Cuentas CLARAS

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Transparent government: Leveraging private sector partnerships

Welcome by Jorge Familiar

World Bank Vice President for Latin America and the Caribbean

Private investment is key to reducing poverty and promoting shared prosperity. The public sector alone cannot bridge the gap of what is needed to finance development.

That is why this second edition of the "Cuentas Claras" conference, organized by the World Bank Group (WBG), the Organization of American States (OAS), and the Government of Panama, chose "Transparent Government – Leveraging Private Sector Partnerships," as its principal theme. Good governance and institutions that are accountable, coupled with citizen participation in the running of the State, can lead to more private investment in key development sectors.

Success in improving the region's investment climate will be more likely with robust and reliable fiscal and financial reporting systems. Greater transparency and accountability in the implementation of public policies will help as well.

Many of the countries in the region are already making these reforms. The World Bank is supporting them with projects like online government to improve fiscal transparency and procurement systems.

On the other hand, recent cases of corruption that have come to light in the region show that much remains to be done. As such, it is necessary to redouble efforts to implement best practices to strengthen corporate governance in state-owned enterprises (SOEs) and Public-Private Partnerships (PPPs). Efforts to implement anti-corruption and accountability initiatives are needed, as well as fighting tax evasion and money laundering.

We have seen a transformation in Latin America and the Caribbean region following the major progress made in reducing poverty and expanding the middle class. Now, with less fiscal resources available to satisfy society's increasing demands, there is zero tolerance for corruption. This also comes at a time when the dizzying pace of technological advances has led to the quick distribution of information and the public release of much information that in the past had remain hidden.

Cuentas Claras provides us an opportunity to showcase what is being done in the region in terms of accountability and efficient public spending through stepped up anticorruption measures. It also allows us to identify the main challenges we face in an environment where growth is still weak and where most of the countries face a difficult fiscal situation.

With these challenges in mind, we are presenting the **Panama Accord**, which includes steps to improve the quality and transparency of fiscal and financial information, strengthen accountability, and increase collaboration between governments, the private sector, and civil society.

The World Bank is pleased to count on your participation, ideas, and commitment to make Latin America and the Caribbean a more transparent and prosperous region.

13•14 JUNE

Questions and Answers with Deborah Wetzel

Senior Director, Governance Global Practice, World Bank

Deborah Wetzel is the World Bank Senior Director for Governance. Prior to this, she served as Country Director for Brazil from March 2012 to July 2015. Her expertise includes taxation, public expenditures, decentralization, public sector reform, and anti-corruption. Ms. Wetzel has a Doctorate in Economics from the University of Oxford and a Master's from Johns Hopkins University, School of Advanced International Studies. She is the author of numerous publications on fiscal decentralization, public finance, governance, and sub-national affairs.

What does governance have to do with private sector financing?

The private and public sectors have sometimes been treated as separate entities that operate in isolation from each other, but the two have always been intertwined. The private sector depends on the public sector for delivery of public goods, such as security, regulation, contract enforcement and a conducive environment for business. Conversely, the public sector relies on a prosperous private sector for revenue mobilization and in the procurement of goods and services. The relationship between the public and private sectors is highly interdependent and, if we want to increase private investment, we need to focus on both the public and private sectors.

A core objective of governance reform moving forward must be a focus on the public sector risks that may prevent investors from entering a country. By identifying the underlying drivers of the enabling environment for private activity – such as greater transparency, improved corporate governance, a strengthened regulatory framework, and institutions free of collusion and corruption – the goal is to create an investment-friendly environment that attracts private sector financing.

What do you see as the main consequences of government corruption and government opacity?

While it is impossible to estimate how many billions of dollars are lost each year to bribery and other forms of corruption, it is clear that every dollar lost to corruption is a dollar diverted away from the public good, including efforts to fight poverty, improve health care and strengthen the quality of education. Corruption hits the poor the hardest – forcing them to pay a higher share of their earnings in bribes and often reducing access to and the quality of essential services such as health and education.

The most damaging long-term consequences of corruption, however, are the erosion of trust in government and the diminished legitimacy of public institutions. The restoration of trust between the government, the private sector, and civil society is essential for triggering a virtuous cycle that enables longer term, sustainable efforts to confront corruption. This requires that governments build systems that prevent corruption from occurring in the first place, and when corruption does occur, that it is sanctioned effectively. We can all work together to reduce corruption by strengthening openness and transparency, and by working to reduce the acceptance of corruption in all its forms.

How serious is the issue of illicit financial flows globally? What can be done to address these flows?

> “The restoration of trust between the government, the private sector, and civil society is essential for triggering a virtuous cycle that enables longer term, sustainable efforts to confront corruption”

By their very nature, IFFs are usually hidden from sight and thus are difficult to measure. Global estimates are on the order of magnitude of US$1.0 trillion to $1.5 trillion a year. That suggests significant lost government revenues, market distortions, and increases in inequality driven by offshore wealth. These problems are potentially more severe for low and middle-income countries, which are likely to face institutional limitations in their ability to detect and prevent IFFs, and where the relative resources lost have larger welfare impacts on the population.

Addressing IFFs requires international cooperation and coordination – and the global community has increasingly mobilized around efforts through multilateral initiatives to stem these flows. These efforts include supporting countries in meeting global standards for tax transparency and the exchange of information (e.g., identifying beneficial ownership sources, the implementation of exchange of information procedures, strengthening tax treaties) and strengthening the capacity of countries to identify risky transactions that could be vehicles for tax avoidance, tax evasion, and illicit flows.

What do you see that are quick wins that willing governments could take to immediately improve the investment climate and business environment in their countries?

An increased emphasis on transparency and citizen engagement are essential vehicles for ‘quick wins’ to improve the institutional environment for private sector financing. The benefits of investing in a frequent, open, and transparent process of consultation benefits all stakeholders – with firms more confident in the fairness of the ‘rules of the game’ that protect the capital they put to work inside a country’s borders. Meanwhile, citizens are more assured that governments are spending with their true interests in mind, and the public sector is further incentivized to continue to improve to earn the votes of their constituents and to further attract capital from the private sector.

These potential benefits are only increased by the rapid pace of technological change – which results from an environment of increasing interconnectedness, information sharing, and strengthened systems for accountability. The increased availability of social media tools and platforms is bringing about a new role for citizens and the private sector for pushing accountability and transparency for both the public and the private sectors and for strengthening responsiveness.

Maximizing finance for development aids growth in Latin America and The Caribbean

Luc Grillet, Senior Manager, Central America & Caribbean, IFC

During the Golden Decade from 2003 to 2013, the LAC region made important social gains, fueled by high commodity prices and government reforms. Extreme poverty (defined as those living on less than US$250 a day) was cut to 11.2 percent by 2013 and overall poverty (less than US$4 a day) dropped to 24.1 percent in 2013 from 42 percent in 2003. The middle class grew significantly and the Gini Index of income inequality dropped sharply. But the economic slowdown, which started in 2010 and which culminated with a two-year recession in the 2015-2016 period, placed this social and economic progress at risk.

In the 2017 to 2018 period, the region has resumed a fragile growth recovery trajectory, albeit with important country-by-country variations. LAC clearly needs to grow faster, and in a more sustainable and inclusive manner. Key challenges preventing more sustainable growth include persistent challenges such as low regional productivity and competitiveness, a lack of access to finance, and inefficient infrastructure services. These obstacles, if not addressed, will increase the sharp income divide in several middle-income countries in the region.

Neither the public sector nor the private sector alone can address the challenge of generating inclusive growth. A concerted and coordinated effort based on transparent rules is required. This can help make public spending more efficient, fiscally responsible, and accountable. It can help increase public and private sector investments in health and education. It can spark improvements in the business-enabling environment for companies and regional trade. It can promote financial inclusion, especially for micro-, small- and medium-sized enterprises (SME) and for the population at the bottom of the income pyramid. And it can open capital markets to enable long-term and local currency funding. All this can help shift government spending to the private sector.

Building on the **"Addis Ababa Agenda for Action"** and the March 2017 report, **"Forward Look: A Vision for the World Bank Group in 2030—Progress and Challenges"**, the WBG is intensifying efforts to help countries with a new approach, named Maximize Finance for Development (MFD). This new systematic strategy requires the World Bank Group to help countries maximize their development resources by increasingly drawing on private financing and sustainable private sector solutions to provide value for money and meet the highest socio-environmental and fiscal responsibility standards. It keeps scarce public financing for those areas where private sector engagement is not

optimal or available, helping the public sector stay away from unsustainable levels of debt and contingent liabilities.

The Maximize Finance for Development approach is also at the core of the "Cuentas Claras 2018 – Transparent Government: Leveraging Private Sector Partnerships" conference. As this conference will highlight, the success of this new approach requires governments to effectively provide public goods, to support an environment that can generate jobs and growth, to address market failures and to engage citizens in the process – and to allow for transparent, rules-based societies that further enable private sector investment.

Given that countries in the region have a significant financing gap in development spending, and that development finance alone cannot address this gap, efforts to improve governance by creating an enabling investment environment are bound to generate increased levels of private investment in support of government development goals. Efforts to improve the investment climate in the region through enhanced transparency and accountability are more likely to succeed if there are robust and reliable fiscal and financial reporting regimes.

IFC, the WBG's private sector arm and the largest global development institution dedicated to the private sector, is uniquely positioned to help in this endeavor through its investment and advisory operations in the region, and help leverage the World Bank's critical upstream and regulatory work with governments that can open or create markets for incremental private sector investment.

There are several examples of where the more systematic Maximize Finance for Development approach, and having "Cuentas Claras," have started to bear fruit. Allow me to share one example that relates to our gracious conference host, the Republic of Panama, where WBG has contributed to the deepening of Panama's integration in the global economy and the strengthening of its position as a trade and logistics hub, whilst at the same time promoting inclusion and enhancing resilience.

In the energy sector, with IFC support, Panama's private sector firms are investing in renewable energy and Central America's first clean gas-to-power project on the Atlantic mouth of the Panama Canal. Meanwhile, public funding, with World Bank support, is financing a comprehensive policy reform and a national energy efficiency strategy. In Panama, we can proudly say that the Maximize Finance for Development approach is in high gear and helping improve the fiscal sustainability and diversification of the energy sector, which is fundamental for providing reliable, affordable and continuous access to electricity. IFC is also advising the national power transmission company on a PPP approach for its fourth transmission line which could be replicated in other infrastructure sub-sectors.

Different WBG entities, leveraging their respective capabilities, are working together in Panama to support large government investments and attract private sector investment: using scarce public resources with a focus on de-risking projects and addressing market gaps, prioritizing commer-cial finance, and tapping into new sources of capital.
As for helping growth become more inclusive, IFC is directing investment towards SMEs and low-income housing segments through established financial intermediaries. The World Bank meanwhile is providing policy loan support to facilitate making existing Panamanian policies and social programs more effective in reaching rural and Indigenous Peoples, Afro-descendants and other generally poorer segments, including management of embedded fiscal and environmental risks.

I'm confident that this conference will help us draw a roadmap to develop and implement new ways to improve good governance and transparency and leverage the potential of the Maximize Finance for Development approach.

State-Owned Enterprises: Ways to Overcome the Investment Gap in Latin America and the Caribbean

Robert Taliercio, Practice Manager,
Governance Global Practice, World Bank

The World Bank Group is redoubling its efforts to help countries mobilize financing for development in LAC, which can help the region reduce its annual investment gap, estimated at US $ 180 billion.

After six years of economic contraction, LAC returned to positive growth – our World Economic Outlook report indicates that the region grew 1.1 percent in 2017 and that this year it will expand by 1.7 percent. However, to ensure that this new phase of growth advances and social gains are maintained, governments must invest more in productive assets.

Given the need to continue to balance finances, coupled with the urgent need for investment in infrastructure, it is obvious that public financing is not enough. As such, to reduce poverty and promote shared prosperity, the region will have to take better advantage of the current public investment approach and select innovative ways to attract private financing. In both cases, state enterprises could play a larger role in increasing productivity, provided that the specific conditions are met.

In this way, countries can analyze and manage the need to resort to financing from the private sector – but also comply with fiscal, social, and environmental responsibilities and conserve scarce resources from the public sector – for those areas in which private financing makes less sense. Here the question arises, what are the most appropriate roles for state enterprises in maximizing financing for development?

The good news is that after six years of slowdown, the Latin America and Caribbean region is back into positive economic growth territory. The World Bank Group (WBG) estimates that the region's growth reached 1.1 percent in 2017 and is expected expand by 1.8 percent in 2018, mainly driven by a recovery in Brazil and Argentina. At the same time, the extended slowdown has put the region's economic and social challenges in perspective: demands for social progress are high, while trust in government is low.

To continue supporting economic growth while spurring social progress, governments must invest more in productive assets. The financing challenge is clear: according to WBG estimates, the region faces an annual investment gap of US$180 billion. Given the necessity of continuing with ongoing fiscal adjustment policies, and the urgent need for infrastructure investment, it is obvious that public financing can only cover a small share of those needs. Thus, to reduce poverty and promote shared prosperity, the region will have to increase returns from existing approaches to public investment and make selected use of more innovative approaches to crowd in private financing. In both cases, state-owned enterprises could play an important role in augmenting productivity, provided specific conditions are met.

In bringing in the private sector to address the investment gap, the region has something of an advantage: it has the largest stock of active public-private partnership (PPP) investments globally (in USD terms and as a share of countries' GDP), most of which are in Brazil, Mexico, Chile, and Colombia. LAC also has the second largest number of National Development Banks (NDBS), at 63, second only to Asia with 119.

The WBG is redoubling its efforts to assist country clients to MFD. This approach helps countries analyze and manage the need to draw on private sector financing and private sector approaches – meeting fiscal responsibility, social, and environmental standards – to conserve scarce public sector resources for sectors where private finance makes less sense. An important related question is: what are the most appropriate roles for

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SOEs in maximizing finance for development?

That SOEs have a potentially important role to play in MFD is apparent, given that they remain important economic players around the world: recent estimates indicate that in Organization for Economic Cooperation and Development (OECD) countries SOEs accounted for about 15 percent of GDP, while in transition countries the share was between 20-30 percent. Not surprisingly, a recent estimate found that SOEs accounted for 20 percent of investment. SOEs can thus play two key roles in MFD: provision of finance to emerging economies and catalysts for investment in emerging economies. The latter is the focus of this note.

While SOEs have underperformed in some cases, well-managed SOEs could have a cascading effect, leveraging additional funds for investment and solving private sector coordination failures. SOEs can serve as important catalysts for providing basic infrastructure and other social services by removing obstacles and facilitating public and private sector investments. That is, many countries need to improve the quality of public services (electricity, public and freight transportation, etc.) and in many cases, SOEs provide those services, yet performance is often not up to acceptable international standards. Reforming SOEs so they can improve service delivery performance is thus an integral aspect of MFD.

State financial institutions can for example mobilize private resources for infrastructure investments through risk-sharing schemes by assuming some project risks that the private sector is not willing to take. In the case of coordination problems, a potential investment opportunity may only be profitable if other complementary investments—public or private—are also made at the same time. For most firms, making the combined necessary investments is often beyond the means, scope of expertise, or risk appetite of an individual investor. SOEs can undertake investments that the private sector does not undertake due to coordination failures.

Increasingly, SOEs are seeking to enter into PPP and concession arrangements with private sector entities to improve public service delivery and mobilize financing for infrastructure. In many countries, state-owned financial institutions (SOFIs) are transitioning from providing direct loans to fund infrastructure projects to providing guarantees and credit enhancement products to mobilize private savings. However, properly designed PPP agreements and more sophisticated financial products require substantial know-how.

At the same time, SOEs must be credibly managed to avoid all the well-known risks associated with the parastatal sector: creation of fiscal risks for governments, financial sector instability, market distortions through anti-competitive policies, and risks of corruption. A recent survey by PwC found these concerns very much on the minds of CEOs: “SOEs globally still have some work to do in winning the trust of the private sector. The majority of CEOs in our ‘pulse’ (83 percent) had concerns that government ownership distorts competition to some degree. In addition, 67 percent felt that government ownership influences regulation and enforcement in industry.” From a high-level perspective, governments should also take care to limit their presence in the economy to some structurally important sectors so as to not crowd out the private sector.

SOEs will only be able to crowd in private sector investors in developing countries if they are well run and focus on the right part of the value chain. This points back to the importance of an SOE reform agenda. In LAC the first generation of successful structural reforms were implemented in Chile, Colombia, and Peru over the past 20 years, while other countries are still awaiting reforms, as are important SOE sectors, such as energy. Whether it is dealing with macroeconomic and fiscal impacts, corporate governance and accountability mechanisms, market discipline and competitive neutrality angles, or state-owned financial institution reform, the WBG can help here. Drawing on its global expertise in SOE reforms in East Asia, Europe, and Latin America, the WBG can be counted on to assist countries in reforming their SOEs so that they become a critical channel for leveraging private funds.

Improving government capabilities to procure Infrastructure PPPs and attract private sector investments.

Fernanda Ruiz Nunez, Senior Economist, Infrastructure, PPPs, and Guarantees Group, World Bank

Governments around the world have turned to PPPs to design, finance, build, and operate infrastructure projects. While PPPs remain a small proportion of the procurement of infrastructure, they constitute an important channel to attract private sector financing into infrastructure projects. However, a lack of government capabilities to prepare, procure, and manage such projects constitutes an important barrier to attracting private sector investments.

The ***Procuring Infrastructure Public-Private Partnerships 2018*** report is designed to help governments improve their PPP regulatory quality. By benchmarking the regulatory frameworks of 135 economies around the world against internationally recognized good practices in procuring PPPs, this assessment identifies areas for improvement in the preparation, procurement, and management of PPPs; as well as in the management of unsolicited proposals.

Procuring Infrastructure Public-Private Partnerships 2018 aims to inform the policy debate and the decision making process and help governments, the private sector, and the international development community better understand the current regulatory landscape for PPPs.

Several trends emerge from the data collected for the Procuring Infrastructure PPPs 2018 report. The first one is that the higher the income level of the group, the higher the performance in the assessed thematic areas. What is more surprising, however, is that while PPP procurement scores are relatively high across all income levels, preparation and contract management are the areas that leave considerable room for improvement, regardless of the income levels or region.

Despite the major trend of all economies lacking in PPP preparation and contract management, performance still varies greatly by region. The high-income economies of the OEC), and the Latin American and Caribbean regions, perform at or above the average in all thematic areas. In contrast, Sub-Saharan Africa and the East Asia and Pacific regions have the lowest average scores.

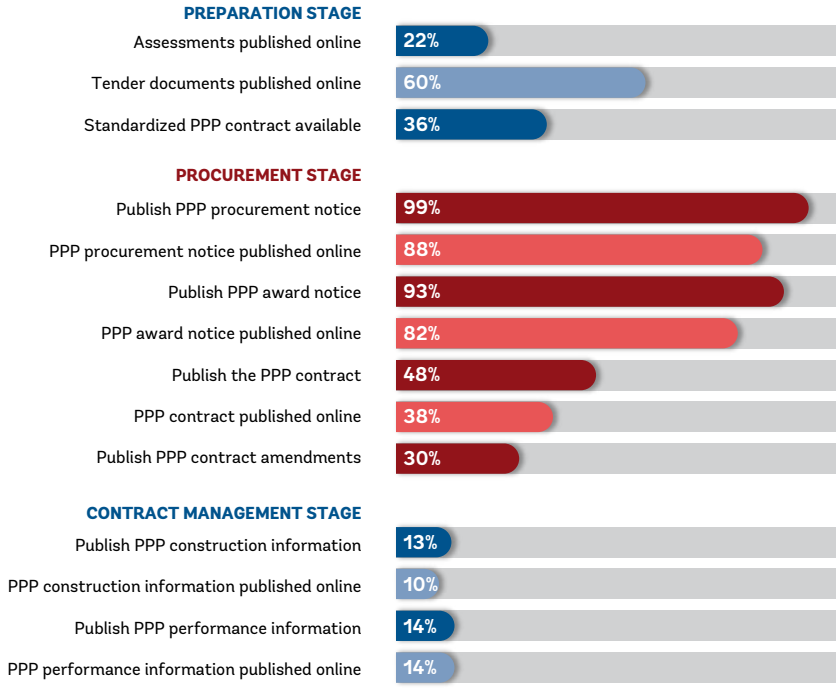
Despite the importance of an appropriate consideration of the fiscal implications of PPPs, this is still not a universal practice. During the preparation of PPPs, Ministry of Finance approval to ensure fiscal sustainability is not required in 19 percent of the surveyed economies. Moreover, only around one-third of the economies have regulations concerning the accounting and/or

reporting of PPPs, and even fewer have introduced some type of regulatory provision regarding the budgetary treatment of PPPs.

A striking finding is that despite the fact that a sound appraisal of a project is crucial to bringing quality projects to the market, less than one-third of these economies have adopted specific methodologies that ensure consistency across projects. An even smaller percentage make those assessments available online. In turn, the private sector often reports a lack of quality projects in the pipeline as a constraint to investing in infrastructure.

Transparency, as a focal element of good governance, plays a key role in limiting corruption, providing legitimacy to PPPs and helping ensure that only viable and bankable projects are realized. Once again, most economies adhere to international good practices in terms of disclosure of information to the public in the procurement phase, but do not adopt such disclosure practices during the preparation phase and contract management. Among the assessed economies, it is common practice to publish and make available online the PPP public procurement notice and the award notice. However, only 48 percent of economies publish the PPP contracts during the procurement phase, and even fewer (30 percent) publish any amendments. See figure below.

Figure: Transparency in the PPP project cycle (percent, N = 135)



Source: Procuring Infrastructure Public-Private Partnerships 2018.
Note: PPP = public-privated Partnership.

Making performance information available to the public increases the accountability of all the stakeholders and is crucial to promote transparency. However, few economies make this information public. Transparency ensures that the project delivers the expected outcomes and quality services. However, only a small fraction (13 percent) of the economies surveyed allow public access to the system for tracking progress and completion of construction works under a PPP contract. Only 10 percent have established an online platform for this purpose. Similarly, only a handful of the procuring authorities (14 percent) allow the public to track contract performance through a designated online platform or by posting the updated documentation online.

Recognizing the need to improve good governance in helping to crowd-in private finance for development, *Procuring Infrastructure Public-Private Partnerships 2018* is intended to continue to gauge regulatory framework adherence to good practices in the PPP process. That will take place by providing comparable data on the enumerated issues in the 2020 edition, which may include a possible expansion to provide a more complete picture of transparency for PPPs.

To access the report, blog and explore the country data, please go to:

Report:

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