public financial management systems that also provide for disclosure for those in decision making positions	2	0	2	1	1	1	1

Source: Multiple sources (each country has its own MAPS assessment).

StatLink http://dx.doi.org/10.1787/888933090840

Governments in LAC use E-procurement as a way to improve the effectiveness of the public sector and contribute to the modernisation of the state. E-procurement, defined as the use of information and communication technologies in public procurement, facilitates access to public tenders, increases competition and enhances transparency.

The use of information and communications technology increases the efficiency of the public sector by simplifying internal procedures and reducing administrative burdens, leading to substantial cost and time savings. E-procurement can also help group information, which, if made public, increases transparency and gives citizens the opportunity to access and control information about how public money is spent.

The vast majority of countries in the region have developed a single-entry procurement website serving as a one-stop shop portal for public contracts. The information displayed, both qualitative and quantitative in nature, usually includes procurement laws and regulations, the responsibilities of procuring and contract authorities, general project information, contractor information, and the value of projects by category and/or procedures. The services offered by the single-entry procurement websites in LAC countries range from notifications of tenders to electronic payment. In general, LAC countries offer services through their websites related to the pre-tendering phase, such as the possibility to search and download tender documents (100%) and access online training materials (82%). Some countries offer additional services related to the tendering phase such as the electronic submission of bids and electronic catalogues (73%), statistics and databases related to past procurement (64%), and electronic reverse auctions (55%). Fewer countries offer those services related to the post-tendering phase such as contract management templates (36%) and electronic payment schemes (36%).

Overall, the share of LAC countries that offer services through the single-entry procurement website is much higher than the corresponding share of OECD member countries. However, one exception is the limited availability (43% in LAC compared to 55% for OECD member countries) of a tool that allows for two-way communication with citizens, bidders and the general public, which reinforces transparency and accountability in procurement.

Methodology and definitions

Data are from the 2013 OECD Survey on Public Procurement, which focused on the level of transparency and participation in central government procurement processes. A total of 11 LAC countries responded to this survey; respondents were LAC country officials. Data for the 34 OECD member countries are from the 2011 OECD Survey on Public Procurement. Procurement information used for the calculations refers to public procurement laws and policies; general information for potential bidders; procurement plans (e.g. prior information notices); specific guidance on tendering (templates, forms, etc.); tender documents; selection and evaluation criteria; contract award decisions (name and amount of selected contractors); justification for awarding a contract to selected contractors; contract modifications and tracking procurement spending.

The data relate only to purchases made by ministries, agencies and departments at a central government level and exclude purchases made by state-owned enterprises.

A single-entry procurement website (portal) centralises procurement information at one single location on the Internet, which is accessible via an online address. An e-catalogue is defined as a listing of available products and/or services that can be viewed and bought in an electronic format and can include information such as illustrations, prices, and product and/or service descriptions. An electronic reverse auction is an online, real-time dynamic auction between a buying organisation and a number of suppliers who compete against each other to win the contract by submitting successively lower-priced bids during a scheduled time period.

Further country-specific data on the services offered by government single-entry procurement websites (Table 5.8) can be found on line at *http://dx.doi.org/10.1787/888933090859*.

Further reading

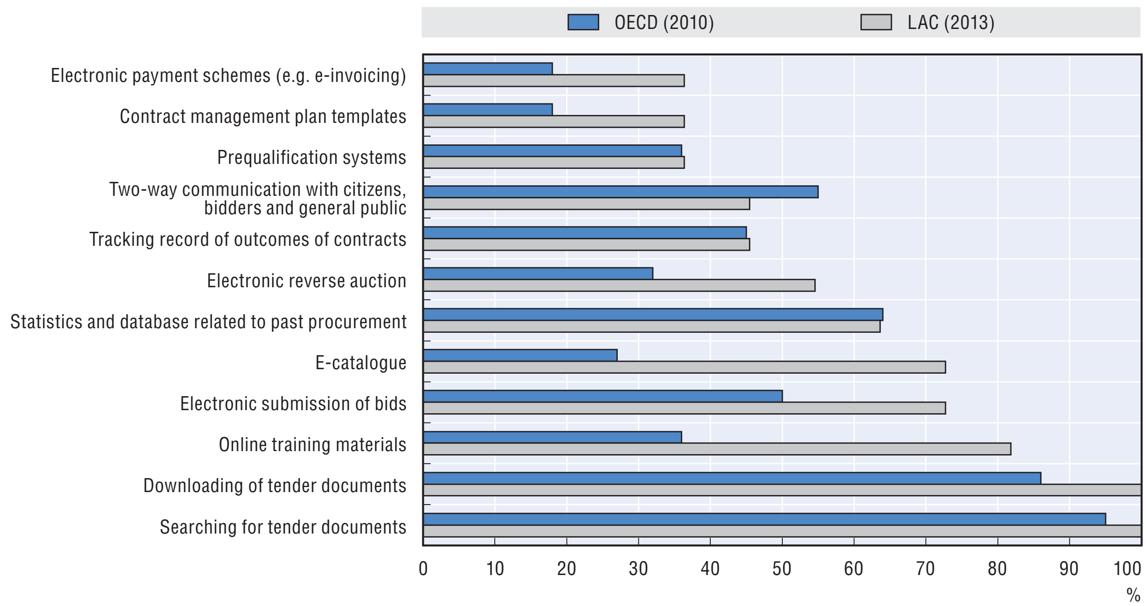
IDB, *DataGov*, *Governance Indicators Database*, Inter-American Development Bank, Washington, DC, *www.iadb.org/datagob/*.

OECD (2013), *Implementing the OECD Principles for Integrity in Public Procurement: Progress since 2008*, OECD Public Governance Reviews, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264201385-en*.

Figure notes

5.6 and 5.7: Data for Chile and Mexico refer to 2010 and were published in *Government at a Glance 2011*.

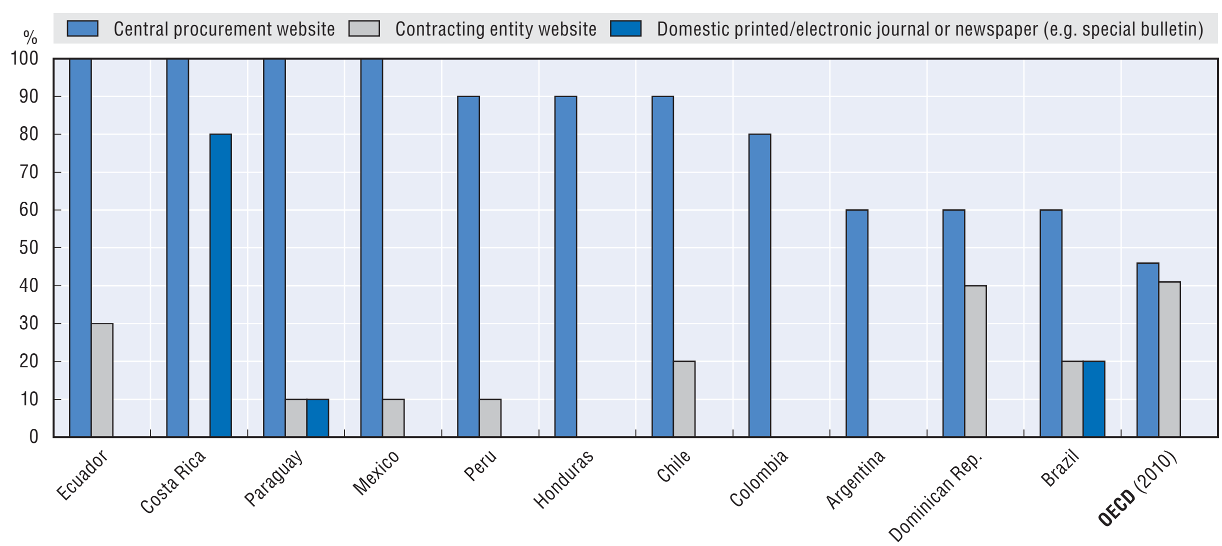
5.6. Most common services offered by the single-entry procurement website (2013)



Source: 2013 OECD Survey on Public Procurement.

StatLink http://dx.doi.org/10.1787/888933090422

5.7. Online availability of selected procurement information (2013)



Source: 2013 OECD Survey on Public Procurement.

StatLink http://dx.doi.org/10.1787/888933090441

Several governments in LAC have turned their attention towards sustainable public procurement. By incorporating social, economic and environmental elements into the procurement process, governments are able to pursue social objectives, such as inclusion of ethnic minorities, and achieve environmental goals such energy savings and the reduction of the carbon footprint.

In the region, however, sustainable procurement is still in its early stages, with countries adopting reforms, policies and initiatives only in recent years. Some countries, for instance, have incorporated elements of social and environmental sustainability into the procurement regulatory framework. Of the 32 countries that make up the Inter-American Network of Government Procurement (INGP), 13 (40.6%) have regulation to promote sustainable procurement. Six out of the 13 countries have incorporated environmental sustainability principles in procurement policies and contracts and 4 (the Dominican Republic, Granada, Honduras and Mexico) include environmental factors in their bid evaluation criteria. Furthermore, Costa Rica, El Salvador and Nicaragua require environmental impact assessments for procurement projects.

Although the region has made progress in the area of sustainable procurement, there are still a number of challenges to implementing it. A survey administered to nine LAC countries revealed that the most common concern across participating countries is the lack of knowledge and information on sustainable public procurement. Another perceived limitation is the lack of sufficient suppliers (67%), the lack of proper legislation and regulation (56%), and the possibility of higher prices resulting from more stringent environmental criteria (44%).

Methodology and definitions

Data on the regulatory framework of sustainable procurement were derived from the report entitled *Compras Públicas Sustentables en América Latina y el Caribe* by Gabriel Bezchinsky and Mariana López Fernández. The report was commissioned by the Inter-American Network on Government Procurement (INGP) with support from the International Development Research Centre (IDRC), the Inter-American Development Bank (IDB) and the National University of San Martín in Argentina (UNSAM). The data are based on the paper by Natalia Volosín, entitled *El marco normativo de las compras públicas en América Latina y el Caribe*, which systematically studied the normative frameworks of public procurement systems in the 32 countries that make up the INGP.

Data on the challenges to implementing sustainable procurement are derived from a paper by Victoria Beláustegui entitled *Las compras públicas sustentables en América Latina: Estado de avance y elementos clave para su desarrollo*. The paper enhances the findings of a Thematic Task Group (TTG), co-ordinated by Victoria Beláustegui that focused on the best practices for sustainable procurement at a regional level, as well as the main obstacles for its implementation. The TTG was created under the framework of an INGP project, financed by the IDRC, and co-ordinated by the UNSAM. The paper is based on a survey of procurement practices, as well as consultations and interviews with key actors in the procurement process. Respondents to the survey were LAC government officials.

Sustainable public procurement is defined as the procurement of goods and services by government entities that take into consideration social, economic and environmental aspects in an effort to generate social, economic and environmental benefits to society.

The nine countries to which the survey on sustainable procurement was administered were Chile, Colombia, Costa Rica, Ecuador, El Salvador, Nicaragua, Paraguay, Peru and Uruguay.

Further reading

Beláustegui, V. (2011), “Las compras públicas sustentables en América Latina: Estado de avance y elementos clave para su desarrollo”, *Programa ICT4GP*, Red Interamericana de Compras Gubernamentales, IDRC-UNSAM.

Bezchinsky, G. and M. López Fernández (2012), “Compras Públicas Sustentables en América Latina y el Caribe”, *Programa ICT4GP*, Red Interamericana de Compras Gubernamentales, IDRC-UNSAM.

Volosín, N. (2012), “El marco normativo de las compras públicas en América Latina y el Caribe”, en *Compras Públicas en América Latina y el Caribe, Diagnosticos y desaflós*, Programa ICT4GP, IDRC y UNSAM.

Table notes

5.10: The barriers to sustainable procurement stem from a survey administered to TTG countries (9 out of 11 responded) and complemented by interviews and consultations with key actors in the procurement process. The nine countries are: Chile, Colombia, Costa Rica, Ecuador, El Salvador, Nicaragua, Paraguay, Peru and Uruguay.

5.9. Normative framework of sustainable public procurement in LAC countries

	Prohibition/regulation in the acquisition of determined goods	Incorporation of environmental sustainability principles in procurement policies and contracts	Obligatory use of environmental impact assessments	Environmental criteria in tender evaluation criteria	Establishment of a social responsibility commitment
Brazil	✓	✓			
Costa Rica			✓		
Dominican Republic				✓	
Ecuador		✓			
El Salvador			✓		
Granada				✓	
Haiti		✓			
Honduras				✓	
Mexico	✓	✓		✓	
Nicaragua		✓	✓		
Peru		✓			
Uruguay	✓				
Venezuela					✓
Total	**3**	**6**	**3**	**4**	**1**

Source: Bezchinsky, G. and M. López Fernández (2012), "Compras Públicas Sustentables en América Latina y el Caribe", *Programa ICT4GP*, Red Interamericana de Compras Gubernamentales, IDRC-UNSAM.

StatLink http://dx.doi.org/10.1787/888933090878

5.10. Barriers to sustainable public procurement

Barriers	Total number of countries in agreement with statement
Lack of information and knowledge on sustainable public procurement	9
Lack of sufficient offer from suppliers	6
Lack of legislation or internal rules	5
Higher prices for sustainable goods, services and works	4
Main selection criterion is price	3
Lack of interest and commitment from procurement system users	3
Resistance from suppliers	2
Supply is only available in international markets	1
Procurement system is inadequately equipped to handle sustainable procurement	1
Lack of general regard for the environment	1
Difficulty in gaining approval from auditing/accounting officials	0

Source: Beláustegui, V. (2011), "Las compras públicas sustentables en América Latina: Estado de avance y elementos clave para su desarrollo", *Programa ICT4GP*, Red Interamericana de Compras Gubernamentales, IDRC-UNSAM.

StatLink http://dx.doi.org/10.1787/888933090897

ANNEX A

Methodology and additional notes on compensation of government employees

Compensation plays an important role in both attracting and motivating qualified workers in the public sector. In 2010, the OECD launched a database, updated in 2012, on compensation levels for typical occupations in central government in core ministries that contributes to a better understanding of the salary structures and pay levels in the public sector. In 2013, this survey was sent to LAC countries, for the first time. In addition to Mexico and Chile, OECD member countries, seven new countries replied: Argentina, Brazil, Colombia, Costa Rica, Panama, Paraguay and Peru.

Since there is no common definition of managerial positions and the number of managerial levels varies across countries and ministries, this compensation survey offers a common typology for specific occupations in central government. Comparing average compensation in the public sector can be misleading because the public sector in different countries includes various and heterogeneous occupations. However, this survey provides compensation data for comparable occupations, hence improves our knowledge of the public sector.

The comparison of compensation levels for senior managers, middle managers, professionals and secretaries shows their relative total remuneration across OECD countries, which includes not only wages salaries but also contributions to health and pension benefits. Therefore when comparing compensation levels, we have a more or less full-cost approach that allows for consistent comparisons across countries. Comparison must also take into account various levels of economic development in the countries, hence the correction by GDP per capita. However comparison between countries must be made with caution because of different labour markets, different cultural and political consensus, and possible differences in wage defining characteristics even for the same occupational groups across countries, which are not corrected for this analysis.

Occupations

The data collected through this survey will enable comparative analysis and further work on compensation policies and practices. This survey aims to collect information on annual compensation of employees for a sample of occupations in central/federal/national government. The purpose is to build a database on compensation levels for typical positions in central government that contributes to a better understanding of the salary structures and pay levels in the public service.

The survey focuses on central/federal government level and excludes states, regional and local levels and social security institutions. The survey excludes all public and quasi-public corporations at all government levels. The survey doesn't cover the subordinated offices/organisations of central government ministries, often referred to as "agencies". It also focuses on employees working full-time, excluding consultants and short-term staff.

The questionnaire collects data for four typical occupational groups in central/federal government: top managers, middle managers, professionals, and secretaries. These occupations are considered relatively representative and comparable across countries. Information for these occupations – except the service occupations – is collected from three core ministries (Interior, Finance and Justice) and two sectorial ministries (Education and Health). Box A.1 describes the typical responsibilities of the ministries covered in this survey.

Box A.1. **Typical responsibilities of the ministries covered in this survey**

The following description of activities or functions of the ministries covered in this survey was for guidance only. In some countries the name of the ministry may be different or may be called department or secretariat.

Ministry of Interior/Home Affairs

- Ensures the representation of the State in the entire territory.
- Ensures the respect of citizens' rights in general by universal suffrage.
- Ensures the respect of competencies of local authorities within the framework of devolution.
- Defines immigration policy.
- Establishes and co-ordinates national security policy.
- Ensures the maintenance of a peaceful and safe society.
- Ensures the preservation of internal security and the protection of the constitutional order.

Ministry of Finance

- Plans and prepares government's budget.
- Analyses and designs tax policies.
- Develops and implements regulations for financial institutions.
- Monitors economic and financial developments.
- Administers the transfer of funds from national/central/federal government to sub-national governments.

Ministry of Justice

- Ensures the well-functioning of the judiciary system.
- Prepares the text of law and regulations for some specific fields.
- Defines the main orientations of the public policy in terms of justice and looks after its implementation.
- Provides support to the victims of crime.
- Provides fair, consistent, and effective enforcement of punishment and other sanctions.

Ministry of Education

- Regulates, co-ordinates, and organises the national educational system, generally from primary school to secondary or high school.
- Ensures equal access to public education.
- Controls and assesses schools and higher education institutions (private and public).
- Ensures effective management of teachers and administrative workforce.

Ministry of Health

- Designs and implements public health policy (prevention, sanitary organisation, and formation of professionals).
- Defines the policy relative to sports and for fighting drug addiction.
- In collaboration with other ministries, it defines industrial safety regulations and social security.

Box A.2 contains the classification and definitions of the occupations covered in this survey and which are considered to be relatively typical in every government. There is a large focus on managers in general as the criteria for considering an official to be a manager is to supervise and lead the work of at least three people. Because it is extremely difficult to provide for more detailed descriptions of responsibilities that differentiate across the different layers of management, the option has been chosen to focus on hierarchical differentiation rather than a more detailed description of functions.

Box A.2. **Classification and definition of occupations**

Top managers

D1 managers (part of ISCO-08 1112) are top public servants just below the minister or Secretary of State/junior minister. They can be a member of the senior civil service and/or appointed by the government or head of government. They advise government on policy matters, oversee the interpretation and implementation of government policies and, in some countries, have executive powers. D1 managers may be entitled to attend some cabinet/council of ministers meetings, but they are not part of the cabinet/council of ministers. They provide overall direction and management to the ministry/Secretary of State or a particular administrative area. In countries with a system of autonomous agencies, decentralised powers, flatter organisations and empowered managers, D1 managers will correspond to Director-Generals. The precise job title can differ across countries.

D2 managers (part of ISCO-08 11 and 112) are just below D1 managers. They formulate and review the policies and plan, direct, co-ordinate and evaluate the overall activities of the ministry or special directorate/unit with the support of other managers. They may be part of the senior civil service. They provide guidance in the co-ordination and management of the programme of work and leadership to professional teams in different policy areas. They determine the objectives, strategies, and programmes for the particular administrative unit/department under their supervision.

Middle managers (have managerial responsibilities for at least 3 staff)

D3 managers (part of ISCO-08 12) are just below D2 managers. They plan, direct and co-ordinate the general functioning of a specific directorate/administrative unit within the ministry with the support of other managers usually within the guidelines established by a board of directors or a governing body. They provide leadership and management to teams of professionals within their particular area. These officials develop and manage the work programme and staff of units, divisions or policy areas. They establish and manage budgets, control expenditure and ensure the efficient use of resources. They monitor and evaluate performance of the different professional teams.

D4 managers (part of ISCO-08 121) are just below D3. They formulate and administer policy advice, and strategic and financial planning. They establish and direct operational and administrative procedures, and provide advice to senior managers. They control selection, training and performance of staff; prepare budgets and oversee financial operations, control expenditure and ensure the efficient use of resources. They provide leadership to specific professional teams within a unit.

Professionals

Senior economists/policy analysts (part of ISCO-08 242 and 2422) do not have managerial responsibilities (beyond managing 3 staff maximum), and are above the ranks of junior analysts and administrative/secretarial staff. They are usually required to have a university degree. They have some leadership responsibilities over a field of work or various projects, develop and analyse policies guiding the design, implementation and modification of government operations and programmes. These professionals review existing policies and legislation in order to identify anomalies and out-of-day provisions. They analyse and formulate policy options, prepare briefing papers and recommendations for policy changes. Moreover, they assess the impact, financial implications and political and administrative feasibility of public policies. Staff in this group have the possibility of becoming a manager through career progression. Their areas of expertise may vary from law, economics, politics, public administration, and international relations; to engineering, environment, pedagogy, health economics, etc. Senior policy analysts/economists have at least 5 years of professional experience.

Box A.2. **Classification and definition of occupations** *(cont.)*

Junior economists/policy analysts (part of ISCO-08 242 and 2422) are above the ranks of administrative/secretarial staff. They are usually required to have a university degree. They have no leadership responsibilities. They develop and analyse policies guiding the design, implementation and modification of government operations and programmes. These professionals review existing policies and legislation in order to identify anomalies and out-of-day provisions. They analyse and formulate policy options, prepare briefing papers and recommendations for policy changes. Moreover, they assess the impact, financial implications and political and administrative feasibility of public policies. Their areas of expertise may vary from law, economics, politics, public administration, and international relations; to engineering, environment, pedagogy, health economics, etc. Junior policy analysts/economists have less than 5 years of professional experience.

Secretarial positions

Secretaries (general office clerks) (part of ISCO-08 411 and 4110) are generally not required to have a university degree although many do. They perform a wide range of clerical and administrative tasks in connection with money-handling operations, travel arrangements, requests for information, and appointments. They record, prepare, sort, classify and fill information; sort, open and send mail; prepare reports and correspondence; record issue of equipment to staff; respond to telephone or electronic enquiries or forwarding to appropriate person; check figures, prepare invoices and record details of financial transactions made; transcribe information onto computers, and proof read and correct copy. Some assist in the preparation of budgets, monitoring of expenditures, drafting of contracts and purchasing or acquisition orders. The most senior ones that supervise the work of clerical support workers are excluded from this category.

The classification and the definition of the occupations are an adaptation of the International Standard Classification of Occupations (ISCO-08) developed by the International Labour Organization (ILO). The reason is that few countries follow the ISCO model to classify their occupations in government.

Since there is no common definition of managerial positions and the number of managerial levels varies across countries and ministries, for the purpose of this survey, D1 will denote the highest managerial level below the minister/secretary of state (who are designated by the president/prime minister) and appointed by the minister (sometimes designated by the president/prime minister). This survey covers up to D4 managerial level positions, where D1 and D2 are considered senior management positions while D3 and D4 middle management ones.

The category of "professionals" has been divided between junior and senior positions. The reason is that this group involves staff with a large degree of variation of experience.

Compensation

The survey focuses on total compensation, which has two main components: i) gross wages and salaries; and ii) employer's social contributions. Data on remuneration levels were asked for full time jobs:

1. **Gross wages and salaries** include the values of any social contributions, income taxes, etc., payable to the employee even if they are actually withheld by the employer for administrative convenience or other reasons and paid directly to social insurance schemes, tax authorities, etc., on behalf of the employee. Employer's social contributions are not included in gross wages and salaries. In-kind compensation is excluded from the survey. Gross wages and salaries include:
   - **Basic wages and salaries** refer to the regular annual payments to employees for their time worked and services delivered to government. Although salaries and wages are paid at regular weekly, monthly or other intervals, for the purposes of this survey the annual salary was requested. Overtime payments are excluded from the data.

- **Additional payments** – because of the difficulties in getting exhaustive data and ensuring comparability across countries, additional payments have been limited to its most significant categories including:
  - Compensations for time not worked make reference to **annual leave** and statutory holidays only.
  - **Bonuses and gratuities regularly paid** refer to year-end and seasonal bonuses; profit-sharing bonuses; and additional payments in respect of vacation, supplementary to normal vacation pay and other bonuses and gratuities.
  - **Bonuses and gratuities not paid in a regular fashion** (performance-related pay) refer to ad hoc bonuses or other exceptional payments linked to the overall performance of the employee to which he/she may be entitled.

2. **Employer's social contributions** are social contributions payable by employers to social security funds or other employment-related social insurance schemes to secure social benefits (health insurance, pensions) for their employees:
   - **Employer's contribution** to statutory social security schemes or to private funded social insurance schemes for covering old age, pension, sickness and health. Employer's social contributions represent social contributions payable by employers to social security funds or other employment-related social insurance schemes to secure social benefits (health insurance, pensions) for their employees. In some countries, these social contributions pay for public schemes, while in others for private schemes. Employer's social contributions sometimes also include specific funds created for example in social agreements. Data collected on employer's social contributions have been limited in the 2013 Survey on Health and Pension Plans, which represent the majority of employer's social contributions.
   - **Unfunded** employees social benefits paid by employers are limited to health and pension benefits. The term 'unfunded' refers to social benefits for which no social security fund exists and there is no official tracking of social contributions. Unfunded pension or health schemes exist in many countries: in that case, it is the general government budget that pays for civil servants pensions/health benefits. In a number of countries, the employee and employer contributions do not cover all the costs associated with the social benefits of government employees. In those cases, special lines in the budget are often dedicated to covering this unfunded part of social benefits.

The level of social contributions is only a proxy. The quantity and quality of benefits that employees receive through the employees' social contributions depend on many variables such as the quality and efficiency of the management of the funds and services in each country.

Use of comparators

Calculations have been made converting compensation data into USD using the PPP methodology. This compensates for differences in exchange rates and in relative price levels. The PPP does not take into account the relatively different costs of living in capital cities within and across countries. In many countries, the majority of central government employees are employed in capital cities. Wages and salaries tend to make up for the relative difference in the costs of living in capital cities.

The OECD also compared countries to data normalised with GDP per capita data available through the IMF *World Economic Outlook Database* (IMF WEO) (October 2013). This normalisation is a way to remove for differences in levels of average wealth in a country.

The ratios of compensation of employees relative to GDP per capita were not corrected for working time. This approach was followed in order to maintain consistency between the two measures compared.

Adjustment for working time

The differences between the time people actually work and the annual average compensation (annual average gross salary plus employer's social contributions) is calculated so as to obtain an adjusted annual average compensation. Indeed, to put the compensation of employees reported on a comparable basis across countries, the differences in the working time (number of hours worked per week in the civil service, the legal or average holiday entitlement, and the number of public holidays that apply to the civil service) are used for the calculation of the adjusted annual average compensation.

For all managers (namely D1, D2, D3 and D4 positions), since weekly working times apply very unevenly to this category of employees, data was adjusted only for holidays.

The working time corrections are reported in Table A.1.

Table A.1. **Working time corrections**

	Contractual working time, h/week	Average number of holidays	Number of average public holidays that apply to the civil service	Average working days per year in country	Average working hours per year in country	Coefficient for working time corrections, weekly hours and holidays	Coefficient for working time correction, holidays	Coefficient for working time correction, no correction
Argentina	40	30	15	216	1 726	0.827	0.827	1.000
Brazil	40	30	9	222	1 774	0.850	0.850	1.000
Chile	44	15	9	237	2 083	0.999	0.908	1.000
Colombia	40	15	16	230	1 838	0.881	0.881	1.000
Costa Rica	40	10	11	240	1 918	0.919	0.919	1.000
Mexico	40	20	10	231	1 846	0.885	0.885	1.000
Panama	40	30	11	220	1 758	0.843	0.843	1.000
Paraguay	40	30	6	225	1 798	0.862	0.862	1.000
Peru	40	30	9	222	1 774	0.850	0.850	1.000

Notes: Figures in the table are rounded.
Maximum working days per year if 5 out of 7 days per week are worked: 261. Maximum working hours per year if 8 h per working day: 2 088.
Argentina: The number of legal working days of holidays varies. 20 days in the first five years of work, 25 from the 6th year and 30 from the 10th and 35 from the 15th year. An average of 30 days has been used for the calculations.
Source: 2013 OECD Survey on Compensation of Employees in Central/Federal Government.

Average comparative annual compensation is:

$$W_{co}^{a^*} = \frac{\left(\frac{W_{co}^{a}}{P_c}\right)}{H_c^{a^*}}$$

where:

$W_{co}^{a^*}$ = Average annual compensation of employees in country c within occupational group o in PPP corrected for working time.

W_{co}^{a} = Average annual compensation in domestic currency in country c within occupational group o in national currency.

P_c = Purchasing power parity of country c.

$H_c^{a^*}$ = Ratio of average working time in country c. This corresponds to average annual working hours in country c (from survey data) divided to 2 088. The number 2 088 equals the theoretical working hours in year with 40 hours of work per week, no holidays or leave of any kind. This also results in an average of 261 working days per year with each working day including 8 hours of work.

ANNEX B

Composite indexes budget practices

This edition of *Government at a Glance: Latin America and the Caribbean 2014* includes two composite indexes related to budgetary practices: the use of a medium-term perspective in the budget process and the use of a performance budgeting system. Data used for the construction of the composites are derived from the 2013 OECD Survey on Budget Practices and Procedures and the 2013 OECD Survey on Performance Budgeting. Survey respondents were predominantly senior officials in the Ministry of Finance.

The narrowly defined composite indexes presented in *Government at a Glance: Latin America and the Caribbean 2014* represent the best way of summarising discrete, qualitative information on key aspects of budgetary practices such as medium-term expenditure frameworks and performance budgeting. "Composite indexes are much easier to interpret than trying to find a common trend in many separate indicators" (Nardo et al., 2004). However, their development and use can be controversial. These indexes are easily and often misinterpreted by users due to a lack of transparency as to how they are generated and the resulting difficulty to comprehend what they are actually measuring.

The OECD has taken several steps to avoid or address common problems associated with composite indexes. The composites presented in this publication adhere to the steps identified in the *Handbook on Constructing Composite Indicators* (Nardo et al., 2008) that are necessary for the meaningful construction of composite or synthetic indexes.

Each composite index is based on a theoretical framework representing an agreed-upon concept in the area it covers. The variables comprising the indexes were selected based on their relevance to the concept by a group of experts within the OECD and in consultation with country delegates to the relevant working parties:

- Various statistical tools, such as factor analysis, were employed to establish that the variables comprising each index are correlated and represent the same underlying concept.
- Different methods for imputing missing values have been explored.
- All sub-indicators and variables were normalised for comparability.

- To build the composites, all sub-indicators were aggregated using a linear method according to the accepted methodology.
- Sensitivity analysis using Monte Carlo simulations was carried out to establish the robustness of the indicators to different weighting options (e.g. equal weighting, factor weighting and expert weighting). Expert weighting resulted as the most appropriate weighting method.

The indexes do not purport to measure the overall quality of budgetary systems. To do so would require a much stronger conceptual foundation and normative assumptions. Rather, the composite indexes presented in *Government at a Glance: Latin America and the Caribbean 2014* are descriptive in nature, and have been given titles to reflect this. The survey questions used to create the indexes are the same across countries, ensuring that the indexes are comparable.

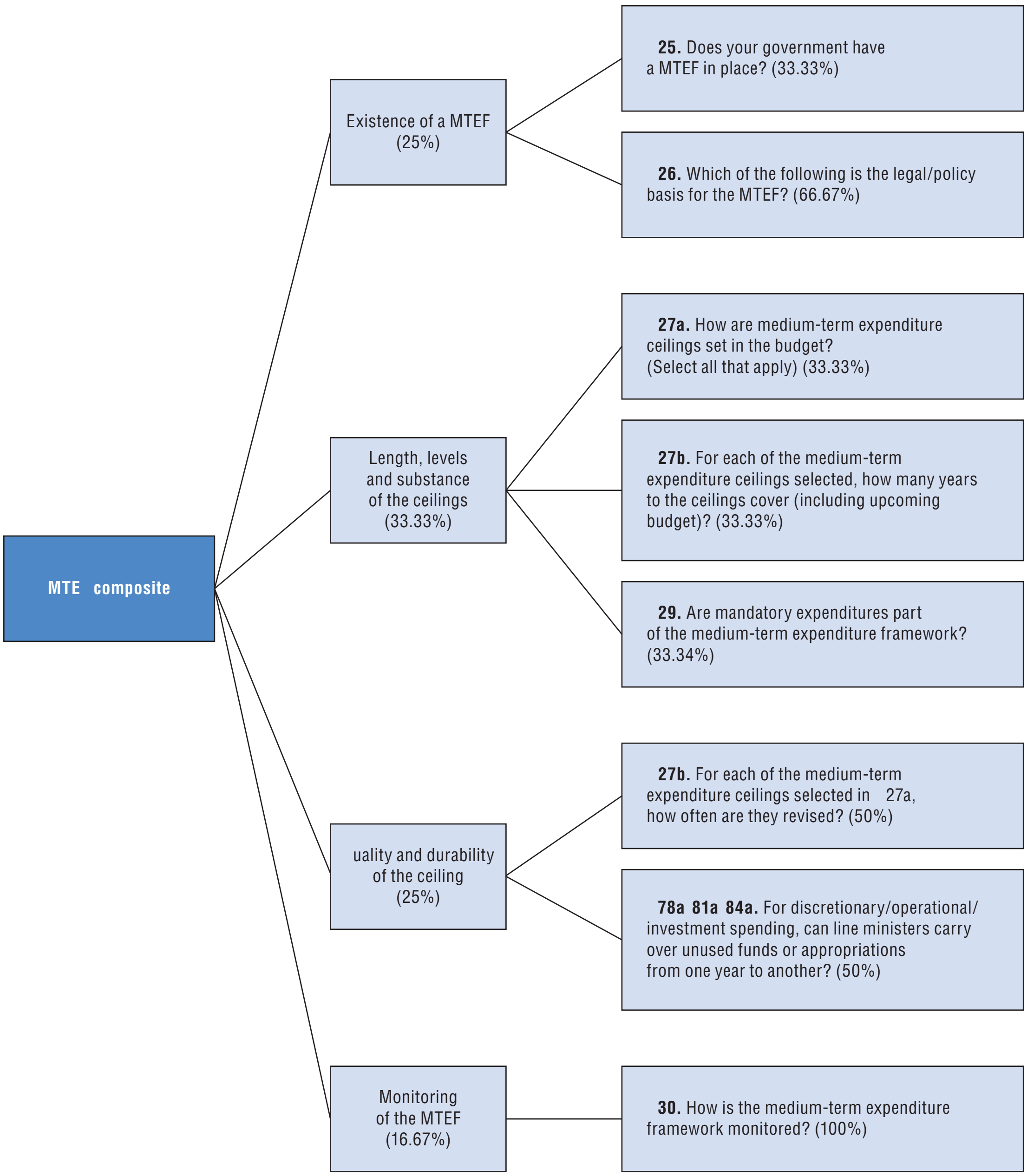
While the composite indexes were developed in co-operation with OECD countries and are applied to the LAC region, they are based on best practices and/or theory; both the variables comprising the composites and their weights are offered for debate and, consequently, may evolve over time. The OECD is currently redefining best practices for budget transparency and is revisiting the concept of budgetary flexibility; as such, no composites related to these topics are presented in this edition.

The composites were built according to the following methodology: each of the topics was divided into broad categories comprising the theoretically relevant aspects for each of the two subject areas (medium-term expenditure frameworks and performance budgeting). A weight was assigned to each of these broad categories. Within each of the broad categories, the relevant questions were identified, a sub-weight was assigned to each question and a score was given to each of the answers within these questions. The country scoring for each question is the product of the weight of the broad category and the sub-weight of the question multiplied by the answer provided by each country (1 or 0). The composite is the result of adding together these scores for each country. Both composites vary from 0 to 1; a score of 1 implies the use of sound practices on a given topic.

Use of a Medium-Term Expenditure Framework (MTEF) at the central level of government variables, weights and scoring

The following items and weights have been used in the construction of the MTEF composite.

Figure B.1. **Variables and weights used in MTEF index**

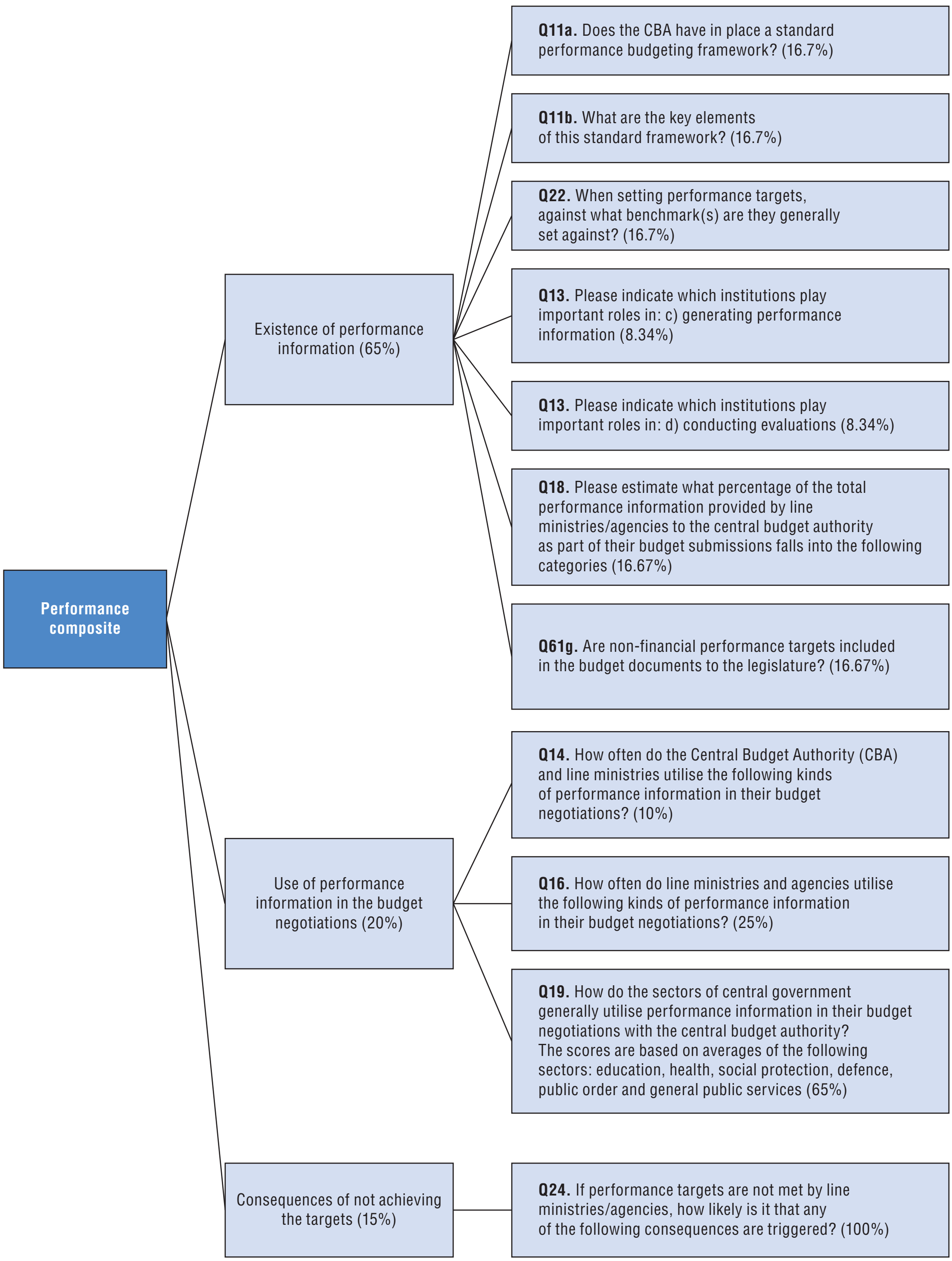


Note: Additional details regarding the theoretical, construction and weightings of each composite are available at *www.oecd.org/gov/govataglance.htm*.

Use of a performance budgeting system at the central level of government, weights and scoring

The following items and weights have been used in the construction of the performance budgeting index.

Figure B.2. **Variables and weights used in the performance budgeting index**



Note: Additional details regarding the theoretical, construction and weightings of each composite are available at *www.oecd.org/gov/govataglance.htm*.

ANNEX C

Contextual factors

This section provides data on administrative and institutional features of each country, including: the composition and electoral system of the legislature, the structure of the executive branch, the division of power between one central and several regional or local governments, and key characteristics of the judicial system. It also provides basic data on population and GDP for 2011 and data on the number of municipalities, provinces, states and/or regions.

Political and institutional frameworks influence who formulates and implements policy responses to the challenges currently facing governments. For example, the type of electoral system employed has a number of potential consequences on the nature and tenure of government, including the diversity of views represented and the ability of the legislature to create and amend laws. Major differences in legislative institutions can affect the way a country's bureaucratic system works. The extent that power is shared between the legislative and executive branches, exemplified by the system of executive power (parliamentary, presidential or dual executive), the frequency of elections and term limits, the ease of constitutional amendments, and the ability of the judiciary to review the constitutionality of laws and actions, set the constraints within which policies and reforms can be enacted and implemented. The way that governments are structured, including the division of responsibilities vertically (across levels of governments) and horizontally (between departments or ministries), is a key factor underlying the organisational capacity of government. Different structures and responsibilities require different sets of competencies, including oversight, monitoring and evaluation and co-ordination.

While many contextual factors are products of a country's historical development and cannot be easily changed by policy makers, they can be used to identify countries with similar political and administrative structures for comparison and benchmarking purposes. In addition, for countries considering different policies and reforms, the indicators can illustrate structural differences that may affect their passage and implementation.

Methodology and definitions

With the exception of data on population and GDP, all information is from LAC country constitutions and websites. Population and GDP data are from the IMF *World Economic Outlook Database* (IMF WEO) (October 2013), except for data for Mexico and Chile which are from *OECD National Accounts Statistics* (database).

Federal states have a constitutionally delineated division of political authority between one central and several regional or state autonomous governments. While unitary states often include multiple levels of government (such as local and provincial or regional), these administrative divisions are not constitutionally defined.

Under the parliamentary form of executive power, the executive is usually the head of the dominant party in the legislature and appoints members of that party or coalition parties to serve as ministers. The executive is accountable to parliament, who can end the executive's term through a vote of no confidence. Several countries with parliamentary systems also have a president, whose powers are predominately ceremonial in nature. Under the presidential system, the executive and members of the legislature seek election independently of one another. Ministers are not elected members of the legislature but are nominated by the president and may be approved by the legislature. The dual executive system combines a powerful president with an executive responsible to the legislature, both responsible for the day-to-day activities of the state. It differs from the presidential system in that the cabinet (although named by the president) is responsible to the legislature, which may force the cabinet to resign through a motion of no confidence.

Data on the frequency of governments cover the period between 1 January 1992 and 31 December 2012. A coalition government is defined as the joint rule of executive functions by two or more political parties. The number of governments is determined by the number of terms served by the head of the executive branch (where a term is either defined by a change in the executive or an election that renewed support for the current government). Data on the frequency of coalition governments are only applicable for countries that have a parliamentary or dual executive.

A ministry is an organisation in the executive branch that is responsible for a sector of public administration. Common examples include the Ministries of Health, Education and Finance. While sub-national governments may also be organised into Ministries, the data only refer to central government. Ministers advise the executive and are in charge of either one or more ministries, or a portfolio of government duties. In most parliamentary systems, ministers are drawn from the legislature and keep their seats. In most presidential systems, ministers are not elected officials and are appointed by the president. The data refer to the number of ministers that comprise the cabinet at the central level of government and exclude deputy ministers.

Bicameral legislatures have two chambers (usually an upper house and a lower house), whereas unicameral legislatures are composed of only a lower house. Electoral systems are usually characterised as single member (first-past-the-post or preferential and two-round) or multi member (proportional representation or semi-proportional representation). The types of electoral systems are defined as follows:

- Under first-past-the-post, the winner is the candidate with the most votes but not necessarily an absolute majority of votes.
- Under preferential and two-round, the winner is the candidate who receives an absolute majority (i.e. over 50%) of votes. If no candidate receives over 50% of votes during the first round of voting, the preferential system makes use of voters' second preferences while the two-round system uses a second round of voting to produce a winner.
- Proportional representation (PR) systems allocate parliamentary seats based on a party's share of national votes.
- Semi-proportional systems feature attributes of both single-member and PR systems. They allow two votes per person: one for a candidate running in the voter's district and one for a party. As in PR, party seats are allocated proportional to the party's share of national votes.

Data on the frequency of elections reflect statutory requirements. In reality, elections may be held more frequently in parliamentary systems if governments collapse. Judicial review refers to the ability of the courts or a separate body to review the constitutionality of laws and actions. It is usually enshrined in the constitution. In countries with limited judicial review, the courts only have the ability to review the constitutionality of specific types of laws or actions or under specific circumstances.

Argentina

Population mid-2011 estimate (in millions)	40.6
GDP in 2011 (PPP in USD billion at current prices)	709.0
Member of the OECD	No
State structure	Federal
Number of tiers of government	
State/regional	Not applicable
Provincial	24
Local	528
System of executive power	Presidential
Head of state	President
Head of government	President
Existence of term limits for presidents	
Is there a president?	Yes
Term limit (years)	8
Governments at the central level between 1992 and 2012	
Total number of governments	10
Number of coalition governments	Not applicable
Number of executives serving non-consecutive terms	8
Number of ministers at the central level of government (2013)	14
Number of ministries or departments at the central level of government (2013)	14
Upper house (central government)	
Existence	Yes
Membership based on regional considerations?	Yes
Frequency of elections (in years)	6
Size – number of seats	72
Lower house (central government)	
Electoral system	Multi-member – Proportional
Frequency of elections (in years)	4
Size – number of seats	257
Existence of system of judicial review of the constitutionality of laws and actions	Judicial review

Barbados

Population mid-2011 estimate (in millions)	0.3
GDP in 2011 (PPP in USD billion at current prices)	6.8
Member of the OECD	No
State structure	Unitary
Number of tiers of government	
State/regional	Not applicable
Provincial	Not applicable
Local	12
System of executive power	Parliamentary
Head of state	Monarch
Head of government	Prime minister
Existence of term limits for presidents	
Is there a president?	No
Term limit (years)	Not applicable
Governments at the central level between 1992 and 2012	
Total number of governments	5
Number of coalition governments	0
Number of executives serving non-consecutive terms	4
Number of ministers at the central level of government (2013)	19
Number of ministries or departments at the central level of government (2013)	15
Upper house (central government)	
Existence	Yes
Membership based on regional considerations?	No
Frequency of elections (in years)	Not applicable
Size – number of seats	21
Lower house (central government)	
Electoral system	Multi-member – Proportional
Frequency of elections (in years)	5
Size – number of seats	30
Existence of system of judicial review of the constitutionality of laws and actions	No judicial review

Brazil

Population mid-2011 estimate (in millions)	196.7
GDP in 2011 (PPP in USD billion at current prices)	2 270.4
Member of the OECD	No
State structure	Federal
Number of tiers of government	
State/regional	27
Provincial	Not applicable
Local	5 564
System of executive power	Presidential
Head of state	President
Head of government	President
Existence of term limits for presidents	
Is there a president?	Yes
Term limit (years)	8
Governments at the central level between 1992 and 2012	
Total number of governments	7
Number of coalition governments	2
Number of executives serving non-consecutive terms	5
Number of ministers at the central level of government (2013)	24
Number of ministries or departments at the central level of government (2013)	24
Upper house (central government)	
Existence	Yes
Membership based on regional considerations?	Yes
Frequency of elections (in years)	8
Size – number of seats	81
Lower house (central government)	
Electoral system	Multi-member – Proportional
Frequency of elections (in years)	4
Size – number of seats	513
Existence of system of judicial review of the constitutionality of laws and actions	Judicial review

Chile

Population mid-2011 estimate (in millions)	17.2
GDP in 2011 (PPP in USD billion at current prices)	348.8
Member of the OECD	Yes
State structure	Unitary
Number of tiers of government	
State/regional	15
Provincial	54
Local	345
System of executive power	Presidential
Head of state	President
Head of government	President
Existence of term limits for presidents	
Is there a president?	Yes
Term limit (years)	4
Governments at the central level between 1992 and 2012	
Total number of governments	5
Number of coalition governments	Not applicable
Number of executives serving non-consecutive terms	5
Number of ministers at the central level of government (2013)	21
Number of ministries or departments at the central level of government (2013)	22
Upper house (central government)	
Existence	Yes
Membership based on regional considerations?	No
Frequency of elections (in years)	8
Size – number of seats	38
Lower house (central government)	
Electoral system	Single – First Past the Post
Frequency of elections (in years)	4
Size – number of seats	120
Existence of system of judicial review of the constitutionality of laws and actions	Limited judicial review

Colombia

Population mid-2011 estimate (in millions)	46.1
GDP in 2011 (PPP in USD billion at current prices)	470.1
Member of the OECD	No
State structure	Unitary
Number of tiers of government	
State/regional	Not applicable
Provincial	33
Local	1 099
System of executive power	Presidential
Head of state	President
Head of government	President
Existence of term limits for presidents	
Is there a president?	Yes
Term limit (years)	8
Governments at the central level between 1992 and 2012	
Total number of governments	6
Number of coalition governments	Not applicable
Number of executives serving non-consecutive terms	5
Number of ministers at the central level of government (2013)	16
Number of ministries or departments at the central level of government (2013)	16
Upper house (central government)	
Existence	Yes
Membership based on regional considerations?	No
Frequency of elections (in years)	4
Size – number of seats	102
Lower house (central government)	
Electoral system	Multi-member – Proportional
Frequency of elections (in years)	4
Size – number of seats	166
Existence of system of judicial review of the constitutionality of laws and actions	Limited judicial review

Costa Rica

Population mid-2011 estimate (in millions)	4.6
GDP in 2011 (PPP in USD billion at current prices)	54.7
Member of the OECD	No
State structure	Unitary
Number of tiers of government	
State/regional	Not applicable
Provincial	7
Local	81
System of executive power	Presidential
Head of state	President
Head of government	President
Existence of term limits for presidents	
Is there a president?	Yes
Term limit (years)	4
Governments at the central level between 1992 and 2012	
Total number of governments	6
Number of coalition governments	Not applicable
Number of executives serving non-consecutive terms	6
Number of ministers at the central level of government (2013)	20
Number of ministries or departments at the central level of government (2013)	21
Upper house (central government)	
Existence	No
Membership based on regional considerations?	Not applicable
Frequency of elections (in years)	Not applicable
Size – number of seats	Not applicable
Lower house (central government)	
Electoral system	Multi-member – Proportional
Frequency of elections (in years)	4
Size – number of seats	57
Existence of system of judicial review of the constitutionality of laws and actions	Judicial review

Dominican Republic

Population mid-2011 estimate (in millions)	10.1
GDP in 2011 (PPP in USD billion at current prices)	92.4
Member of the OECD	No
State structure	Unitary
Number of tiers of government	
State/regional	Not applicable
Provincial	32
Local	157
System of executive power	Presidential
Head of state	President
Head of government	President
Existence of term limits for presidents	
Is there a president?	Yes
Term limit (years)	8
Governments at the central level between 1992 and 2012	
Total number of governments	6
Number of coalition governments	Not applicable
Number of executives serving non-consecutive terms	5
Number of ministers at the central level of government (2013)	19
Number of ministries or departments at the central level of government (2013)	19
Upper house (central government)	
Existence	Yes
Membership based on regional considerations?	Yes
Frequency of elections (in years)	4
Size – number of seats	32
Lower house (central government)	
Electoral system	Multi-member – Proportional
Frequency of elections (in years)	4
Size – number of seats	195
Existence of system of judicial review of the constitutionality of laws and actions	Limited judicial review

Ecuador

Population mid-2011 estimate (in millions)	14.4
GDP in 2011 (PPP in USD billion at current prices)	139.8
Member of the OECD	No
State structure	Unitary
Number of tiers of government	
State/regional	Not applicable
Provincial	24
Local	1 500
System of executive power	Presidential
Head of state	President
Head of government	President
Existence of term limits for presidents	
Is there a president?	Yes
Term limit (years)	8
Governments at the central level between 1992 and 2012	
Total number of governments	11
Number of coalition governments	Not applicable
Number of executives serving non-consecutive terms	10
Number of ministers at the central level of government (2013)	29
Number of ministries or departments at the central level of government (2013)	38
Upper house (central government)	
Existence	No
Membership based on regional considerations?	Not applicable
Frequency of elections (in years)	Not applicable
Size – number of seats	Not applicable
Lower house (central government)	
Electoral system	Multi-member – Proportional
Frequency of elections (in years)	4
Size – number of seats	137
Existence of system of judicial review of the constitutionality of laws and actions	Limited judicial review

El Salvador

Population mid-2011 estimate (in millions)	6.3
GDP in 2011 (PPP in USD billion at current prices)	44.4
Member of the OECD	No
State structure	Unitary
Number of tiers of government	
State/regional	Not applicable
Provincial	14
Local	262
System of executive power	Presidential
Head of state	President
Head of government	President
Existence of term limits for presidents	
Is there a president?	Yes
Term limit (years)	5
Governments at the central level between 1992 and 2012	
Total number of governments	5
Number of coalition governments	Not applicable
Number of executives serving non-consecutive terms	5
Number of ministers at the central level of government (2013)	13
Number of ministries or departments at the central level of government (2013)	13
Upper house (central government)	
Existence	No
Membership based on regional considerations?	Not applicable
Frequency of elections (in years)	Not applicable
Size – number of seats	Not applicable
Lower house (central government)	
Electoral system	Multi-member – Proportional
Frequency of elections (in years)	3
Size – number of seats	84
Existence of system of judicial review of the constitutionality of laws and actions	Judicial review

Guatemala

Population mid-2011 estimate (in millions)	14.7
GDP in 2011 (PPP in USD billion at current prices)	74.3
Member of the OECD	No
State structure	Unitary
Number of tiers of government	
State/regional	Not applicable
Provincial	22
Local	334
System of executive power	Presidential
Head of state	President
Head of government	President
Existence of term limits for presidents	
Is there a president?	Yes
Term limit (years)	4
Governments at the central level between 1992 and 2012	
Total number of governments	8
Number of coalition governments	Not applicable
Number of executives serving non-consecutive terms	8
Number of ministers at the central level of government (2013)	12
Number of ministries or departments at the central level of government (2013)	12
Upper house (central government)	
Existence	No
Membership based on regional considerations?	Not applicable
Frequency of elections (in years)	Not applicable
Size – number of seats	Not applicable
Lower house (central government)	
Electoral system	Multi-member – Proportional
Frequency of elections (in years)	4
Size – number of seats	158
Existence of system of judicial review of the constitutionality of laws and actions	Judicial review

Haiti

Population mid-2011 estimate (in millions)	10.0
GDP in 2011 (PPP in USD billion at current prices)	12.2
Member of the OECD	No
State structure	Unitary
Number of tiers of government	
State/regional	Not applicable
Provincial	10
Local	140
System of executive power	Dual executive
Head of state	President
Head of government	Prime minister
Existence of term limits for presidents	
Is there a president?	Yes
Term limit (years)	10
Governments at the central level between 1992 and 2012	
Total number of governments	15
Number of coalition governments	2
Number of executives serving non-consecutive terms	15
Number of ministers at the central level of government (2013)	16
Number of ministries or departments at the central level of government (2013)	19
Upper house (central government)	
Existence	Yes
Membership based on regional considerations?	Yes
Frequency of elections (in years)	6
Size – number of seats	30
Lower house (central government)	
Electoral system	Single – two rounds
Frequency of elections (in years)	4
Size – number of seats	99
Existence of system of judicial review of the constitutionality of laws and actions	Limited judicial review

Honduras

Population mid-2011 estimate (in millions)	7.8
GDP in 2011 (PPP in USD billion at current prices)	35.6
Member of the OECD	No
State structure	Unitary
Number of tiers of government	
State/regional	Not applicable
Provincial	18
Local	298
System of executive power	Presidential
Head of state	President
Head of government	President
Existence of term limits for presidents	
Is there a president?	Yes
Term limit (years)	4
Governments at the central level between 1992 and 2012	
Total number of governments	7
Number of coalition governments	Not applicable
Number of executives serving non-consecutive terms	7
Number of ministers at the central level of government (2013)	16
Number of ministries or departments at the central level of government (2013)	17
Upper house (central government)	
Existence	No
Membership based on regional considerations?	Not applicable
Frequency of elections (in years)	Not applicable
Size – number of seats	Not applicable
Lower house (central government)	
Electoral system	Multi-member – Proportional
Frequency of elections (in years)	4
Size – number of seats	128
Existence of system of judicial review of the constitutionality of laws and actions	Limited judicial review

Jamaica

Population mid-2011 estimate (in millions)	2.8
GDP in 2011 (PPP in USD billion at current prices)	24.4
Member of the OECD	No
State structure	Unitary
Number of tiers of government	
State/regional	Not applicable
Provincial	Not applicable
Local	14
System of executive power	Parliamentary
Head of state	Monarch
Head of government	Prime minister
Existence of term limits for presidents	
Is there a president?	No
Term limit (years)	Not applicable
Governments at the central level between 1992 and 2012	
Total number of governments	8
Number of coalition governments	0
Number of executives serving non-consecutive terms	6
Number of ministers at the central level of government (2013)	18
Number of ministries or departments at the central level of government (2013)	16
Upper house (central government)	
Existence	Yes
Membership based on regional considerations?	No
Frequency of elections (in years)	Not applicable
Size – number of seats	21
Lower house (central government)	
Electoral system	Single – First Past the Post
Frequency of elections (in years)	5
Size – number of seats	63
Existence of system of judicial review of the constitutionality of laws and actions	Judicial review

Mexico

Population mid-2011 estimate (in millions)	115.7
GDP in 2011 (PPP in USD billion at current prices)	1 890.9
Member of the OECD	Yes
State structure	Federal
Number of tiers of government	
State/regional	32
Provincial	Not applicable
Local	2 438
System of executive power	Presidential
Head of state	President
Head of government	President
Existence of term limits for presidents	
Is there a president?	Yes
Term limit (years)	6
Governments at the central level between 1992 and 2012	
Total number of governments	5
Number of coalition governments	Not applicable
Number of executives serving non-consecutive terms	5
Number of ministers at the central level of government (2013)	18
Number of ministries or departments at the central level of government (2013)	17
Upper house (central government)	
Existence	Yes
Membership based on regional considerations?	No
Frequency of elections (in years)	6
Size – number of seats	128
Lower house (central government)	
Electoral system	Multi member – Semi-proportional
Frequency of elections (in years)	3
Size – number of seats	500
Existence of system of judicial review of the constitutionality of laws and actions	Judicial review

Panama

Population mid-2011 estimate (in millions)	3.6
GDP in 2011 (PPP in USD billion at current prices)	50.1
Member of the OECD	No
State structure	Unitary
Number of tiers of government	
State/regional	Not applicable
Provincial	10
Local	76
System of executive power	Presidential
Head of state	President
Head of government	President
Existence of term limits for presidents	
Is there a president?	Yes
Term limit (years)	5
Governments at the central level between 1992 and 2012	
Total number of governments	7
Number of coalition governments	2
Number of executives serving non-consecutive terms	7
Number of ministers at the central level of government (2013)	13
Number of ministries or departments at the central level of government (2013)	13
Upper house (central government)	
Existence	No
Membership based on regional considerations?	Not applicable
Frequency of elections (in years)	Not applicable
Size – number of seats	Not applicable
Lower house (central government)	
Electoral system	Multi member – Semi-proportional
Frequency of elections (in years)	5
Size – number of seats	71
Existence of system of judicial review of the constitutionality of laws and actions	Judicial review

Paraguay

Population mid-2011 estimate (in millions)	6.6
GDP in 2011 (PPP in USD billion at current prices)	40.2
Member of the OECD	No
State structure	Unitary
Number of tiers of government	
State/regional	2
Provincial	18
Local	246
System of executive power	Presidential
Head of state	President
Head of government	President
Existence of term limits for presidents	
Is there a president?	Yes
Term limit (years)	5
Governments at the central level between 1992 and 2012	
Total number of governments	7
Number of coalition governments	2
Number of executives serving non-consecutive terms	7
Number of ministers at the central level of government (2013)	11
Number of ministries or departments at the central level of government (2013)	11
Upper house (central government)	
Existence	Yes
Membership based on regional considerations?	No
Frequency of elections (in years)	5
Size – number of seats	45
Lower house (central government)	
Electoral system	Multi-member – Proportional
Frequency of elections (in years)	5
Size – number of seats	80
Existence of system of judicial review of the constitutionality of laws and actions	Judicial review

Peru

Population mid-2011 estimate (in millions)	30.0
GDP in 2011 (PPP in USD billion at current prices)	298.6
Member of the OECD	No
State structure	Unitary
Number of tiers of government	
State/regional	25
Provincial	195
Local	1 841
System of executive power	Presidential
Head of state	President
Head of government	President
Existence of term limits for presidents	
Is there a president?	Yes
Term limit (years)	5
Governments at the central level between 1992 and 2012	
Total number of governments	8
Number of coalition governments	0
Number of executives serving non-consecutive terms	5
Number of ministers at the central level of government (2013)	18
Number of ministries or departments at the central level of government (2013)	18
Upper house (central government)	
Existence	No
Membership based on regional considerations?	Not applicable
Frequency of elections (in years)	Not applicable
Size – number of seats	Not applicable
Lower house (central government)	
Electoral system	Multi-member – Proportional
Frequency of elections (in years)	5
Size – number of seats	130
Existence of system of judicial review of the constitutionality of laws and actions	Judicial review

Suriname

Population mid-2011 estimate (in millions)	0.5
GDP in 2011 (PPP in USD billion at current prices)	6.3
Member of the OECD	No
State structure	Unitary
Number of tiers of government	
State/regional	Not applicable
Provincial	10
Local	62
System of executive power	Presidential
Head of state	President
Head of government	President
Existence of term limits for presidents	
Is there a president?	Yes
Term limit (years)	No
Governments at the central level between 1992 and 2012	
Total number of governments	5
Number of coalition governments	1
Number of executives serving non-consecutive terms	4
Number of ministers at the central level of government (2013)	17
Number of ministries or departments at the central level of government (2013)	17
Upper house (central government)	
Existence	No
Membership based on regional considerations?	Not applicable
Frequency of elections (in years)	Not applicable
Size – number of seats	Not applicable
Lower house (central government)	
Electoral system	Single – Preferential
Frequency of elections (in years)	5
Size – number of seats	51
Existence of system of judicial review of the constitutionality of laws and actions	No judicial review

Uruguay

Population mid-2011 estimate (in millions)	3.4
GDP in 2011 (PPP in USD billion at current prices)	50.7
Member of the OECD	No
State structure	Unitary
Number of tiers of government	
State/regional	Not applicable
Provincial	19
Local	89
System of executive power	Presidential
Head of state	President
Head of government	President
Existence of term limits for presidents	
Is there a president?	Yes
Term limit (years)	5
Governments at the central level between 1992 and 2012	
Total number of governments	5
Number of coalition governments	1
Number of executives serving non-consecutive terms	5
Number of ministers at the central level of government (2013)	13
Number of ministries or departments at the central level of government (2013)	13
Upper house (central government)	
Existence	Yes
Membership based on regional considerations?	No
Frequency of elections (in years)	5
Size – number of seats	31
Lower house (central government)	
Electoral system	Multi-member – Proportional
Frequency of elections (in years)	5
Size – number of seats	99
Existence of system of judicial review of the constitutionality of laws and actions	Judicial review

Glossary

Term	Use in *Government at a Glance: Latin America and the Caribbean 2014*
Budget	A comprehensive statement of government financial plans which includes expenditures, revenues, deficit or surplus and debt. The budget is the government's main economic policy document, demonstrating how the government plans to use public resources to meet policy goals and to some extent indicating what its policy priorities are.
Cash transfers	Benefits provided to eligible individuals by governments that are not required to be spent on a specific good or service. Examples of cash transfers include pensions, unemployment benefits and development aid.
Central Budget Authority (CBA)	The Central Budget Authority (CBA) is a public entity, or several co-ordinated entities, located at the central/national/federal level of government, which is responsible for the custody and management of the national/federal budget. In many countries, the CBA is often part of the Ministry of Finance. Specific responsibilities vary by country, but generally, the CBA is responsible for formulating budget proposals, conducting budget negotiations, allocating or reallocating funds, ensuring compliance with the budget laws and conducting performance evaluations and/or efficiency reviews. This authority regulates budget execution but does not necessarily undertake the treasury function of disbursing public funds. Lastly, a very important role of the Central Budget Authority is monitoring and maintaining aggregate/national fiscal discipline and enforcing the effective control of budgetary expenditure.
Citizen's budget	A citizens' guide to the budget is defined here as an easy-to-understand summary of the main features of the annual budget as presented to the legislature. It should be a self-contained document that explains what is in the annual budget proposals and what their effects are expected to be. While containing links or references to more detailed documents, the guide should not require readers to refer to them, or to know their contents in order to understand the guide.
Collective goods and services	Goods and services that benefit the community at large. Examples include government expenditures on defence, and public safety and order.
Composite index	An indicator formed by compiling individual indicators into a single index on the basis of an underlying model (Nardo et al., 2005).
Dataset	A set of indicators or variables concerning a single topic (e.g. regulatory quality).
Efficiency	Achieving maximum output from a given level of resources used to carry out an activity (*OECD Glossary of Statistical Terms*).

Effectiveness	The extent to which the activity's stated objectives have been met (*OECD Glossary of Statistical Terms*).
Federal state	A country that has a constitutionally delineated division of political authority between one central and several regional or state autonomous governments.
Fiscal rule	For purposes of this book, the OECD utilises a similar definition as the European Commission. A numerical fiscal rule refers to a permanent constraint on fiscal policy aggregates (e.g. in-year rules are excluded).
Full-time equivalent (FTE)	The number of full-time equivalent jobs, defined as total hours worked divided by average annual hours worked in full-time jobs (*OECD Glossary of Statistical Terms*).
Gender	Socially constructed and socially learned behaviours and expectations associated with females and males. All cultures interpret and elaborate the biological differences between women and men into a set of social expectations about what behaviours and activities are appropriate and what rights, resources, and power women and men possess. Like race, ethnicity, and class, gender is a social category that largely establishes one's life chances. It shapes one's participation in society and in the economy.
General Employment Framework in the public service	It usually concerns the employment conditions of most government employees, and certainly concerns most statutory employees. Casual employees, by this definition, are not employed under the General Employment Framework for government employees. Please note that in a number of countries, all employees, including those employed on a short term basis, are employed under the General Employment Framework, with a few exceptions (few casual employees in those cases, if any).
General government	The general government sector consists of: a) All units of central, state or local government; b) All social security funds at each level of government; and c) All non-market non-profit institutions that are controlled and mainly financed by government units. The sector does not include public corporations, even when all the equity of such corporations is owned by government units. It also does not include quasi-corporations that are owned and controlled by government units. However, unincorporated enterprises owned by government units that are not quasi-corporations remain integral parts of those units and, therefore, must be included in the general government sector (*1993 System of National Accounts*).
Governance	The exercise of political, economic and administrative authority.
***Government Finance Statistics Manual 2001* (GFSM 2001)**	The primary purpose of the *Government Finance Statistics Manual 2001* (GFSM 2001) is to provide a comprehensive conceptual and accounting framework suitable for analysing and evaluating fiscal policy. It is harmonised with the other macroeconomic statistical frameworks, such as the overarching *System of National Accounts 1993* (1993 SNA) and the two specialised macroeconomic frameworks such as the balance of payments (*1993 Balance of Payments Manual*, fifth edition) and monetary and financial statistics (*Monetary and Financial Statistics Manual*, 2000). However, despite harmonisation some differences exist between the GFSM 2001 and the 1993 SNA frameworks in several occurrences (detailed information can be found in Appendix 3 of the *GFS Manual 2001*).

Gross domestic product (GDP)	The standard measure of the value of the goods and services produced by a country during a period. Specifically, it is equal to the sum of the gross values added of all resident institutional units engaged in production (plus any taxes, and minus any subsidies, on products not included in the value of their outputs). The sum of the final uses of goods and services (all uses except intermediate consumption) measured in purchasers' prices, less the value of imports of goods and services, or the sum of primary incomes distributed by resident producer units (*OECD Glossary of Statistical Terms*).
Independent Fiscal Institution (IFI)	A publicly funded, independent body under the statutory authority of the executive or the legislature which provides non-partisan oversight and analysis of, and in some cases advice on, fiscal policy and performance. IFIs have a forward-looking *ex ante* diagnostic task (in contrast to public audit institutions which perform an equally indispensable *ex post* task).
Indicator	"… quantitative or qualitative measure derived from a series of observed facts that can reveal relative positions (e.g. of a country) in a given area. When evaluated at regular intervals, an indicator can point out the direction of change across different units and through time" (Nardo et al., 2005).
Individual goods and services	Goods and services that mainly benefit individuals. Examples include education, health and social insurance programmes.
Input	Units of labour, capital, goods and services used in the production of goods and services. "Taking the health service as an example, input is defined as the time of medical and non-medical staff, the drugs, the electricity and other inputs purchased, and the capital services from the equipment and buildings used" (Lequiller, 2005).
Labour force	The labour force, or currently active population, comprises all persons who fulfil the requirements for inclusion among the employed or the unemployed during a specified brief reference period (*OECD Glossary of Statistical Terms*).
Outcome	Refers to what is ultimately achieved by an activity. Outcomes reflect the intended or unintended results of government actions, but other factors outside of government actions are also implicated (*OECD Glossary of Statistical Terms*).
Output	In performance assessment in government, outputs are defined as the goods or services produced by government agencies (e.g. teaching hours delivered, welfare benefits assessed and paid) (*OECD Glossary of Statistical Terms*).
Performance information	Performance information can be generated by both government and non-governmental organisations, and can be both qualitative and quantitative. Performance information refers to metrics/indicators/general information on the inputs, processes, outputs and outcomes of government policies/programmes/organisations, and can be ultimately used to assess the effectiveness, cost effectiveness and efficiency of the same. Performance information can be found in statistics; the financial and/or operational accounts of government organisations; performance reports generated by government organisations; evaluations of policies, programmes or organisations; or spending reviews, for instance.

Productivity Productivity is commonly defined as a ratio of a volume measure of output to a volume measure of input use (*OECD Statistical Glossary*). Economists distinguish between total productivity, namely total output divided by change in (weighted) input(s) and marginal productivity, namely change in output divided by change in (weighted) input(s) (Coelli et al., 1999).

Public sector The general government sector plus (quasi) public corporations (*1993 System of National Accounts*).

Public sector process Structures, procedures and management arrangements with a broad application within the public sector.

Public services Services that are performed for the benefit of the public or its institutions. Public services are provided by government to its citizens, either directly (through the public sector) or by financing private provision of services. The term is associated with a social consensus that certain services should be available to all, regardless of income. Even where public services are neither publicly provided nor publicly financed, for social and political reasons they are usually subject to regulation going beyond that applying to most economic sectors.

System of National Accounts The *System of National Accounts* (SNA) consists of a coherent, consistent and integrated set of macroeconomic accounts, balance sheets and tables based on a set of internationally agreed concepts, definitions, classifications and accounting rules (SNA 1.1).

The *System of National Accounts 1993* (1993 SNA) has been prepared under the joint responsibility of the United Nations, the International Monetary Fund, the Commission of the European Communities, the OECD and the World Bank (*OECD Glossary of Statistical Terms*).

The 2008 SNA has recently been finalised and includes a number of changes to the 1993 SNA. However, it is important to note that it will take a certain number of years (for many countries the release of data based on the new standard will be in 2014) before the national accounts will reflect these changes (that will have, to a certain extent, an impact on selected indicators presented in this publication).

Unitary states Countries that do not have a constitutionally delineated division of political authority between one central and several regional or state autonomous governments. However, unitary states may have administrative divisions that include local and provincial or regional levels of government.

Variable A characteristic of a unit being observed that may assume more than one of a set of values to which a numerical measure or a category from a classification can be assigned (e.g. income, age, weight, etc., and occupation, industry, disease, etc.) (*OECD Glossary of Statistical Terms*).

Working time adjustment Adjustment applied to annual average compensation of government employees that compensates for differences in time worked taking into account, where applicable, the average number of working days and the average number of hours worked per week.

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The OECD is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

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Established in 1959, the IDB is the main source of multilateral financing and expertise for sustainable economic, social and institutional development in Latin America and the Caribbean. To help the region achieve greater economic and social progress, the IDB supports clients in the design of projects, and provides financing, technical assistance and knowledge services to support development interventions. In addition, the IDB draws on the expertise of specialists in a wide range of fields in order to conduct research and seminars addressing key challenges for the region and evidence of successful interventions.

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Government at a Glance

LATIN AMERICA AND THE CARIBBEAN 2014: TOWARDS INNOVATIVE PUBLIC FINANCIAL MANAGEMENT

Government at a Glance: Latin America and the Caribbean 2014, Towards Innovative Public Financial Management offers a dashboard of more than 30 indicators to help decision makers and citizens analyse and benchmark government performance, both within the LAC region and compared to the OECD countries. The publication focuses on four areas of public governance: public finance and economics, public sector employment and pay, budgeting practices and procedures and public procurement.

Although the Latin American and Caribbean region was not gravely affected by the recent financial and economic global crisis, *Government at a Glance: Latin America and the Caribbean 2014, Towards Innovative Public Financial Management* argues that governments must move towards more inclusive, transparent, receptive and efficient policies. For that, they need to improve, among others, budget practices and employment practices, and increase levels of transparency.

The Excel™ spreadsheets used to create the tables and figures in *Government at a Glance: Latin America and the Caribbean 2014, Towards Innovative Public Financial Management* are available via the *StatLinks* provided throughout the publication.

Contents

Consult this publication on line at ***http://dx.doi.org/10.1787/9789264209480-en.***

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