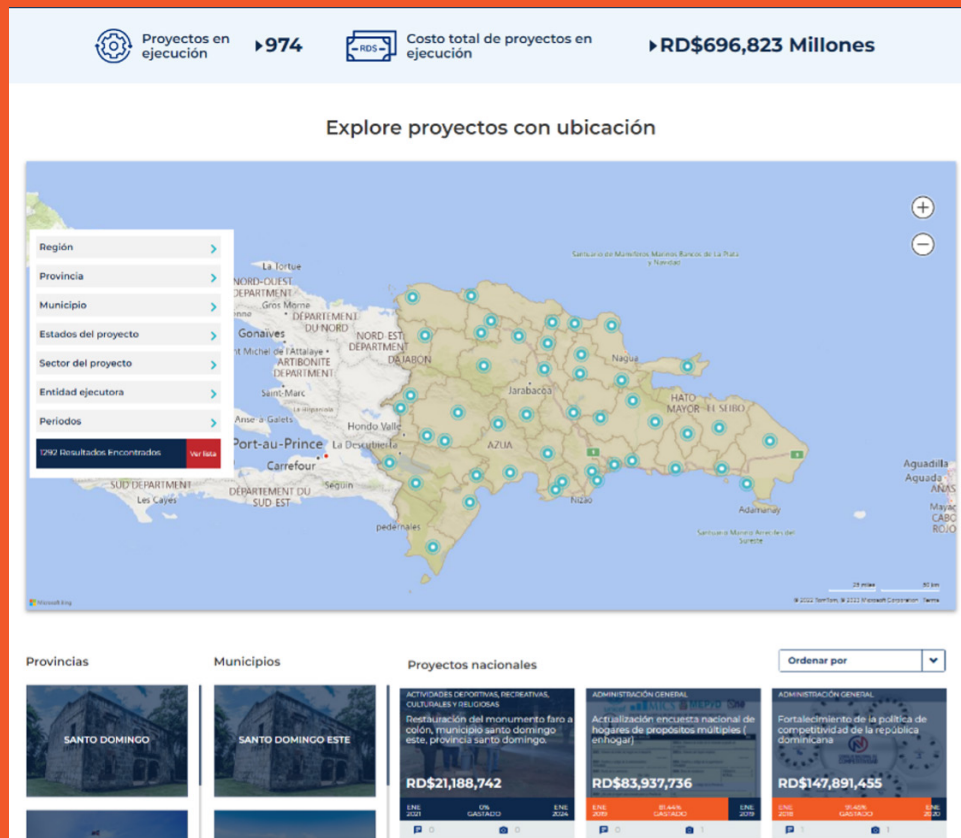


OPPORTUNITY #3:

Improving State Governance, Institutional Capacity, and Transparency



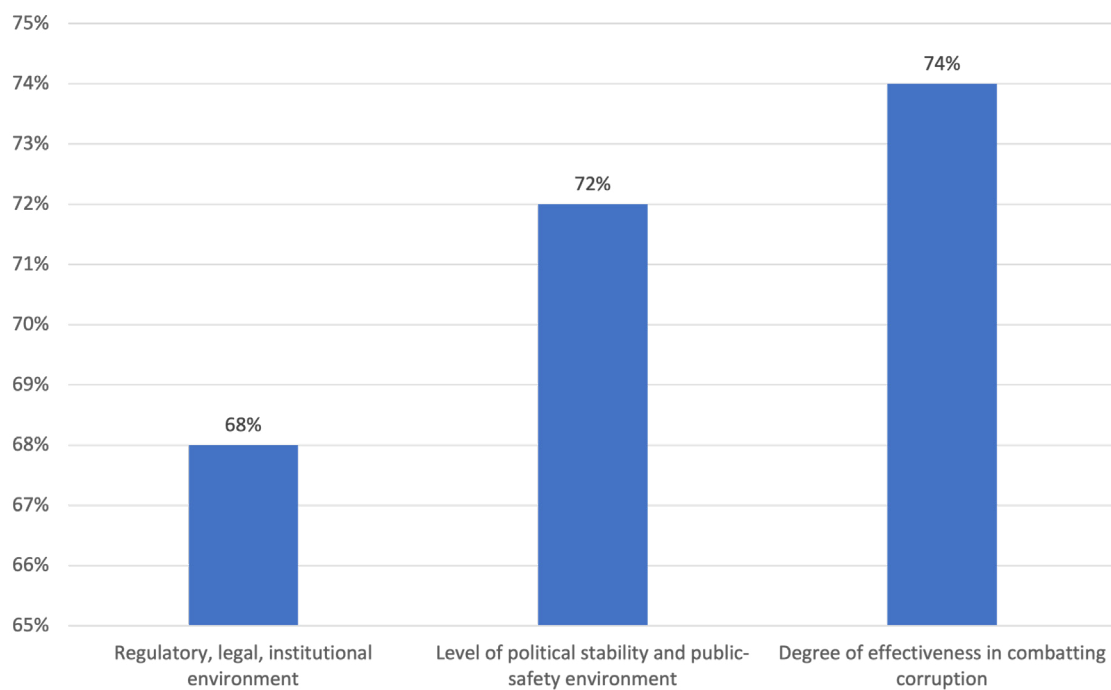
InvestmentMap, an initiative created by Microsoft and IDB, leverages technology and open data to improve transparency in public spending and public procurement.
 Image credit: <https://mapainversiones.mepyd.gob.do/>

Introducing the Opportunity

The private sector has a strong opportunity to contribute to, and benefit from, a better business climate in LAC by partnering with governments to improve state governance, particularly in three areas: “regulation and institutional environment,” “political instability,” and “corruption.” Every survey respondent named at

least one of these issues as a regional detriment, while 85 percent selected two (see additional details in Figure 8). Several indices of governance, such as the World Justice Project’s Rule of Law Index, rank LAC below the OECD average for measures of accountability, political stability, and government effectiveness, among other indicators, and below the global average for rule of law.⁶⁰

Figure 8. Key factors limiting interest in the region.



SOURCE: Atlantic Council survey 2022

60 “Worldwide Governance Indicators,” World Bank, last visited January 25, 2022, <https://info.worldbank.org/governance/wgi/Home/Reports>. Results derived from the World Justice Project’s Rule of Law Index, available at: <https://worldjusticeproject.org/our-work/research-and-data/wjp-rule-law-index-2021/current-historical-data>. LAC average: 0.523; global average: 0.557 (author’s calculations).

Indeed, state governance and capacity challenges are so persistent and widespread that they generated a deep-rooted trust deficit in the region: governments in LAC are trusted by only 29 percent of the population, below the OECD (38 percent) and global (44 percent) averages.⁶¹ This trust deficit, in turn, further undermines government capability and credibility.

Quality of government and respect for the rule of law—including transparency, accountability, and enforceability—are instrumental

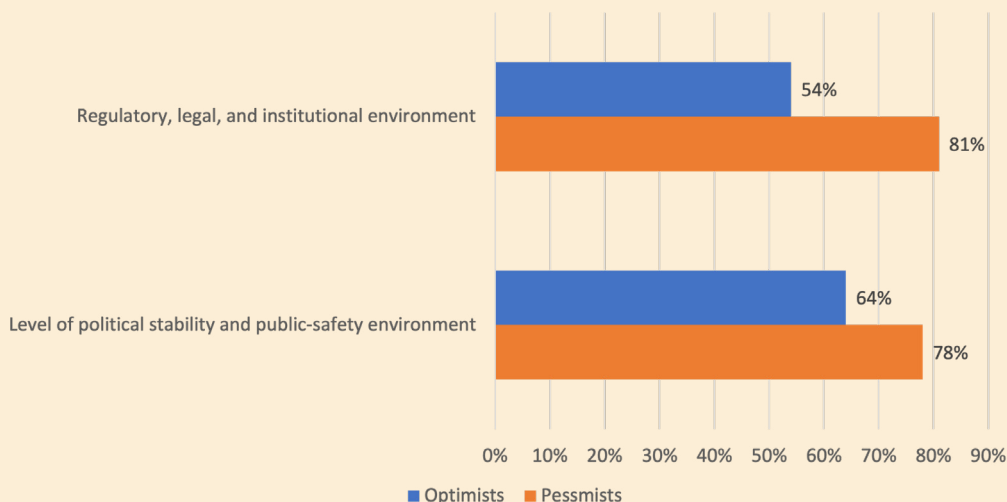
in improving effective delivery of public services, as well as creating a business climate that incentivizes domestic and foreign investment and supports private-sector development.⁶² A solid institutional environment fosters trust, facilitates agreements between individuals, and stimulates economic activities, while weak institutions hinder economic growth, including investment (see Box 5 below).⁶³ Inefficiency in public spending alone (including in procurement, civil service, targeted transfers, and corruption costs) costs LAC as much as 4.4 percent of its GDP.⁶⁴

BOX 5: Additional Survey Insight: Optimists versus Pessimists

Among the survey’s optimists, 59 percent think that LAC’s attractiveness for investment is above average, but only 22 percent of pessimists do. As shown below in Figure 9, while LAC’s regulatory, legal, political, and institutional environment discourages both optimists and pessimists, the

latter group appears considerably more concerned than the former. Therefore, improving public-sector institutions is a prerequisite to greater investment attraction in LAC, especially in terms of mitigating investor skepticism (or pessimism).

Figure 9. Top three reasons LAC is an unattractive/uncompetitive market.



SOURCE: Atlantic Council survey 2022

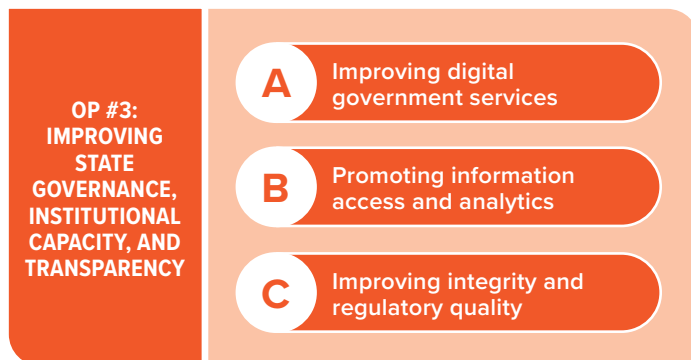
61 Phillip Keefer and Carlos Scartascini, eds., *Trust: the Key to Social Cohesion and Growth in Latin America and the Caribbean* (Washington, DC: Inter-American Development Bank, 2022), 6.
 62 "Putting an end to corruption," Organisation for Economic Co-Operation and Development, 2016, <https://www.oecd.org/corruption/putting-an-end-to-corruption.pdf>; Sumanjeet Singh, "Institutions, Transparency, and Economic Growth," *Emerging Economy Studies* 1, 2 (2015), 188–210, <http://journals.sagepub.com/doi/abs/10.1177/2394901515599272>; Paolo Mauro, "Corruption and Growth," *Quarterly Journal of Economics*, 110, 3 (1995), 681–712, <https://eml.berkeley.edu/~saez/course131/Mauro95.pdf>.
 63 Donato De Rosa, Nishaal Gooroochurn, and Holger Gorg, "Corruption and Productivity: Firm-Level Evidence from the BEEPS Survey," World Bank, 2010, <http://documents.worldbank.org/curated/en/281701468251373866/Corruption-and-productivity-firm-level-evidence-from-the-BEEPS-survey>; "Corruption: Costs and Mitigating Strategies," International Monetary Fund, May 2016, <http://www.imf.org/external/pubs/ft/sdn/2016/sdn1605.pdf>.
 64 "Government Spending Waste Costs Latin America and Caribbean 4.4% of GDP: IDB Study," International Monetary Fund, press release, September 24, 2018, <https://www.iadb.org/en/news/government-spending-waste-costs-latin-america-and-caribbean-44-gdp-idb-study>.

Breaking away from this cycle of mistrust, weak governance, and low growth requires bold, innovative actions.⁶⁵ As concluded in the ABD report, a push for regulatory reform—focusing on “legitimate, transparent and technically sound regulations”—is needed to overcome this problem in the long term.⁶⁶ In the short term, low-hanging fruit in this area consists of public-private actions to enhance **digital government-service delivery, public access to information and analytics, and integrity mechanisms and regulatory quality (recommendations A, B, and C).**

This may include seemingly mundane improvements such as streamlining “trámites” (citizen-government transactions), which are often time consuming and onerous. For example, in 2017, nearly all government interactions related to opening or closing a business involve red tape that restrains formal economic participation.⁶⁷ Overall difficulty is reflected in measurements of the days required to start a business: nine days in the OECD and twenty-eight days in LAC.⁶⁸

Estimates from Mexico’s National Commission for Regulatory Improvement suggest that the economic cost of administrative procedures at different levels of government could be higher than 5 percent of the country’s GDP, and similar estimates point to a cost of 5.4 percent of GDP in the Dominican Republic. In Brazil, the Ministry of Economy estimates that the cost of regulatory inefficiency for national entrepreneurs corresponds to 2.6 percent of GDP. These figures illustrate the importance of administrative and regulatory simplification to improve the business environment. As well, such improvements help reduce integrity challenges such as corruption and bribe, which may arise from the need to circumvent or accelerate government processes for permits and transactions.

Recommendations for the Private Sector



The private sector should be a critical ally for strengthening public-sector governance and capacity, particularly through three main avenues: supporting **digital delivery of government services**; providing **analytical tools** for governments and citizens to access, understand, and effectively use **data**; and encouraging **integrity and regulatory quality improvements** across the public and private sectors.

A. IMPROVING DIGITAL GOVERNMENT SERVICES

The private sector is well positioned to help make LAC more business-, investment-, and citizen-friendly by **supporting e-government**, i.e., by digitalizing, simplifying, and expanding access to government services. The potential for digital government to generate cost and time savings is supported throughout the interviews. For example, Antigua and Barbuda’s Citizens Portal demonstrates how digitalization of licensing, visas, and databases “reduced cost” while “[increasing] citizen engagements.”⁶⁹

Additionally, digital infrastructure and service providers like Amazon Web Services (AWS) are increasing transparency in elections by supporting the move of Mexico’s National Electoral Institute (INE) to the cloud, enabling remote education, and making social programs more responsive via technologies in

65 Eric Parrado, “Boosting civic trust is essential to Latin American economic growth,” *Financial Times*, July 31, 2022, <https://www.ft.com/content/8289d385-4656-4567-9dc5-2412d8990919>.

66 “Action for Growth,” 33, recommendation 3.

67 Benjamin Roseth, Angela Reyes, and Carlos Santiso, eds., *Wait No More: Citizens, Red Tape, and Digital Government* (Washington, DC: Inter-American Development Bank, 2018), 41.

68 “Time Required to Start a Business (Days)—OECD Members, Latin America & Caribbean,” World Bank, last visited January 25, 2023, <https://data.worldbank.org/indicator/IC.REG.DURS?locations=OE-ZJ>.

69 Antonio García Zallos and Enrique Iglesias Rodríguez, “Cloud Computing: Opportunities and Challenges for Sustainable Economic Development in Latin America and the Caribbean,” Inter-American Development Bank, 2018, <https://publications.iadb.org/publications/english/document/Cloud-Computing-Opportunities-and-Challenges-for-Sustainable-Economic-Development-in-Latin-America-and-the-Caribbean.pdf>.

Chile's COVID-19 support-access tools.⁷⁰ Visa used its experience with virtual payments to create digital access solutions, allowing the unbanked to access government relief efforts in Guatemala and the Dominican Republic.⁷¹ Mastercard indicated that public-private cooperation could address the shared burden of overly complex regulations and taxes. This sentiment is echoed by ABD, which encourages governments and firms to “co-create, co-fund and co-implement digital tools” for, among other things, “tax administration.”⁷² As governments digitize service provision through innovative, efficient, and secure private-sector solutions, such opportunities for public-private collaboration will only grow.

Digitalization efforts should be complemented with public-private actions, consultations, and collaboration outside the digital-virtual realm, including operations and business-processes management, human resources, and regulatory assessment. **Leveraging private-sector expertise in these digital and non-digital areas can help improve efficiency and quality** of government services and, therefore, trust in governments.

B. PROMOTING INFORMATION ACCESS AND ANALYTICS

The private sector can **utilize its analytical tools to track, interpret, and share data with the public sector**, as demonstrated by InvestmentMap, an initiative created by Microsoft and IDB to improve traceability in the use of public resources.⁷³ This type of partnership is critical to promoting transparency in public spending and public procurement, and highlights how public-private collaboration can strengthen citizen participation and help restore government credibility.⁷⁴

By using InvestmentMap, companies can access open data to optimize their business plans and proposals for public tenders; governments may receive more competitive bids from companies and make more informed decisions in public procurement; and citizens can better monitor in real time where and how government resources are invested. InvestmentMap also includes a red-flag

functionality, based on artificial intelligence and data analysis. This early-warning system allows for blocking contracting processes that present irregularities according to the existing legal and regulatory framework. It also enables local anti-corruption officials to more effectively verify potential incidents, and supports the development of more efficient monitoring and audit procedures.

InvestmentMap shows the value of public-private cooperation on data analytics, which should be extended further. Some government agencies currently use in-house tools for data analysis, but could, where applicable, look to the private sector for affordable and high-quality alternatives.⁷⁵ Sourcing these tools through a competitive tender process is an excellent avenue for implementing the “open, transparent, and competitive government procurement systems” that the region needs, in line with an ABD recommendation.⁷⁶

C. IMPROVING INTEGRITY AND REGULATORY QUALITY

Addressing integrity issues in government requires a collective-action approach, which includes both public- and private-sector commitment to rooting out corruption and regulatory capture (“the use of regulations to achieve private goals”).⁷⁷ The IDB is supporting the National Confederation of Private Businesses Associations of Perú (CONFIEP) to adopt a new integrity framework for the private sector, based on international standards and best practices of corporate governance. This type of cooperation can also be seen in Panama, where the Bank Superintendency and the Banking Sector Association are preparing integrity guidelines for the Panamanian banking sector. The objective is that public, private, large, medium, and small financial institutions can utilize these guidelines internally to strengthen their anti-bribery and anti-corruption framework.

Integrity is necessary for the development and **adoption of good regulatory practices (GRPs)** based on policies, governance mechanisms, and regulatory tools aimed at ensuring civic engagement and evidence-based decisions. There is still much to be done in LAC to build institutional frameworks that support

70 “Construyendo Servicios Ágiles e Innovadores para la Ciudadanía en la Industria Financiera,” *Blog de Amazon Web Services*, February 18, 2021, <https://aws.amazon.com/es/blogs/aws-spanish/construyendo-servicios-agiles-e-innovadores-para-la-ciudadania-en-la-industria-financiera>.

71 “Digital Aid Becomes Lifeline for Unbanked Guatemalans During Pandemic,” *Visa Everywhere* (blog), August 11, 2021, <https://usa.visa.com/visa-everywhere/blog/bdp/2021/08/10/digital-aid-becomes-1628637832007.html>; “A COVID Silver Lining in Latin America: Digital Payments Surge,” *Visa Everywhere* (blog), November 2, 2020, <https://usa.visa.com/visa-everywhere/blog/bdp/2020/10/09/a-covid-silver-1602273015995.html>; Silvia Constain, interview by Pepe Zhang, *Experts of the Americas*, forthcoming.

72 “Policy Recommendations, IX Summit of the Americas,” 21, recommendation 1.

73 *Ibid.*, 19.

74 *Ibid.*

75 Carlo Santiso and Camilo Cetina, “Why Data Is Latin America’s Best Weapon Against COVID-19 Corruption,” *World Economic Forum*, August 28, 2020, <https://www.weforum.org/agenda/2020/08/why-data-is-latin-americas-best-weapon-in-the-fight-against-covid-19-corruption>.

76 “Action for Growth,” 30, recommendation 2.

77 Pedro Faria, et al., “¿Preparados para Regular?: Lecciones y Desafíos de la Regulación en América Latina y el Caribe,” Inter-American Development Bank, 2022, 12, <https://publications.iadb.org/publications/spanish/viewer/Preparados-para-regular-Lecciones-y-desafios-de-la-regulacion-en-América-Latina-y-el-Caribe.pdf>; Eduardo Engel, et al., “Report of the Expert Advisory Group on Anti-Corruption, Transparency, and Integrity in Latin America and the Caribbean,” Inter-American Development Bank, 2018, <https://publications.iadb.org/publications/english/viewer/Report-of-the-Expert-Advisory-Group-on-Anti-Corruption-Transparency-and-Integrity-in-Latin-America-and-the-Caribbean.pdf>.

GRPs, whether through the coordination of regulatory agencies, or by carrying out systematic regulatory impact analysis (RIA) to ensure that the benefits of regulations surpass their costs. The public and private sectors should work together in RIAs to leverage collective expertise and balance respective biases. For example, public consultations before and during the preparation of regulatory proposals are an essential venue for businesses to share their informed perspectives on regulatory questions while also promoting transparency. Overall, implementing better integrity and GRP mechanisms can increase institutional legitimacy and reduce the region's trust deficit, thus improving its business and investment climate.

Partnership Examples

Firms can play a critical supporting role in **improving governance and strengthening institutions** in LAC, as further evidenced by the three partnership examples below.

Providing and improving **digital government services (recommendation A)** has become an imperative during the pandemic. When COVID-19 first triggered lockdown measures, NTT Data, Microsoft, and IDB launched the turnkey solution Digi/Gob, an ad hoc platform that enables the electronic processing of public transactions and helps governments deliver public services online. Developed by NTT Data in the Microsoft cloud, the platform

provides governments an immediate digital solution, while paving the way for a more ambitious agenda on public-sector digital transformation and streamlining.

As well, continuous public-private-multilateral collaboration is critical to increasing government accountability and combating corruption in LAC. An example of such continuous collaboration is the Red Flags Project referenced above. This project builds on the successful InvestmentMap initiative, which promotes **public access to, and analysis of, government information and data (recommendation B)**, specifically public-procurement information. The Red Flag early-warning system, recently launched by Microsoft and IDB, is helping Paraguay prevent fraud and corruption by using analytical tools, AI, and other advanced technologies to flag questionable activity. The project receives support from Microsoft's Anti-Corruption Technology and Solutions (ACTS) initiative, which helps governments fight corruption through cloud computing, machine learning, and other technologies.

Finally, **improving integrity and regulatory quality (recommendation C)** requires private-sector collaboration and actions. Member companies of the IDB-led American Business Dialogue (ABD) have vocally supported "regulatory transparency... and good regulatory practices that protect people, increase accountability, predictability, and inclusion, and support strong and resilient economies."⁷⁸ ABD has also been in close coordination with the Ibero-American Network for Better Regulation, an intergovernmental community that promotes GRP.⁷⁹ Through this collaboration, representatives of Mercado Libre and other ABD members have participated in webinars organized by the network, sharing their views on the regulatory challenges that both companies and consumers face today in LAC.

78 "Inter-American Action Plan on Democratic Governance," Summit of the Americas Secretariat, June 8–10, 2022, 8, commitment 19, http://summit-americas.org/documentos_oficiales_ixsummit/CMBRS02295e02.pdf.

79 Since its first meeting, fourteen countries have participated in activities of the network: Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Mexico, Panama, Paraguay, Peru, and the Dominican Republic, in addition to Spain and Portugal.