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Fiscal Reform Project

FINAL REPORT

to the Bolivian Government
and the U.S. Agency for International Development

JUNE 1975



Public Administration Service
Advisor to the
Government of Bolivia

La Paz, Bolivia

PUBLIC ADMINISTRATION SERVICE 

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June 5, 1975

MEMORANDUM

TO: The United States Agency for
International Development
and
The Government of Bolivia

FROM: Public Administration Service

SUBJECT: FINAL REPORT
Fiscal Reform Project

This report is the last one to be presented regarding the Fiscal Reform Project. It corresponds to the period April 1, 1974, through June 30, 1975, pursuant to (1) the current agreement between AID and the Government of Bolivia and (2) the current extension to Contract No. AID/la-690 between AID and Public Administration Service (PAS). Incidentally, it covers the fifth and last quarter of that period. Proj. S11-11-720-082.2

In good measure, furthermore, this report also corresponds to the nine-year period, dating from 1966, during which the effort designated "Fiscal Reform Project" has been conducted. During the nine years, there have been several agreements between the Bolivian Government and AID, as well as several contracts between AID and PAS. This report is treated as the last report on a nine-year Project as well as the final report under the current agreement and contract.

Section I of this report contains a recapitulation of Project purposes, results achieved and problems that remain to be resolved. In Section II, the attempt is made to identify some of the "lessons" that should have been learned after investing nine years and upwards of two million dollars in the Project.

One general and fundamental lesson or conclusion is this: that GOB financial management still requires corrective action, because it still does not meet the fair and reasonable requirements that should be stipulated by the "executive" government of a nation seeking accelerated development.

Another fundamental lesson or conclusion therefore is this: that efforts in favor of improved general and financial management of the GOB ought not be discontinued, scorned or scanted, notwithstanding the slowness and difficulty with which improvement may be achieved. With the support and encouragement of the President, the Council of Ministers and CONEPLAN (the National Economic and Planning Council), now that the GOB has repeatedly declared itself regarding the urgent necessity of improving Bolivian public administration, the environment should be more favorable now than in the past. It would be a pity not to take advantage of that better environment.

The Fiscal Reform Project has been one of several efforts oriented to the improvement of management. During a good part of the Project's nine years, the environment within the Ministry of Finance was not always very propitious and the Ministry was not always very receptive to the idea of change in order to improve its performance as a central component of financial management. Recently, there have been greater receptivity, an increased disposition to enter into dialogue and, in some cases, decisions and actions that had been pending for years. This suggests that the Government's declarations may have improved prospects and the possibility of success in reform efforts.

It would be to the GOB's advantage to insist on achieving a progressive improvement in its management. By the same token, it would be advantageous if USAID and other entities were disposed

to support the GOB in seeking that improvement. In the future, it is hoped that the reports, manuals and recommendations of the Fiscal Reform Project will serve to help the GOB in strengthening the financial aspects of its management.

BDF/ngg./PAS

I. Progress and Unmet Targets

The Fiscal Reform Project was begun in 1966. A variety of adequate reasons fully justified such a project. The reasoning behind it is documented in the Solomon Report (1963) and in a report of Public Administration Service (1964).

The Solomon report in large measure dealt with Bolivian finances from the viewpoint of the branch of economics that deals with "public finance," but also referred to financial administration. It indicated that many matters needed correction. The report was accepted by USAID and the Bolivian government as a valid base on which to take corrective action.

The 1964 PAS report addressed only the administrative aspects of public finances in Bolivia. Its purpose was to identify which topics should receive attention in a future effort to improve and modernize financial administration. Later, the GOB and USAID intended to sponsor an action program and to contract advisory services.

Under an USAID/GOB project agreement, the Fiscal Reform Project was established and Public Administration Service was contracted to serve as advisor. The Project is not one of "public finance," because it does not pretend to indicate which financial policies, priorities or goals the GOB would be well advised to adopt. The Project is focused on matters administrative and managerial, that is, on the organizational, procedural and conceptual arrangements that may help the GOB's general and financial management to choose and apply effectively and productively those policies and priorities that it may decide to adopt and to fulfill the goals that it may decide to select.

The need for the Project was clear, and so was the route to be followed.

Now it is 1975. Nine years have passed and more than two million dollars have been spend on the Project. Have conditions changed?

In 1975, it would be easy to justify a decision to begin new to work on the same subjects and with the same objectives.

- ** Governmental budgeting has been a major focus of attention for the Project. In 1975, budgeting remains neither complete, informative, timely, programmatic nor properly linked with financial accounting, on the one hand, nor governmental planning on the other.
- ** Governmental accounting has been the other principal focus of attention for the Project. Indeed, it has been the area in which greatest progress has been achieved. Nevertheless, in 1975, the accounting continues to be incomplete, untimely, incorrect and not extremely informative.
- ** Governmental purchasing, during several years, was an important topic for Project attention. In 1975 the purchasing system continues to be antiquated, clumsy, ineffective, expensive and poorly controlled.
- ** Revenue administration per se has not been a principal topic for the Project, but considerable attention has been addressed to assuring that revenues would be adequately processed, deposited, protected, accounted, distributed and reported. In 1975, the pertinent procedures remain vulnerable to embezzlement besides being badly conducted, controlled and coordinated, extremely slow and, naturally, finally uninformative.
- ** Personnel training has been an important purpose of the Project. Many people have been enabled to complete appropriate courses in accounting, auditing, budgeting,

purchasing, organization and methods and related subjects. There has been a variety of long and short courses, seminars, etc. As individuals, it may be assumed that the participants have been benefited. Until 1975, with the exception of the Contraloría General, which has staffed itself with people thus trained, the various governmental offices -- particularly those of the Finance ministry -- have not strengthened themselves with the personnel thus trained.

- ** The Project has promoted the rational distribution of responsibilities and authority (including the creation of offices that did not exist prior to the Project) and, in addition, has encouraged careful and constructive cooperation and coordination among governmental offices. In 1975, the distribution of duties and responsibilities continues to be ambiguous and poorly observed, and the level of coordination and cooperation among offices continues to be exceedingly low, even within a single ministry.
- ** The Project has paid attention to the payment process, which has been so unreliable and so burdened with red tape that not every merchant or contractor really wants the Bolivian government as a client. In 1975, the payment process continues to be shamefully slow and uncertain.
- ** The Project has promoted the development of reliable sources of financial and economic information, e.g., regarding past year incomes and expenditures, regarding operations of the public enterprises, etc. In 1975, such categories of information continue to be scarce and neither consistent nor reliable.

Given these facts, one would be justified in concluding that now, in 1975, it would be constructive to initiate a new Fiscal Reform Project.

On the other hand, there are achievements and advances that can be identified as outcomes of the Project, its nine years of effort and its expenditure of two million dollars.

- ** In 1968, responsibility for financial accounting was transferred from the controller's office to the Ministry of Finance, where it logically belongs. In 1975, there exists the General Directorate of Accounting, within the Finance ministry, as the office charged with performing the central accounting of the Bolivian government and with causing the introduction of adequate modern accounting throughout the Bolivian public sector.
- ** In 1975, the essence of a new and modern system of governmental accounting is operative in the accounting directorate, and the system was designed in accordance with the most modern concepts generally accepted by international authorities in this field.
- ** In 1975, the principles, norms and standards that will guide the future development of governmental accounting throughout the Bolivian public sector are in effect, promulgated under the authority of Supreme Decree No. 12329.
- ** In 1975, hundreds of Bolivian public employees have been trained and educated, thanks to Project efforts in collaboration with the Institute of Public Administration (ISAP), in general and specialized aspects of governmental financial management.
- ** In 1975, many public employees and officials, now made conscious of the inadequacies of present financial management, would welcome the opportunity to advance the purposes promoted by the Project.

With these facts in mind, one may conclude that the Project has yielded some advantageous results.

From the foregoing, nevertheless, the conclusion emerges that many objectives remain to be met and many constructive actions remain to be taken, if financial management of the Bolivian government is to be put in genuinely good condition. The following items may be considered.

- ** Those who govern Bolivia have to reach the well-justified conclusion, with respect to their financial management, that existing organizational and procedural arrangements and present performance truly do not satisfy them because they do not supply what is needed by the "executive" government of a developing nation.
- ** Close and constructive relationships need to be established to link the several rather disconnected offices that now are responsible for one or another aspect of planning, programming, budgeting and fund-raising, as well as of accounting and financial information.
- ** The GOB's annual budget must be adopted prior to the start of the budget year. For lack of a budget adopted on time, the Government and its components suffer a wide variety of delays, inconveniences, damages and frustrations that adversely affect all of the programs that the GOB wishes to advance.
- ** In order for the budget to be adopted on time, it will be necessary to clarify what a budget is and what those who govern expect that their budget will be and do. Until now, the budget is regarded as a compendium of detailed financial and accounting data. It needs to be regarded as the programmatic, financial and economic expression of the GOB's plan of operations, in accordance with the goals,

policies and priorities of the GOB, and as the principal declaration of exactly how -- this year -- that government has decided to promote the nation's development.

- ** There is much detail in the annual budget document and in the present budgetary appropriation structure. Unfortunately, it is detail of scant value. It does not indicate the amounts to be made available for each program, sub-program, project and activity, etc. Neither does it indicate how much money will be available for expenditure by each organizational unit. It merely indicates how much money may be spent by each ministry or other agency as a whole on each of the nearly 150 categories within the object of expenditure classification system, i.e., how much for each category of materials, each type of services, etc. The budget document has carried the title on its cover, "Program Budget," but its contents demonstrate that the title is an abuse of the language, because the contents include little or nothing that is programmatic. What is needed is to retain the title but to change the contents radically.
- ** The budgeting system and the budget document must be changed. Their current focus is that of accounting, finance and economics. They must become much more programmatic, informative and evaluative. A financial expression of the budget must be recorded in the financial accounts, but those who purport to work on budgeting should not be engaged in accounting or auditing.
- ** The budget document continues to present financial data for the new year, compared with data for the old year. It contains no "real" data for any year, hence neither permits nor facilitates a comparison of new estimates or appropriations with the actual results of the past. Hereafter, it must present those data on past experience that will permit the governors to reach judgments regarding the proposed levels of appropriations and possible resources.

- ** Neither the budget office nor any other governmental office is seriously engaged in the evaluation of the operations of the GOB and its components. On the other hand, many offices are devoted to being "policemen" in the exercise of negative controls over public finances. In the future, provision must be made for two things: (1) affirmative management controls designed to assure that everything is done that the GOB decided to do, and (2) evaluation designed to ascertain whether what was done really produced the desired results, besides considering if it was performed with suitable economy, effectiveness and other attributes.

- ** The central accounting directorate has to be strengthened and improved, because a part of the flaws in accounting does stem from defects in that directorate. In great measure, however, the roots of such flaws are found elsewhere: in the central directorates of budgeting, treasury, internal revenue and customs, in the Central Bank, in other agencies of the Bolivian public sector and -- perhaps above all -- in the grossly inadequate cooperation and coordination that now exist among agencies and offices of the GOB. There is very ample opportunity for administrative and managerial improvement in this area.

- ** The new accounting system exists in 1975 only within the central accounting directorate, but has not yet been made extensive to other public agencies. At the initiative of the Fiscal Reform Project, the GOB (a) adopted and promulgated the principles and standards for governmental accounting and (b) established, within the accounting directorate, an accounting systems department. Hereafter, those two instruments must be used to promote the development of suitable accounting systems within each ministry and, at length, within each entity of the public sector.

- ** There is a system of "recognized debts" that is used to pay those bills which, for various reasons, were not paid within the limits established for the closing of each annual budget; in provision for the payment of such bills, a budgetary appropriation is made each year. The system per se is an anachronism that must be eliminated, and the corresponding annual appropriation, which is a logical error in terms of both budgeting and accounting, must not be repeated. A simple accounts payable system should be substituted.

- ** In the Bolivian revenue system, it is common to find a series of surtaxes, as well as a basic tax, levied on a single matter. It may be supposed, of course, that the combination of tax-plus-surtaxes must be a complication within revenue administration; but, revenue administration being outside the limits of this Project, that is not a concern for Fiscal Reform. The Fiscal Reform Project's concern in the matter is this: the numerous calculations involved in applying a tax plus a series of surtaxes quite regularly results in arithmetical errors; these errors produce delays within the collecting agency and elsewhere; their result is the very late arrival of information at the accounting directorate, hence a chronic tardiness in revenue accounting. It is demonstrated in Earmarked Revenues, a publication of the Finance ministry (1973), that it is quite feasible to substitute a single tax rate in place of the series of rates now involved in computing a tax and its surtaxes. That substitution certainly should be made, in benefit of revenue administration and with beneficial effects upon revenue accounting and reporting.

- ** There are a number of earmarked taxes and surtaxes within the Bolivian revenue structure. These require that stipulated fractions of the collections from given sources

be distributed, not to the national treasury, but to certain municipalities, prefectures, universities and other recipients. The distribution is computed within the internal revenue system's various offices for each period in which a given office collects an earmarked tax or surtax. Errors are frequent and many corrections are required. One result is that information regarding collections and their distribution reaches the central accounting records of the GOB exceedingly late: in December, 1974, the delay was of 17 months. All of the necessary computations could be made easily, correctly and rapidly by CENACO, the National Computation Center, with beneficial effects for revenue administration, for the recipients of earmarked revenues (because they now receive their shares only after long delays) and, of course, for central accounting of the GOB. The necessary changes obviously should be made, so that CENACO hereafter will make all the necessary computations.

** Earmarking per se is an antiquated and anachronistic practice that contradicts all the logic of a sensible budgeting system. It is a way to put money at the disposition of a given entity, but it is a most inferior form of doing so: the simple appropriation of funds via the annual budget is more convenient and more adaptable to changing needs and circumstances. Only by accident, of course, will the earmarked amount turn out to be exactly equal to the sum required for the purpose that led to the earmarking. It is predictable that the sum received by the beneficiary will be either too much or too little, so that being the beneficiary of an earmarked revenue is rather like participating in a lottery. Other defects in the system could be noted. The conclusion, however, is that the GOB, as quickly as possible, should discontinue the use of the

earmarking practice and, in its place, should put money in the hands of the designated recipients by way of budgetary appropriations in proper amounts. It is predictable that, in a study of the subject, it will turn out that some of the subventions now made via ear-marking should no longer exist and should be discontinued or, in some cases, substituted by loans.

- ** The GOB has various collecting agencies: internal revenue and customs, of course, plus many others. Their collections are deposited in the Central Bank (in some cases, via the Banco del Estado), where they are credited to bank accounts of the Treasury. Treasury later informs the central accounting directorate of the collections made, deposited and credited. The accounting directorate, which receives no information either from the collecting agencies or from the bank, has no basis on which to establish any type of accounting controls on behalf of management. As it stands, the existing system is vulnerable to embezzlement, because it does not contain the advisable internal controls. The accounting directorate hereafter should receive reports (including deposit slips) from each collecting agency regarding what it collected and deposited, and should receive corresponding information independently from the bank. Making suitable use of information received from the independent sources, the accounting directorate will be able to verify the accuracy of what the Treasury reports, to perform more timely accounting and reporting, and to install the appropriate internal controls.
- ** The ministries and other units of government make purchases, maintain warehouses, distribute materials, maintain inventories, dispose of surplus, etc., each one in its own

fashion. Existing systems are varied and, as a whole, inadequate. As the GOB becomes larger and it makes larger sums available for acquisitions, the present purchasing systems will become both more inadequate and more dangerous. For greater protection and control of its funds and its properties, and in order to offer better service to the agencies that use what is acquired, the GOB should re-order, rationalize and modernize all of its arrangements for buying, warehousing, supplying, maintaining inventories, and using or disposing of surpluses of the equipment and supplies that it acquires. What exists in this general area does not meet GOB needs. It should be substituted by a new, modern and complete system that encompasses specifications, selection of markets and suppliers, inspection of goods received, prompt payment of bills, warehousing and logistics, accounting, inventories, physical control and other aspects of the problem.

** Purchasing and supply may be regarded as just one among a series of general services required by all agencies of the GOB, and each such service merits central attention in terms of norms and standards if not central direction and provision. Printing and binding is one such service. The operation and maintenance of motor vehicles is another. The maintenance of buildings and grounds is a third. The rental, purchase or design and construction of buildings is a fourth. Among such general services, only one now is being provided on an orderly, systematic and probably economical as well as effective basis; the exception to the general rule of neglect is the provision of electronic data processing services, now centralized in CENACO, the National Computation Center. The subject of general services is one to which the GOB should direct careful attention, with an eye to better service, better control and protection of its resources, and greater economy of operations.

** The GOB has a multiplicity of administrative units -- ministries, decentralized agencies, public enterprises, development corporations and committees, institutions, etc. Setting aside the question of the merits and disadvantages of decentralization, operating autonomy, etc., it is worth noting that the multiplicity of agencies creates one difficulty at the center for the Government: it becomes very difficult to maintain itself fully and adequately informed regarding the finances as well as the operations and achievements of each entity. The public enterprises are a case in point. They are of utmost importance in the national economy and for national development. Nevertheless, the GOB is poorly informed about them. At least with respect to their financial operations and financial condition, it is urgent that the Finance ministry, on behalf of the GOB, take the steps necessary to maintain itself well informed regarding each public enterprise and all public enterprises as a group. Apart from this illustrative case, of course, that Ministry should do the same regarding the entire public sector of Bolivia.

This long series of topics constitutes a good sample of what yet remains for the Bolivian government to do in order to improve its financial management. The above enumeration is by no means exhaustive.

All topics mentioned have been treated amply and, in some cases, repetitiously in previous reports presented by PAS as part of the Fiscal Reform Project.

The fact that the same topics can be listed in 1975 as failures to be corrected and as themes to be attended to constitutes per se a clear indication of the extent to which the Bolivian government has addressed serious attention to the cooperative Fiscal Reform Project since 1966.

II. Lessons to be Learned

The roots of the Fiscal Reform Project extend back nearly 15 years, and the Project per se has lasted nine years. Surely it must be possible to learn something from this experience, in benefit of future efforts to improve management within the GOB and of increased success in future joint projects of USAID and the GOB.

What should have been learned? In this second section of the final report, at least by way of notions, some observations on the subject are offered. There are comments on the administrative and managerial style and environment of the GOB and on their effects upon the possibilities for success in any improvement efforts. There are some comments on present organizational, procedural and conceptual arrangements that characterize Bolivian public administration and that affect all efforts in management improvement. There also are comments on the role and performance of such external actors as USAID and other entities.

** The GOB has two ministries whose roles set them apart as managerial: the Ministry of Planning and Coordination of the Presidency of the Republic, and the Ministry of Finance. The others are operational ministries. These two managerial ministries establish -- and therefore could modify -- the tone, style and other general characteristics of Bolivian governmental management. If there is a failure within an operational ministry, the adverse effects of that failure are felt only in that ministry and in the sector it serves. But if there is a failure in the managerial ministries, the adverse effects may be felt throughout the public sector. Hence, it would appear that a desire to improve Bolivian public administration and management should be expressed by high-priority attention to the

two managerial ministries. Such attention is needed. Once those two ministries have become highly effective, they will themselves be able to exert a healthy influence upon all other components of the public sector.

- ** Bolivian governmental management is weakened by the lack of both programmatic and financial information. Information is scarce, what there is is dispersed, and the entire informational system needs strengthening. The effort made by the Fiscal Reform Project to reconstruct governmental accounting is important in this connection, because if it should prove successful, it would markedly increase the financial information available: accounting then would be able to offer to the governors and executives an indispensable part of the information they lack today regarding GOB income, disbursements, debts and other factors. The Project's effort to encourage radical changes in budgeting has similar importance. The same may be said of the Project effort to encourage adoption of a methodology whereby the Finance ministry, on behalf of the GOB, could inform itself of the financial condition and financial operations of each public and quasi-public corporate enterprise.
- ** Perhaps the disconnection (noted above) between planners and budgeters is related to the fact that budgeting -- which should be highly informative -- is not. Those who wish to do governmental planning thus far can find little information in the budget and scant information in the accounts. Hence what should naturally and automatically become an interministerial alliance is formed only with difficulty.

** On the same note, the GOB has maintained for years an office whose reason for existence is to promote administrative "reform," "renovation" or "rationalization." If budgeting were programmatic, evaluative and informative -- a condition contrary to fact -- there would be another natural and automatic alliance, between the executives of budgeting and reform, respectively.

Budget personnel could identify the flaws in organization, procedure and performance that reduce the effectiveness and usefulness of governmental programs, because they would be observing the programs from close in. They would report on such matters. Administrative reform personnel then could take their reports as starting points for pragmatic corrective action, addressing their efforts now to known and specific weak spots.

In the absence of the conditions desired for budgeting, and in the absence of evaluation in general, the reform personnel find themselves drawing organizational charts of the public macro-structure and engaging in other exercises of limited effect, while they look for openings that would offer a chance to do something else of greater practical productivity.

** Closely related to the preceding topic is the subject of auditing, to which a good deal of Project effort was addressed during several years. Pre-auditing, which should be done in the central accounting directorate, is a question of internal financial controls. Post-audit, in contrast, which should be a task for the Controller General's office, the principal GOB reviewing agency, could be both a programmatic and a financial matter.

Audits conducted by the Controller General should ascertain, of course, the correctness and honesty, etc., with

which public funds are managed. In addition, however, it should ascertain whether the public entity being audited is or is not complying with its reasons for existence, as these are spelled out in pertinent organic and other laws; whether the audited entity is or is not carrying out the tasks assigned to it in the annual programmatic budget; and whether the audited entity is or is not functioning with effectiveness, economy and other desired characteristics.

For lack of programmatic budgeting, for lack of managerial evaluations, and for lack of more productive efforts toward administrative reform, the audits effected by the Controller General thus far are basically limited to traditional aspects of financial, accounting-oriented audits and to some observations on administrative matters.

The results of present auditing have limited utility for those who would improve governmental management. The results of the much more broad gauge audit described above, in contrast, -- and it is clear that the Controller's Office wishes to enter into operational auditing -- would have great value for that purpose.

The possibilities for programmatic and operational audit, in addition to the traditional, are now minimized by defects in budgeting -- which is neither programmatic, informative nor evaluative -- in accounting, and in the organic and other laws. Audit is another reason to seek improvements in budgeting, accounting and efforts in favor of administrative reform.

** The GOB organizational structure shows many separate entities, more and less autonomous and sometimes isolated and disconnected in their performance. Many entities have a single duty and perform a single type of activity. There

seems to be a preference for that kind of entity over the multi-purpose unit. In some cases, the result is a disconnection between the parts of what should constitute a single whole. There is at least the risk of disconnection between activities that should be closely interrelated. It would be prudent of the GOB to ascertain to what extent that risk is a reality. The two following items are on this subject.

- ** Broadly conceived, governmental budgeting is a process of deciding, with respect to a government's plan of operations for a given period, what will be done and to what end, how, by whom and with what resources in each case. In 1975, that process is activated centrally through the efforts of: the budget directorate, the income directorate and the external financing institute (INDEF), plus other components of the Finance ministry and the planning subsecretariat, the pre-investment institute and possibly other components of the Planning and Coordination ministry.

It is not clear that it is necessary or useful to have so many institutional actors in the process. Neither is it clear that the cooperation among them is all that might be desired. One noteworthy symptom is the fact that the 'budget' is prepared in one ministry and the "operating plan" (which appears to be basically a capital budget) is produced in the other, although the combination of the two would constitute the plan of operations of the Government.

- ** The Fiscal Reform Project once characterized the GOB as a 'holding company' or "conglomerate" with a whole series of corporate subsidiaries, namely, its public enterprises and others. Even its subsidiaries (e.g., the Bolivian Development Corporation) sometimes have subsidiaries.

On behalf of the holding company called the Supreme Government of Bolivia, who watches or supervises or maintains himself informed about or maintains surveillance over the many subsidiaries? One ministry (mining and metallurgy) has a kind of stewardship over COMIBOL (the mining enterprise that is the largest among the public corporations), the mining bank and, among other entities, SIDERSA, which is responsible for developing the iron and steel industry in the Mutún and is potentially even larger than COMIBOL. Another ministry bears the same relationship to YPFB, the oil corporation. Another ministry with respect to the agricultural bank; another vis-a-vis LAB, the airline; and so forth.

These arrangements notwithstanding, it may be said that the GOB per se -- the Supreme Government -- does not possess the minimum indispensable means whereby to keep itself aware of what is happening within and to its large and small subsidiaries that have such great importance to the national economy and to future national development. The President and his Council of Ministers, seen as the governing board of the conglomerate holding company, do not hold the reins with which to direct and control their many subsidiaries.

- ** Regarding the two matters described in the two preceding items, it seems possible that there has been an excess of specialization, division of labor and decentralization. The two deserve study and possible corrective action.
- ** In those two matters, on the other hand, it may be that the GOB has created so many separate entities and over-divided responsibilities simply because its managerial ministries have not worked well enough to satisfy its needs. Nine years of experience in the Fiscal Reform Project seem to have demonstrated that the Finance ministry,

for example, until now has not been classifiable among the capable, effective and agile institutions that anticipate problems and then devote themselves to preparations for treating the problems promptly and effectively. When the Solomon group conducted its studies in 1962, for example, the Finance ministry did not then satisfy the requirements imposed by the needs of a national government. Thirteen years later, in 1975, the same is true.

One possible interpretation of the facts, therefore, is that the GOB, instead of demanding the radical and visible improvement of the Finance ministry, tried a well-known alternative and built other institutions that might serve as crutches. If so, the crutches have not resolved the difficulties but perhaps increased them.

It still remains necessary, therefore, to strengthen the Finance ministry directly, perhaps assigning it still greater responsibilities than those it now holds, and then insisting on superior performance.

- ** One lesson that should have been learned during these years, therefore, is that the GOB clearly needs an effective and vigorous Finance ministry, that no substitutes will do, and -- because the present Finance ministry is not fully satisfactory -- it is imperative to insist upon its strengthening and its radical reform. One point of departure for such reform could be the review -- by the ministry itself, by the National Economic and Planning Council (CONEPLAN) and by the Council of Ministers -- of the future organic law of the Finance ministry. Draft laws seen thus far describe the Finance ministry just as it now stands, and would have the effect of ratifying what now exists. But if what now exists is judged to be not entirely sufficient, the opportunity is present for something different and superior to be conceived.

- ** One may ask why, during the years since the Solomon study, it has not been possible to reform the GOB's financial arrangements. No doubt there have been multiple factors, of substance and of circumstance. In the two following items, mention is made of two factors that have impressed the PAS representatives in the Fiscal Reform Project.
- ** One requisite for the profound or radical improvement of an institution is a clear concept of why it must be improved, of the institution's reasons for existence and of what the institution should be like following its renovation. That imposes another requisite: continuing and consistent leadership, that can develop such a concept, keep it constantly in mind, and be disposed later to make the decisions and take the actions needed to convert the concept into a reality.

Speaking of one institution of great importance, there has not been an opportunity to enjoy such continuity and constancy in the leadership of the Finance ministry. Since the days of the Solomon study, for example, the direction of the entire Bolivian government has passed from the hands of President Siles Suazo to those of his successors Paz, Barrientos, Ovando, Torres and now to President Bánzer. The direction of the Finance ministry (and other ministries, of course) has passed through many more hands, including those of at least six Finance ministers appointed by President Bánzer.

There may very well have been much talent and good intentions, but there has been scant continuity. One must suppose that the concept of the ministry has varied from government to government and from minister to minister. Under that circumstance, there could scarcely have been consistent leadership and direction, and there could

scarcely have been profound improvement. This is by no means a criticism of the present Finance minister, of the minister of 1962, nor of the others who have occupied the difficult position during the intervening years. Neither is it a criticism of the several Presidents of these years. It is a question of style and of the management environment which, through the years, has been developed in Bolivia.

A lesson to be learned from this matter, perhaps, is that it would be constructive to change this environmental characteristic, this national idiosyncrasy, because it does not seem to promote progress. One may suppose that no one is named to be Finance minister unless he is a person of ability, intelligence and other essential attributes. It may be further supposed, therefore, that any Finance minister of recent years, given the opportunity of remaining in the position during several consecutive years, could have become a "professional" of that position.

Remaining only few months in each case, however, none has been able to markedly improve the institution. A "professional" minister, in this sense, within a few years could effect all the changes necessary and could deliver to his ultimate successor an institution that fully satisfies every requirement that a modern national government might impose on it. It would be useful to put this possibility to the test.

** The importance of the Finance minister has been stressed here because, in the Bolivian management environment, the minister personally plays a key role. Again, this is a matter of national idiosyncrasy. The Bolivian bureaucracy is one in which (broadly generalizing, of course) ideas and initiatives do not come bubbling up from below to be brought to the attention of the executive. On the contrary,

the impression is of a quite different type of bureaucracy, one in which there can be virtually no change whatever unless it is imposed from above.

If a Finance minister does not remain as minister during a relatively long period -- several years -- in order to know the institution really well, to clarify the concept of the institution (the concept of which mention was made in the preceding item), and to take firm decisions and give firm orders, it is difficult to conceive that there will be fundamental improvements or changes in the institution. There will be inertia below if there is not clear and firm leadership from above. In the long run, this characteristic of the bureaucracy can be changed, of course. But what should be learned from this experience is that the clarity, continuity and firmness of institutional leadership is an essential factor to be established.

** A corollary to the phenomenon of the many changes of ministers, of course, is the notorious phenomenon of the frequent changes of other personnel in the GOB ministries. This is another environmental factor, another idiosyncrasy of the Bolivian governmental environment. Once again, it would seem to be a dysfunctional and disadvantageous factor that deserves to be changed. More continuity is needed among positions classifiable as professional, technical, executive, administrative and supervisory.

The concept of "career personnel" at this date may be more or less accepted, but that concept has not yet been given full expression in practice. Its application, it would seem, is most appropriate in the categories of positions just mentioned. It is those positions that require not only well educated and well trained but also experienced personnel. These are the positions that call for persons

who share the sense of direction, the goals and the desire for improvement that can be established by the good leadership of an experienced minister.

Perhaps changes in clerical positions, for example, do not matter so much, but instability among the categories of positions named above certainly is important.

During the life of the Fiscal Reform Project, excessive changes have been seen, and their adverse effects have been observed: in the Finance ministry, in what is now the Planning and Coordination ministry, in ISAP and in other units of the GOB. One lesson to be derived from this experience, therefore, is that the betterment of general and financial management depends partly upon better personnel administration that must seek to recruit and retain capable and productive career personnel.

- ** The environmental factors noted above have their effects upon the possible utility of advisory and technical services that are offered by such entities as USAID, OAS, UN, the international banks, etc. Judging on the basis of the Fiscal Reform Project and other analogous projects observed in Bolivia, it appears that maximum advantage is not made of these services.

The technical advisor is quickly put in contact with his local counterparts. These may be far removed, by two or more levels of the hierarchy, from the minister of the organism to be served. Given the situation in which the bureaucracy does not take the initiative, much less have the power of decision, this contact does not always yield the beneficial results desired.

The advisor also needs direct contact with the minister and those of his associates that effectively direct and control

the ministry. To that principal executive group, the advisor should offer "advisement," properly speaking. When the advice has been digested and accepted, and when the resulting conclusions have been translated into instructions to other levels of the hierarchy, the advisor then will be enabled effectively to offer "technical assistance" to his counterparts, and to do so in the full confidence that it will yield the results anticipated.

** Reference has been made previously to the low degree of cooperation, coordination and collaboration among entities of the GOB. This circumstance reduces the effectiveness of the GOB's own operations, of course. It also limits the effectiveness and utility of the services potentially available from the international organizations.

If the GOB were very well organized and coordinated, it could grasp and hold the initiative with respect to external assistance. It could seek to obtain assistance in precisely those matters of its greatest interest, in accordance with its own goals, policies and priorities. It could establish the most advantageous contacts between its executives and the proper representatives of the most appropriate international entities. It could foment a more constructive cooperation among the external agencies themselves.

One observation derived from the experience of the Fiscal Reform Project, in contrast, is that the GOB is not that well organized, the initiatives are not always its own, the international organizations are not always in full contact with each other, the desired cooperation does not always exist and, in short, there is reason to judge that the GOB does not always capitalize to the maximum on the services and other resources that could be available for its use.

In common with those mentioned in Section I of this report, the preceding items refer to themes and topics mentioned -- in many cases, repeatedly -- in the reports presented during these years by Public Administration Service within the Fiscal Reform Project. In a good many cases, the PAS observations have been well received by GOB personnel. Unfortunately, however, only in few cases has it been possible to obtain a firm decision plus the start of appropriate action.

There can be no doubt that the scant continuity among executive personnel of the Finance ministry has been a negative factor of major importance. A new minister's first obligation is to learn about his ministry and its activities, resources, personnel and problems. It would be presumptuous, perhaps, to expect him immediately to become acquainted with the advisors supplied by USAID, OAS and others. Only after he has been in office for some time is a minister likely to meet the advisors, become acquainted with their work and begin to consider whether and how to accept and apply their recommendations. If the minister should have a very short tour before being replaced, it is quite possible that he neither gets to know the advisors and their work nor to take action on the basis of their recommendations.

During the nine years of the Fiscal Reform Project, there has been a long series of new appointments to the post of Finance minister. With each appointment, it becomes necessary to begin anew with explanations of project purposes, methodology, findings and recommendations, suggestions regarding decisions and action now pending, etc. With each appointment, in effect, it becomes necessary for the PAS Advisory Group to reestablish its credentials as serious and capable consultants who merit the attention of the Minister of Finance. With admirable frankness, one out-going Finance subsecretary acknowledged that, at the start of his tour, he did not take the PAS Group seriously and that it was only with the passage of time, as he became more profoundly aware of the ministry's facilities and problems, that he recognized the potential value of the Project.

The phenomenon may be illustrated with the case of the accounting principles, norms and standards that were proposed by PAS in 1973. The draft statement of the principles and standards was presented to Minister "A." Minister "B" commented that the subject was important and would merit attention. Minister "C" appointed a commission to study the matter. Recently, under the present Minister of Finance, Col. Víctor Castillo Suárez, the fourth in the series, the matter was given the serious attention it deserved: a well-considered, well-written revised draft of the principles and standards was produced and presented to CONEPLAN and the Council of Ministers, with a strong recommendation for adoption. In 1975, thanks to the effort made by Minister Castillo, a Supreme Decree was adopted promulgating the principles and standards. Had Col. Castillo been in the position since 1973, when the initial proposal was made, the principles and standards could have been adopted a year earlier.

This illustrative case is not cited simply to praise Col. Castillo nor to criticize his predecessors in the positions, but to underscore the point: without a certain degree of continuity of leadership and without a certain permanency of the Minister of Finance personally, the progress achieved in any effort similar to the Fiscal Reform Project will prove to be both limited and slowly gained. Col. Castillo, who has held the position for nearly a full year, has been able to give some attention to the Project, has had the opportunity to think about Project recommendations and has been able to reach some related decisions and initiate some related actions. The longer the tour in office of a capable person, the more likely will be the effective adoption of constructive changes recommended by the Project. At least in large part, the limited and slow progress achieved during the past nine years is a consequence of the frequent and rapid changes among executive personnel of the Finance Ministry.

As noted in Section I of this report, there are ample reasons for concluding that, when this Fiscal Reform Project ends, it would be wise to begin another similar project. Some improvements have been achieved. Others remain to be made. In the reports, manuals and recommendations presented during the nine years, problems have been identified and solutions to them have been proposed. It may be hoped that during the next few years the solutions will be applied. In the judgment of the PAS Advisory Group, the need is clear. The corrective action, however, depends upon the decisiveness of the Bolivian government.

Nevertheless, that corrective action will be greatly facilitated if the GOB continues to enjoy the services of competent advisors. USAID has invested two million dollars during the life of the Fiscal Reform Project to provide such services to the Government. USAID, another external agency or the GOB itself would do well if, in future efforts to improve public financial management, they continue to support those efforts with the constructive criticism, the advisement and the technical assistance that can be provided by an independent outside advisor.

One additional lesson should have been learned from this experience: the improvement of the structure, procedures, concepts and quality of operations of the Bolivian government depends fundamentally upon the Bolivian government's own desire to achieve the improvements and its own persistence in bringing them about. The external and international agencies -- USAID, UN, OEA, World Bank, etc. -- can supply ideas, advice and resources. Only the GOB, however, can make decisions and require action by its personnel. An advisory team, such as that provided by USAID and Public Administration Service during the Fiscal Reform Project, cannot improve the governmental operations directly because it cannot make the decisions nor launch

the actions. The GOB bureaucracy itself is not one that is disposed to make decisions or take actions toward change. The external financing, advice and technical assistance, in short, are necessary but insufficient. The other essential ingredient is firm, decisive and unwavering support from the cabinet level of the host Bolivian government.

This report would be incomplete if it failed to include mention of another point that (a) bears upon the improvement of management per se and (b) should be of interest to the GOB as well as to various international organizations.

The objective of the GOB is to accelerate national development, and the intention of USAID and other entities is to help in achieving that objective. It is natural that the attention of all parties should tend to be directed to programmatic and substantive questions related to the several sectors of national life. It is natural that only residual interest should be addressed to management matters related to the functioning of each sector and of the GOB per se.

The managerial part is the least visible part of the effort involved in promoting development -- the least dramatic part, perhaps -- because it includes all of the background tasks: planning, programming, budgeting, controlling, purchasing, personnel administration, accounting, warehousing, coordinating, evaluating, etc. Programmatic considerations surely are intrinsically more interesting than those of management, but the fact remains that the execution, the effectiveness and the orderliness of matters programmatic depend in great measure on the skill with which all the background managerial tasks are performed.

In the Bolivian government, there remain many gaps and flaws in managerial arrangements and performance. In the urge to concentrate resources and efforts directly on programmatic matters, it remains essential to set aside some of the effort and resources and to devote them simultaneously to managerial problems. In general and financial management, there remain problems that adversely

affect the execution of every governmental program. It would be of great benefit to correct the flaws and resolve those problems.

The Fiscal Reform Project was supported by USAID, pursuant to agreements with the GOB, for nine years in attention to a selection of management factors. It had limited success. It remains clear that there still are problems in financial aspects of management, let alone other aspects.

According to repeated statements by President Hugo Bánzer Suárez and other spokesmen for his government, to correct the management situation is seen as a critical need. Projects such as the one in Fiscal Reform could help to correct that situation. Improvement in management could have a healthy effect upon the planning and execution of every programmatic commitment to which the GOB and the international agencies devote their efforts and resources. Better management would have the effect of assuring that the utmost value is derived from every peso invested by them.

For the GOB, therefore, it would be advantageous to continue to encourage the conduct of such projects as the one in Fiscal Reform. It also would be advantageous to the international agencies to support and to subsidize such projects.

Given better management, it may be expected that there would be better selection among substantive programs, better execution of each program, better coordination among programs, and better use made of all the resources involved, whether these derive from taxes, grants or loans. As long as the management defects continue to exist, delays and inconveniences will be common and success in the execution of programmatic initiatives will be unnecessarily limited.

Neither the Bolivian Supreme Government nor the external agencies -- USAID among others -- should minimize or forget the question of how to put every aspect of general and financial management in better condition. The cost of not attending to that question surely will be enormously greater than the direct cost of improving management in all its various aspects.