

PJ-ABS-176

April 1, 1991

**LAC Regional Financial Management  
Improvement Project**  
Donor Working Group

*Price Waterhouse*



**LAC REGIONAL FINANCIAL MANAGMENT  
IMPROVEMENT PROJECT**

**DONOR WORKING GROUP**

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April 18, 1991

# LAC Regional Financial Management Improvement Project

## DONOR WORKING GROUP

Meeting	Date	Sponsor
Planning	11/29/88	AID
First	2/23/89	AID
Second	8/4/89	IDB
Third	1/18/90	OAS
Fourth	4/26/90	WB
Fifth	9/6/90	UN
Sixth	1/24/91	IMF
Seventh	4/18/91	IDB
Eighth	6/6/91	AID
Ninth	9/19/91	OAS
Tenth	12/5/91	GAO

*PARTICIPANTS*

*DONOR CONFERENCE PLANNING MEETING*

*November 29, 1988 - 10:00am*

*Organization of American States:*

*Ricardo Murua, Chief, Division of Development Finance  
Angel Boccia, Division of Development Finance*

*Inter-American Development Bank:*

*Pedro Andrieu, Chief, Social Development Studies Section,  
Economic and Social Development Department*

*International Monetary Fund:*

*A. Premchand, Assistant Director, Fiscal Affairs Department*

*The World Bank:*

*Edgardo Barandiaran, Senior Economist, Latin America and  
the Caribbean Region*

*United Nations:*

*Mr. Rahman, Deputy Chief, Public Finance and Enterprise  
Management Branch, Development Administration  
Division, Department of Technical Cooperation for  
Development*

*U. S. Agency for International Development:*

*Dwight Ink, Assistant Administrator for Latin  
America and the Caribbean*

*Gary Byllesby, LAC Bureau Controller*

*Wayne McKeel, AID Deputy Controller*

*Jim Wesberry, Senior Financial Management Adviser*

## SUMMARY OF LAC DONOR COORDINATION PLANNING MEETING

November 29, 1988

Participants as shown on the attached list met at the invitation of Dwight Ink, AA/LAC to discuss the possibility of a donor conference to be held early in 1989 for the purpose of coordinating efforts to improve public sector financial management in the LAC region. From AID's standpoint this is considered a vital part of the new LAC Regional Financial Management Project (598-0658/597-0037).

The agenda and other documents handed out at the meeting are attached. This paper summarizes the discussions.

Dwight Ink stated that AID is concerned with a number of problems with institution building where institutions are unable to achieve credibility in handling financial management on a sound basis. Some have retrogressed over the years. We cannot sustain our programs unless we can assure Congress that funds are protected. There may be differences of opinion about program approaches but if there is doubt about the use of funds they can't be justified.

Jim Wesberry briefly discussed GAO's recommendations regarding improving financial management and training from its 1979 and 1984 reports. Gary Bylesby then presented AID's plans for its Regional Financial Management Improvement Project and reviewed other related activities under way or planned. Thereafter the representatives of the other donor organizations (UN, OAS, IDB, IMF, and World Bank) briefly reviewed their activities to improve financial management. During the course of their presentations the following pertinent comments were also made:

- IDB has problems in obtaining timely audited financial statements.
- The financial situation of many LAC countries does not permit project execution as planned due to lack of counterpart funds.
- Budgets must be discussed with each country. The budget process needs to be strengthened, especially capital budgeting.
- Strengthening an audit institution may hurt more than it helps if controls cause bottlenecks.
- Integrated projects to improve financial management are to be preferred to piecemeal efforts.

- *Main priority should be placed on budget preparation and monitoring of expenditures, managerial controls and problem investment programs.*
- *The whole budget/public expenditure process should be emphasized, including off-budget items.*
- *Accounting laws are obsolete but are defended as charters for activities.*
- *Existing poor systems have been computerized rather than improving them at the time of computerization.*
- *Auditing should receive a lower priority until accounting systems are in place permitting appropriate audit.*
- *Conflicting advice from different sources and different opinions from technical advisors complicate efforts at improvement.*
- *Systems must be designed on a case-by-case basis. No LAC-wide approach is feasible.*
- *Institutional memories are poor.*
- *World Bank is considering integrating training (EDI) and technical assistance but there are differing views on this.*

*Prior to leaving for a meeting at the White House, Dwight Ink summarized his views as follows: It would be better not to use the term "Conference". We are hoping for more coordination, in especially among Finance Ministries. Coordination meetings should be held from time to time, hosted and chaired by different donors. AID is willing to host and chair the first one. At Ink's question all agreed that this would be worth trying.*

*As to the kind of representation in such a meeting it was felt that they should include:*

- *Officials high enough in rank to have an impact on the organization.*
- *Persons with a technical background in financial management.*
- *All multilateral and bilateral donors which have a significant role in the LAC region.*

*Ink concluded that this will require the effort of all the donor community - not just AID - thanking those present for their participation.*

Other comments regarding the donor meeting were as follow:

- Perhaps a country-by-country approach would be best (each meeting devoted to a single country with all knowledgeable persons present).
- The first meeting should be regional or subregional in coverage
- Focus should be narrowed.
- GAO reports could be sort of a check-list.
- Several case studies might permit drawing conclusions by subregion.
- At times donor internal requirements thwart what we are trying to do in developing countries. We need to mesh our own internal procedures.
- Despite continued activities there is an institutional crisis not of our making. We need to come up with a strategy for all, to see the dimensions of the crisis.
- Conflicting views (among donors and their technical advisors) are a real problem.
- No country has a project management system which works.
- Event coordination is also needed.
- Policies also need to be coordinated and needs for reorganization (within countries).
- Efforts should not become too broad.
- We need to identify expected results and make a list of needs.
- A Donor Working Group on Improving Financial Management might be the best approach (rather than a conference).
- It is easy to talk about coordination, but hard to accomplish it. The first level is to exchange information.
- The first meeting should be very general. There should be more than one meeting annually, each with two or three case studies. Technical issues should be avoided. A country approach is best.
- Regional action is more appropriate plus emphasis on one specific country at each session.

LAC REGION DONOR WORKING GROUP  
ON IMPROVING FINANCIAL MANAGEMENT

(Note: Official agency representative for the working group is indicated below by an asterisk...\*)

PARTICIPANTS IN FIRST MEETING

AGENCY FOR INTERNATIONAL DEVELOPMENT

Gary Byllesby, LAC Controller Agency for International Development LAC/CONT, Room 3253 NS Washington, DC 20523-0024	Tel (202) 647-3176 Fax (202) 647-8518
Cecile Adams, Deputy LAC Controller Agency for International Development LAC/CONT, Room 3253 NS Washington, DC 20523-0024	Tel (202) 647-3176 Fax (202) 647-8518
Wayne McKeel, Deputy Controller Agency for International Development PFM/FM/FPD, Room 803, SA-2 Washington, DC 20523	tel (202) 663-2168
Kenneth Kornher, Chief S&T/RD Room 606, SA-18 Development & Management Division Agency for Internnational Development Washington, DC 20523	tel (202) 875-4440
Patricia Liefert, Policy Analyst PFM/FM/FPD, Room 803, SA-2 Agency for International Development Washington, DC 20523	tel (202) 663-2564
Jeanne North, Project Manager S&T/RD, Room 606, SA-18 Agency for International Development Washington, DC 20523	tel (202) 875-4587

Jim Wesberry\*, Senior Financial Management Adviser  
Bureau for Latin America and the Caribbean  
Agency for International Development  
LAC/CONT, Room 3253 NS  
Washington, DC 20523-0024  
Tel (202) 647-0233  
FAX (202) 647-8518

INTER-AMERICAN DEVELOPMENT BANK

Pedro E. Andrieu, Chief  
Social Development Studies Section  
Economic and Social Development Department  
Inter-American Development Bank  
1300 New York Ave., NW  
Washington, DC 20577  
Tel (202) 623-2530  
FAX (202) 623-3496

Alberto Castillo\*, Chief  
Technical Assistance Division  
Inter-American Development Bank  
1300 New York Ave., NW  
Washington, DC 20577  
Tel (202) 623-2486  
FAX (202) 623-3496

Guillermo Fuentes, Technical Cooperation Officer  
Inter-American Development Bank  
1300 New York Ave., NW  
Washington, DC 20577  
Tel (202) 623-2536

Luis A. Prieto, Auditor  
PRA/PSF  
Inter-American Development Bank  
1300 New York Ave., NW  
Washington, DC 20577  
Tel (202) 623-1813

William Taylor, Auditor General  
Inter-American Development Bank  
1300 New York Ave., NW  
Washington, DC 20577  
Tel (202) 623-1300

INTERNATIONAL MONETARY FUND

Ernesto Perez, Consultant  
Fiscal Affairs Department  
International Monetary Fund  
700 19th St., NW - Of. 6-120  
Washington, DC 20431  
Tel (202) 623-8708

A. Premchand\*, Assistant Director  
Fiscal Affairs Department  
International Monetary Fund  
700 19th St., NW - Of. 6-120  
Washington, DC 20431

Tel (202) 623-8708

ORGANIZATION OF AMERICAN STATES

Angel Boccia, Senior Economist  
Development Finance Division  
Organization of American States  
1889 F St., NW, Room 200 Q  
Washington, DC 20006

Tel (202) 458-3634  
FAX (202) 458-3744

Ricardo Murua\*, Principal Specialist  
Department of Economic Affairs  
Organization of American States  
1889 F St., NW, Room 200 B  
Washington, DC 20006  
UNITED NATIONS (TCD)

Tel (202) 458-3745  
FAX (202) 458-3744

Abu T. R. Rahman\*, Deputy Chief,  
Public Finance and Enterprise  
Management Branch  
Development Administration Division  
Department of Technical Cooperation for Development  
United Nations - DC 1-966  
New York, NY 10017

Tel (212) 963-8412  
FAX (212) 963-4116

WORLD BANK

Dennis Flannery, Financial Adviser  
Debt Management and Financial Advisory  
Services Department  
The World Bank  
1818 H St., NW  
Washington, DC 20433

Tel (202) 477-2657  
FAX (202) 477-1790

Shahid Chaudry\*, Chief  
Public Sector Management Unit  
Latin America and the Caribbean  
The World Bank  
1818 H St., NW  
Washington, DC 20433

Tel (202) 473-9235  
FAX (202) 477-6391

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OTHER DONOR ORGANIZATIONS WHICH HAVE EXPRESSED INTEREST

CANADIAN INTERNATIONAL DEVELOPMENT AGENCY

John M. Robinson, Vice President-Americas Branch  
Canadian International Development Agency  
200 Promenade du Portage  
Hull, Quebec  
CANADA K1A 0G4  
Tel (819) 997-3291  
FAX (819) 994-4259

GERMAN FOUNDATION FOR INTERNATIONAL DEVELOPMENT

Dr. Joachim Krell, President  
German Foundation for International Development  
Rauchstr. #22  
D-1000 Berlin 30  
FEDERAL REPUBLIC OF GERMANY  
Tel 011-49-30-26061  
telex 181615

Rheinhold Basse (same address, Spanish fluent)

OTHER DONOR ORGANIZATIONS WHICH MAY HAVE INTEREST

JAPANESE AGENCY FOR INTERNATIONAL COOPERATION

INSTITUTO DE COOPERACION IBEROAMERICANA (SPAIN)

CARIBBEAN DEVELOPMENT BANK

CENTRAL AMERICAN DEVELOPMENT BANK

ANDEAN DEVELOPMENT CORPORATION

INTERNATIONAL LABOR ORGANIZATION

OVERSEAS DEVELOPMENT ADMINISTRATION,  
BRITISH FOREIGN AND COMMONWEALTH RELATIONS OFFICE

EUROPEAN INVESTMENT BANK (Luxemburg)

PRIVATE VOLUNTARY PROFESSIONAL ORGANIZATIONS  
WHICH ARE ACTIVE IN THE LAC REGION

INTERAMERICAN ACCOUNTING ASSOCIATION

Juan R. Herrera, CPA, Presidente  
Asociacion Interamericana de Contabilidad  
Apartado 1467  
Santo Domingo  
DOMINICAN REPUBLIC

Tel (809) 566-9161  
FAX (809) 566-3468  
telex 3264273

INTERAMERICAN AND IBERIAN PUBLIC BUDGETING ASSOCIATION

Lic. Miguel Angel Bolivar, Presidente  
Asociacion Interamericana e Iberica de Presupuesto Publico  
Florida 1, piso 11 - Of. 44  
(1005) Buenos Aires  
ARGENTINA

Tel 011-541-331-4848

LATIN AMERICAN INSTITUTE OF AUDITING SCIENCES

Dra. Luz Aurea Saenz Arana, Presidenta  
Instituto Latinoamericano y del Caribe de Ciencias  
Fiscalizadoras (ILACIF)  
Controlora General de la Republica  
Jiron Carabaya 315  
Lima 1, PERU

Tel 011-51-14-277370  
telex 25069

INSTITUTE OF INTERNAL AUDITORS

G. Peter Wilson, President  
Institutre of Internal Auditors, Inc.  
Box 1119  
Altamonte Springs, FL 32701

Tel (407) 830-7600  
FAX (407) 831-5171

INTERNATIONAL CONSORTIUM ON GOVERNMENTAL FINANCIAL MANAGEMENT

Audrey B. Dysland, Assistant Secretary General  
International Consortium on Governmental Financial Management  
Box 8665  
Silver Spring, MD 20907

Tel (202) 681-7439

Lic. Miguel Rico Ramirez, Vice Presidente  
Consortio Internacional sobre Gerencia Financiera Gubernamental  
Contador Mayor de Hacienda  
Av. Coyocan 1501  
Col. del Valle, Deleg. Benito Juarez  
03100, Mexico, DF  
MEXICO

Tel (525) 534-4792  
FAX (525) 534-1891

AMERICAN CONSORTIUM ON INTERNATIONAL PUBLIC ADMINISTRATION

John L. McGruder, Executive Secretary  
American Consortium for International Public Administration  
1120 G St., NW, Suite 225  
Washington, DC 20005  
Tel (202) 628-8965

INTOSAI DEVELOPMENT INITIATIVE

Yvan Gaudette, Executive Vice President  
INTOSAI Development Initiative  
240 Sparks St., Suite 1132 West  
Ottawa, Ontario K1A 0G6  
CANADA  
Tel (613) 993-6418

CANADIAN COMPREHENSIVE AUDITING FOUNDATION

Gordon Cowperthwaite, President  
Canadian Comprehensive Auditing Foundation  
55 Murray St., 2nd floor  
Ottawa, Ontario K1N 5M3  
CANADA  
Tel (613) 236-6713

INTERNATIONAL ORGANIZATION OF SUPREME AUDIT INSTITUTIONS

Dr. Tassilo Broesigke  
Secretary General of INTOSAI  
Dampfschiffstrasse #2  
A-1033 Vienna  
AUSTRIA  
Tel 011-42-222-711-71  
telex 135-389 RHA

Dr. Hubert Weber (same address, Spanish fluent)

AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON DC 20523

SUMMARY OF FIRST MEETING OF LAC REGION  
DONOR WORKING GROUP ON  
IMPROVING FINANCIAL MANAGEMENT  
FEBRUARY 23, 1989

The first Donor Working Group Meeting was hosted by A.I.D. at the State Plaza Hotel in Washington. Donor organizations represented besides A.I.D. were IDB, IMF, OAS, UN/TCD, and World Bank. Jim Wesberry of A.I.D. served as Moderator.

The Honorable Elmer B. Staats, former US Comptroller General made keynote remarks emphasizing the need for accountability for international assistance. He traced the needs for training and technical assistance in financial management initially identified in GAO's 1979 report issued while he was US Comptroller General and emphatically endorsed the efforts of the group to coordinate donor activities in the area.

In other presentations

Wayne McKeel discussed A.I.D.'s perspective on improving financial management.

Gary Byllesby presented an overview of A.I.D.'s new LAC Financial Management Project and the results of the first Workshop held in December, 1988 (copies of the project paper, the Workshop summary report and a list of all ongoing A.I.D. activities in the region were distributed).

Jess Ford and Peter Aliferis of GAC discussed prior GAO studies of needs to improve financial management in developing countries, the current situation and the INTOSAI Development Initiative (IDI) activities and plans in the region.

Al Heron outlined the World Bank's approach to improving financial management. He noted that while the Bank often provides technical assistance in financial management as part of a project, this does not seem to have a catalytic effect in the remainder of the host country government.

The World Bank currently has about 30 financial management improvement projects under way, 25 in Africa and Asia and five in the LAC region. It has only one major project in the LAC region - the Bolivia SAFCO Project. It also has an

extremely large financial management project underway in Indonesia.

The Bank's audit report compliance system is on line and maintained by region. About one-half the data has been input (reports received since 1981). At October, 1986 about half the Bank's borrowers were in compliance worldwide. LAC region compliance is well above this average and Africa region is well below it. Three-fourths of all audit reports are submitted after the deadlines established. About one-fourth of the reports are received with delays up to three years. Often the delay is reported to be in the government audit office, not the borrower. The Bank does not normally suspend disbursements for failure to submit audit reports.

For projects run by revenue earning type borrowers the audit reports go to a responsible financial analyst for review and are logged onto the system. The Bank doesn't have sufficient financial professionals available for non-revenue earning borrowers, thus there is spotty evaluation of the reports they remit.

In Mr. Heron's opinion the LAC Region has less deficiencies reported and better government commitment to accountability than the Asia Region where he has considerable experience.

Discussions held after each presentation and in two open discussion sessions focused on why donor coordination is needed and how it can be accomplished. The following comments were noted which summarize the major points made:

The other bilateral donor organizations should be invited to participate in the Working Group. (CIDA of Canada and DSE of the Federal Republic of Germany were invited to this meeting. They replied that they could not attend but expressed interest in receiving the results of the meeting).

Commitment by the host governments is the key to successful improvements. Donors must be sensitive to the willingness of the country to improve financial management during the moments of opportunity which open up.

Funding of projects should be coordinated by the donors.

There should be no sensitivity among the donors to the exchange of information. The Working Group should serve as a clearinghouse of information regarding services provided. It should produce a newsletter based on information provided by "correspondents" in each country. The newsletter concept should be tested out. The clearing house must be permanent, that is, it must endure beyond the life of the A.I.D./LAC Project. It would be well to establish a "trust fund" to perpetuate its activity.

A.I.D. will provide "secretariat" functions for two years. It is difficult to foresee beyond that point.

The World Bank has financial management projects or components in

Jamaica	Argentina (two projects)
Bolivia	Ecuador
Chile	Costa Rica
Guyana	Brasil

The WB's Jamaica project, under way for several years, includes technical assistance in performance budgeting and accounting. A second phase is soon contemplated.

The OAS is a natural organization for supporting the Working Group efforts, but presently is undergoing a restructuring. Thus its degree of participation cannot be determined at the moment. It can act as executory agency for projects funded by other donors.

Donor coordination is needed to avoid overlapping and duplication. This is the most important reason for coordination.

IDB is funding a project in tax administration in Guatemala for the third time among five new projects in LAC in this area. It also is funding projects including three subregional centers each in the areas of budget management and government external auditing (through OAS and ILACIF respectively). These will primarily be training programs, A.I.D. might complement them with technical assistance. We should try to complement one donor program with another wherever possible. IDB will also fund short term missions.

Information dissemination is important, thus the inventory of projects can be most useful. There is also a need for country-level coordination normally through the national planning offices.

The MF provides "quick help" - that is short term (one week to six months) technical advisors. They receive detailed instructions from MF and are monitored through review of their monthly reports.

As to HOW donor coordination can be accomplished, it was agreed that the following would be useful:

1. A data base containing information on all projects. This preferably should be on-line for instantaneous access to updated data. Alternately it could be accomplished through periodic distribution of updated diskettes.
2. A LAC Region Financial Management Newsletter published at least quarterly should disseminate news of activities, technical notes and information on activities, events, etc., to Working Group members and others interested throughout the Region.
3. Participation by donor representatives in seminars, workshops, courses, etc., given by other donors.
4. The exchange of information, including:
  - technical documents and reports on projects, appraisals, evaluations, etc.
  - information about training courses, seminars and other events of interest.
  - publications by each donor organization pertinent to financial management.

A.I.D. will distribute copies of its project evaluations to the other donors and would like to receive those of the other organizations.

Areas of potential conflict or duplication will inevitably arise. The provision of information about each others activities should help donors avoid duplications of efforts.

There is no uniform approach to financial management currently in effect throughout the Region or its Subregions.

Future Donor Working Group Meetings might include case studies in specific areas of financial management.

There are certain areas where no standards exist for the guidance of country officials who seek to improve financial management.

Someone (or organization) must take the lead role in the whole financial management area in the LAC Region.

Joint sponsorship of events poses some problems. It might be best for different donor organizations to sponsor different events but duly coordinate them. For example one donor might sponsor a workshop on budgeting while another sponsors a workshop on accounting. Some donor organizations need a lot of lead time for the necessary approvals. Up to nine months was suggested.

The UN can make its interregional advisers available.

Some possible workshop or conference topics are:

1. Cash management
2. Budgeting
3. Internal auditing
4. Corruption and dishonesty in government
5. Training
6. Financial reporting (after appropriate research on this topic has been carried out).

The LAC Financial Management Project Data Base should cover all projects completed since at least 1987, all current projects and all planned projects and should include:

1. Country
  2. Host Country Beneficiary Agency
  3. Host Country Executing Agency
  4. Donor Executing Agency
  5. Project Title
  6. Contributions in thousands of US dollars (for the financial management component only)
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- a. Donor
    - (1) Dollars
    - (2) Local currency
  - b. Counterpart
    - (1) Local currency
    - (2) In kind
7. Objective (of the financial management component only)
8. Period: From..... to.....
9. Financial management areas included
10. Project officer responsible:
- a. Name
  - b. Post
  - c. Telephone
  - d. Fax
  - e. Mailing address
11. Focus v. Component (Whether financial management constitutes the primary focus of the project or is a component of the project.)

Future Donor Working Group Meetings should be held every three to four months, hosted by different donors. The next meeting will tentatively be held on July 13, 1989 hosted by the IDB. By that time a summary of this meeting should have been circulated, the data base should be established and at least one issue of the newsletter published.

(NOTE: Since the meeting a conflicting seminar has been set during July 12-15, thus the next meeting will probably not be held on July 13 as tentatively agreed.)



## MEMORANDUM

Mr. Regis Cunningham, Price Waterhouse

FECHA/DATE: July 19, 1989

A : Representatives of LAC Region Donor  
TO : Working Group on Improving Financial Management

DE :  
FROM : Alberto P. Castillo, LAC Working Group/IDB Representative

SUNTO :  
BJECT : Agenda of Second Meeting of Donor Working Group to be held at  
IDB/Headquarters on August 4, 1989.

At the wrap-up session of the first Donor Work Group Meeting sponsored by A.I.D. and held on February 23, 1989, it was agreed that IDB would host the Second Meeting which has been scheduled for August 4, 1989. We invite you to participate to the Second Meeting and encourage you to bring pertinent information related to the proposed topics (Agenda enclosed). You are kindly required to also prepare brief profiles on the projects your agency has in execution or are considering. (See attached example). This inputs would be subsequently distributed to all with a view toward improving overall coordination.

Please send your confirmation of attendance to Alberto P. Castillo (Tel. 202-623 2526, Fax 202-623 -3187), and/or Pedro Andrieu (Tel. 202 623-2530).

Attachment

AGENDA FOR THE SECOND MEETING OF  
THE DONOR WORKING GROUP ON IMPROVING FINANCIAL MANAGEMENT  
IN THE LATIN AMERICAN AND CARIBBEAN REGION

Sponsored by the Inter-American Development Bank,  
Economic and Social Development Department

IDB - 1300 New York Avenue, Washington D.C.  
Andrés Bello Auditorium - 9th Floor

August 4, 1989

9:00 am Opening of Meeting, Pedro Andrieu, Moderator,  
Senior Economist, Economic and Social Development  
Department - IDB

Introduction of participants

9:15 am Introductory remarks by Mr. James W. Conrow,  
IDB Executive Vice President

TOPIC I : Tax Administration and Fiscal Policy

9:30 am IDB's projects on Tax Administration and Policy in  
Bolivia, Ecuador and Uruguay.  
Luisa Rains, Senior Specialist, General Studies  
Division - IDB

10:00 am Open Discussion on Donor Coordination concerning  
Programs in Bolivia, Ecuador, Costa Rica and  
Uruguay on Tax Administration and Fiscal Policy.

10:45 am Coffee Break

TOPIC II: Budget and Financial Management

11:00 am IDI' s Training Program for Comptrollers and  
Auditors in LAC Region  
Yvan Gaudette, Executive Vice President, INTOSAI  
Development Initiative, Canada

11:30 am Open Discussion on Donor Coordination concerning  
Programs in Bolivia, Ecuador, Costa Rica and  
Uruguay on Financial Management

1:00 pm Luncheon

TOPIC III: External Cooperation to Strengthen Financial Management

- 2:00 pm The World Bank's SAFCO project in Bolivia.  
Kathrine Baer, Consultant, Country Operations.
- 2:30 pm The World Bank's project in Ecuador on Financial Management.  
Mauricio Carrizosa, Economist, Trade and Finance Industry Division.
- 3:00 pm Open Discussion on Donor Coordination concerning Programs in Bolivia, Ecuador, Costa Rica and Uruguay on strengthening of Financial Management
- 4:15 pm Plans for next Work Group Meeting - timing, host organization, topics
- 4:30 pm Summary and recommendations of Second Meeting - James Wesberry, Senior Financial Management Advisor, AID
- 5:00 pm Adjourn

PARTICIPANTS IN SECOND MEETING OF  
LAC REGION DONOR WORKING GROUP ON IMPROVING  
FINANCIAL MANAGEMENT

<u>A. Participating Institutions</u>	<u>Telephone</u>
<u>Agency for International Development</u> James Webberry, Sr. Financial Management Advisor Bureau for Latin America and the Caribbean LAC/CONT, Room 3253 NS Washington, D.C. 20523-0024	202/647-0233 FAX 202/647-8518
Wayne McKeel, Deputy Controller PFM/FM/FPD, Room 803, SA-2 Washington, D.C. 20523	202/663-2168
James B. Durnil, Deputy Inspector General Office of Inspector General Main State Bldg. Room 5644 Washington, D.C. 20523	202/647-7845 FAX 202/647-4861
<u>Inter-American Development Bank</u> Pedro E. Andrieu, Chief Social Development Studies Section 1300 New York Ave., N.W. Washington, D.C. 20577	202/623-2530 FAX 202/623-3496
Alberto P. Castillo, Acting Chief Technical Cooperation Division 2 1300 New York Ave., N.W. Washington, D.C. 20577	202/623-2486 FAX 202/623-3496
Guillermo Fuentes, Officer Technical Cooperation Division 2 1300 New York Ave., N.W. Washington, D.C. 20577	202/623-2536
Luisa Rains, Fiscal Economist General Studies Division 1300 New York Ave., N.W. Washington, D.C. 20577	202/623-2461
Jorge Liacuris, Auditor Office of the Auditor General 1300 New York Ave., N.W. Washington, D.C. 20577	202/623-1442
Ademar Toro, Auditor Office of the Auditor General 1300 New York Ave., N.W. Washington, D.C. 20577	202/623-1441

Inter-American Development Bank (cont).Telephone

Arnoldo da Fonseca, Sr. Officer  
Technical Cooperation Division I  
1300 New York Ave., N.W.  
Washington, D.C. 20577

202/623-2528

Alfonso Parra, Auditor  
PRA/PSF  
1300 New York Ave., N.W.  
Washington, D.C. 20577

202/623-1811

Organization of American States  
Angel Boccia, Senior Economist  
Development Finance Division  
1889 "F" Street, N.W. Rm. 200 Q  
Washington, D.C. 20006

202/458-3634  
FAX 202/458-3744United Nations (TCD)

Peter Nicholas Dean, Inter Regional Advisor  
Department of Technical Cooperation  
for Development  
1 United Nations Plaza, Room 948  
New York, NY 10017

212/963-8405  
FAX 212/963-4116The World Bank

Donald Winkler, Sr. Fiscal Economist  
Public Sector Management Unit  
Latin America and the Caribbean  
1850 "I" Street, N.W., Room I-5161  
Washington, D.C. 20433

202/473-8619

Kathryn Baer, Consultant  
Country Operations  
4421 "Q" Street, N.W.  
Washington, D.C. 20007

202/473-9395  
FAX 202/473-0113

Mauricio Carrizosa, Economist  
Trade and Finance Industry Division  
1818 "H" Street, N.W., Rm. I-6153  
Washington, D.C. 20433

202/473-9198

INTOSAI - Development Initiative

Yvan Gaudette, Executive Vice President  
240 Sparks Street, 11th Floor West  
Ottawa, Ontario, K1A0G6  
Canada

613/993-6418  
FAX 613/952-2245

Richard Gagné, Director of Programs  
240 Sparks Street, 11th Floor West  
Ottawa, Ontario, K1A0G6  
Canada

613/995-3766  
FAX 613/952-2245

U.S. General Accounting Office

Peter Aliferis, Director  
Office of International Audit  
Organization Liaison  
441 "G" St., N.W. Rm. 7806  
Washington, D.C. 20548

202/275-4707  
FAX 202/275-4021

Donald Drach, Deputy Director  
Office of International Audit  
Organization Liaison,  
441 "G" St., N.W.  
Washington, D.C. 20548

202/275-4707  
FAX 202/275-4021

Tom Brogan, Assistant Director  
Foreign Economic Assistance  
Office of International Audit  
Organization Liaison  
441 "G" St., N.W.  
Washington, D.C. 20548

202/275-4707  
FAX 202/275-4021

Price Waterhouse

Paul Lohnes, Project Partner  
LAC AID Regional Financial Management Project  
1801 "K" Street, N.W., Suite 900  
Washington, D.C. 20006

202/296-0800  
FAX 202/466-3918  
202/466-2785  
TELEX 197774

Regis Cunningham, Manager  
1801 "K" Street, N.W., Suite 900  
Washington, D.C. 20006

202/296-0800  
FAX 202/466-3918  
TELEX 197774

Canadian International Development Agency (CIDA)  
Gerard Belanger, Senior Project Officer  
Ottawa, Canada

International Consortium on Governmental Financial Management

James R. Hamilton, Director  
P.O. Box 8665  
Silver Spring, MD 20907

301/681-3836  
202/623-8948(IMF)  
FAX 301/933-6461

B. Other Donor Organizations which expressed interest in participating in the Group's Activities

Japanese Agency for International Cooperation (JICA)  
- Mr. T. Igarashi

(202)  
tel: 4570412

Instituto de Cooperación Iberoamericana  
- Agustín Santos, Asesor Económico

(202) 2650190

Instituto Latinoamericano y del Caribe de Ciencias Fiscalizadoras  
(ILACIF)

SUMMARY OF SECOND MEETING OF LAC REGION  
DONOR WORKING GROUP ON  
IMPROVING FINANCIAL MANAGEMENT  
AUGUST 4, 1989

The second Donor Working Group Meeting was hosted by the Inter-American Development Bank at its headquarters building in Washington. Donor organizations represented besides IDB were AID, OAS, UN/TCD, World Bank and the Canadian International Development Agency (CIDA). Pedro Andrieu of IDB served as Moderator.

James W. Conrow, IDB Executive Vice President made introductory remarks to open the meeting. He stressed the role of highly trained personnel to carry out financial management improvements to ensure that technical cooperation continues to be effectively used after the donor organization leaves the scene. Technical cooperation is an extremely important tool of IDB and is scheduled to be even more dynamic using consultants, firms and specialized agencies.

Conrow stated that financial management is very important to IDB, - tax administration, budgeting, accounting and auditing - and the agenda is being broadened. Sharing of experiences among member countries and feedback from the field can lead to positive results. This meeting on how to improve financial management should be based on frankness, the avoidance of duplications in activities as well as conflicting advice and the open exchange of information.

IDB TAX ADMINISTRATION PROJECTS

Luisa Rains of IDB discussed its tax administration and policy projects in Costa Rica, Bolivia, Ecuador and Uruguay. She stated that prior to 1983 IDB had participated in joint activities in this area with the OAS and CEPAL. Beginning in 1983 IDB intensified activity in tax administration with seven original projects and eight more have subsequently been launched. Presently seven are active (Bolivia, Costa Rica, Guatemala, Honduras, the Dominican Republic, Uruguay and Paraguay). Their purpose is to improve tax administration through better management and control mechanisms. Four countries are now in the second stage of improvement.

In 1983 IDB made \$1m available to the Inter-American Center of Tax Administrators (CIAT) headquartered in Panama. It used this seed money to broaden its operations, mobilized a pool of consultants, and currently holds two meetings yearly, a general conference in April and a technical session in the latter part of the year. This latter meeting is often held in Europe through the collaboration of different European countries. The U.S. Internal Revenue Service has also assisted CIAT. Many years ago CIAT had only a rotating Secretariat and held only its annual conference. In the early 1960's IDB helped it host its conferences. IDB support in the 1980's has helped CIAT become more effective.

CIAT has a small staff of only six or seven. Two of these operate the information department publishing a journal and newsletter, obtaining information by means of questionnaires and through correspondents designated in each country, and publishing some books. For example a book has been published showing the organization of all the tax administration offices in Latin America.

The technical assistance area is new for CIAT. In the past some limited TA was financed by some of the countries themselves through CIAT. More recently IDB has used CIAT as a specialized agency through which TA is provided. Much supervision of TA in Latin America is needed, especially due to the frequent changes of tax administrators and other key staff. CIAT does not get into tax policy areas, limiting itself to tax administration.

IDB's Costa Rica tax administration project is in its first stage. It is contracted to Swedish International Services, a consulting firm which has four consultants at work on the 24 month project. IDB will make a midterm evaluation. Sales and consumption taxes are the top priority.

TA in Uruguay began in 1987 and is offered through CIAT consultants. It involves general tax administration improvement including a new training unit. The project ends at the end of this year but a second stage is planned for 1990.

The IDB Bolivia project to strengthen public sector management began in 1983. In 1986 a tax reform program was implemented based on collaboration and contributions from the World Bank and UNDP. The project entered its third stage last April and is now primarily financed by WB/UNDP. Individual consultants are contracted and administered by UNDP. A joint evaluation mission is planned for October or November.

The IDB Ecuador tax administration project is not yet fully approved. An AID sponsored project in this area is winding down and there is concern about coordination with it. CIAT consultants will be used on this project which has three purposes: (1) tax policy, including income and property tax reforms designed to simplify income tax returns, eliminate inequities and increase revenues; (2) tax administration, including assistance in defining, developing and implementing a tax administration system to support activities and consolidate data processing centrally and in regional offices. (AID since 1985 has been offering EDP training and TA and this will continue one more year. IDB's activities need to be compatible with this.); (3) assistance in using the information system for audit and control of nonfilers, including a training program (also needing coordination with AID).

It is important that the IDB have stable counterparts, a difficult matter as they are hard to keep in government jobs. There are to be eight tax experts plus two assistants on the project. The Spanish government is assisting in the area of sales tax (VAT). An IDB mission is to visit Ecuador soon to determine exactly who is doing what.

General comments included the following observations:

- CLAD is another organization which could be used for similar TA consulting. The beneficiaries of this type TA are the organization's members. Good consultants are needed; however, and total responsibility for supervision must not be delegated to the specialized agency. Relations with consulting firms are easier than with specialized agencies.
- In Costa Rica the OAS has an expert contracted for tax design. In Ecuador an OAS customs expert is advising on the GATT valuation system. In Paraguay the OAS is executing agency for the IBD tax administration project. Honduras IDB project is also expected to use OAS.
- Three major common problems are political commitment, good consultants and counterpart support. Long-term training is constrained by problems of retention of staff, identification of skills required, finding trainable persons and the short duration of most projects. Where individuals are trained their institutions often fail to

use them in the areas for which they were trained. They may be promoted to different jobs based on the fact that they received training for the jobs they hold.. There is a real need for practical training within the working environment which must continue after the end of the project.

#### IDI AUDITOR TRAINING

Yvan Gaudette, Assistant Auditor General of Canada made a presentation on the INTOSAI Development Initiative (IDI) and its plans for auditor training in the LAC region. Gaudette is also Executive Vice President of IDI. The presentation began with a brief videotape presenting the IDI concept and scenes from some of its training programs.

Thus far IDI has offered 16 workshops for 340 [participants from about 100 countries. Its current plan was just approved at the Berlin INCOSAI. It works through the INTOSAI regional groups which in the LAC region are the Latin American Institute of Auditing Sciences (ILACIF) and the Caribbean Organization of Supreme Audit Institutions (CAROSAI).

IDI's Human Resources Management Seminar is directed toward getting commitment from the heads of Supreme Audit Institutions (SAIs), especially as regards setting up a training unit or officer. It is a joint effort of the Office of the Auditor General of Canada (OAG) and the US General Accounting Office (GAO), both of which also operate their own "fellowship" programs permitting a limited number SAI senior staff to receive training in Canada and the US. GAO has hosted about 170 graduates and OAG about 70 over the past ten years. These ex-fellows are involved in the IDI regional activities. Unfortunately there have not been many from Latin America due to the language problem.

IDI is behind in the LAC region in comparison to its activities in the rest of the world. It has conducted a training needs survey and held Human Resource Management Workshops. Training Management Workshops are in the process of preparation for ILACIF and CAROSAI.

ILACIF has submitted a joint three year plan to IDB to reinforce the training function, train trainers and provide training materials in Spanish for its member SAI's. The Mexican Legislative Auditor's Office is translating into

Spanish materials from 40 courses contributed by INTOSAI member SAI's for use in the region. The IDB interest has helped get support from others. The Caribbean Development Bank will fund a seminar for CAROSAI soon. (The Asian Development Bank has financed three seminars over the past three years including one on the audit of external debt. It is hoped that the African Development Bank will do likewise.) One problem is getting financing. Financing of one seminar at a time is not the right way.

(Responding to questions) A number of countries have adopted public sector auditing standards and several SAI's have auditing manuals which expand on these. Value-for-Money (VFM) Auditing is a hot topic but SAI's need the basics first (that is financial and compliance auditing). There is much interest in using microcomputers in audit work and this should not be rejected. Developing countries can make great leaps aided by new technology. Training in EDP systems audit is also in demand.

IDI does not have many success stories so far as it is just 2 1/2 years old. It needs at least three more years. Before IDI the OAG provided auditor training assistance to Kenya which became a model for East Africa.

Mexico probably has the best SAI in the region (the Contaduria Mayor de Hacienda). Much depends on the head of the SAI as regards its success in doing a good job.

Some general comments made were as follow:

- There is a general crisis in Latin America. Public administrative capability is less than it was 15 or 20 years ago. Most qualified persons have left the governments, others are nominally there a few hours a day but hold second better paying jobs in private enterprise. The problem is stabilizing the workforce after training has been given. Our problem is that there are not many trainable persons to modernize. It's even worse in the executive branches of the governments than in the SAI's. The SAI's themselves have the image of an army of people finding mistakes and stopping everything - especially when they do precontrol work (preaudit). Its hard to see how IDI escapes the need for technical assistance. What about TA and its relation to training?

(Gaudette responding) IDI does not provide technical assistance. Where TA is needed IDI would be glad to help identify consultants.

- The impact of auditing on financial management in government depends on linkages...who receives the audit report and what action they take. Audit's impact on FM is more difficult to identify than in the case of tax administration. Systems are more complex, there are many criteria for judging success and many complex issues. The quality of communications by the audit office, diversity in the maturity of communications affect this. Many reporting errors destroy credence. Few government auditors report on government financial management systems in a mature manner. Auditors worldwide have not learned to become encouragers of improvements in financial management.

- Chile has the most advanced systems and information in the tax area. The Chilean Comptroller General produces the most timely data in the LAC region.

- Three reasons why many countries have poor financial management are:

1. They don't realize how important sound financial management is to the success of government programs.
2. FM is not normally a goal of politicians. FM must be separated from the political environment.
3. Good FM costs money. Officials are reluctant to spend money for good FM whether it be for computers or staff salaries.

Often auditors become frustrated at the lack of action to improve FM. There seems to be a desire for good FM in Central America. AID has a large program of non-Federal (private firm) audits there. Private sector auditors are normally inexperienced in public sector auditing; however, and require training.

- There is a direct link between reporting and the credibility of the audit office which is really based on the quality of its audit work. Sharing experiences, information and training between SAI's is helpful. VFM audits have also had an impact on improving audit office credibility. Some audit offices provide counsel to their governments.

- Where SAI's have multiple functions the audit function becomes secondary. IDB requires separate project accounting records for its projects. This is because central accounting is usually late and project reporting must be current.

- The OAS uses as its experts in accounting persons from countries where government accounting is taught at the university level. It is important to stimulate the teaching of government accounting at the higher levels of the education system.

- The new AICPA Statements on Auditing Standards (SAS) including a new format for the auditor's report will have an impact in developing countries' auditors as they receive this information and begin to imitate what is done in the US.

- AID is concerned about financial management for many reasons. Aid often relies on host governments for accountability and control. Local currency generated by AID programs is administered through the host country systems. Contracting is often through the host country contracting systems. Most other donors administer their funds directly. Most AID programs are grants, not loans so anything that can be done to improve financial management is better for AID.

- The AID requirement that auditing firms observe US government auditing standards results in 80% negative opinions in audit reports.

- One CIDA project in Haiti had to be stopped because administration was so weak. CIDA withdrew from the project.

#### WORKING GROUP SECRETARIAT SERVICES

Jim Wesberry explained that now that the major work under AID's LAC Regional Financial Management Improvement Project has been contracted, the firm of Price Waterhouse will provide the secretariat services to the Working Group as promised at the first meeting by Gary Byllesby of AID. Paul Lohneis, PW project partner and Regis Cunningham, deputy project coordinator were present to initiate this activity. Cunningham reported briefly on the project's progress to date.

PW will be setting up the Data Base of Financial Management Projects in the LAC Region which was discussed at the first Working Group meeting. A form for collection of the data needed was distributed together with instructions for its use by the participating organizations. These are attached. Note that item 5 of the instructions provides that a one to three page abstract of each project be attached to each form submitted. All projects since 1987 should be reported as agreed to in the first meeting. Any questions about the reporting of projects on these forms should be directed to Regis Cunningham.

PW will also be responsible for publishing the quarterly newsletter in English and Spanish containing information about financial management activities in the LAC Region, dates of upcoming events and training courses, information on publications and sources of information on FM in general.

After lunch in the IDB executive dining room sessions were resumed.

#### WORLD BANK PROJECTS TO STRENGTHEN FINANCIAL MANAGEMENT

Katherine Baer and Mauricio Carrizosa of the World Bank made presentations respectively on the SAFCO Project in Bolivia and the Financial Sector Adjustment Loan in Ecuador.

The SAFCO Project was implemented beginning in 1988 starting a mechanism based on ambitious policy changes introduced in Bolivia in 1985. It was initiated at the insistence of the Comptroller General who realized that accounting and auditing were practically defunct in the Bolivian government. SAFCO is one of three components in WB's \$12m loan for public sector improvement. Adding to the WB funds those provided by IDB, AID and the Bolivian government, a total of \$24m is being spent on the reforms.

The SAFCO Law will take the Finance Ministry out of monetary management, strengthen the Ministry's role in financial management and strengthen the Comptroller General's role in auditing. The project was designed to be executed outside the public sector entity framework by a separate technical directorate with four areas of responsibility: public enterprise cash flow management and financial reporting,

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central budgeting and fiscal reform (financial management), training and analysis in the non-financial public sector. Five persons are basically responsible for activities reporting to the Technical Director who is under the SAFCO Council.

A coherent set of standards and guidelines is being developed in conjunction with the training of people to perform in the public sector. About 200 international and national consultants are now working on the project.

The cash flow and reporting component is now monitoring about 60 public enterprises. Sound cash management and budgeting procedures are being introduced including a computerized reporting system. This will provide data on decentralized entities for the first time in a long time. The information produced will be useful to the Treasury in (1) monitoring and curtailing government expenditures, and (2) providing better management of public credit. An integrated computer system will capture and consolidate data.

Problems are as follow:

- There are no legal requirements for cash flow reporting and no incentive to the public enterprises to provide it. Thus the information depends on the SAFCO consultants.
- Basic accounting systems are lacking and extensive training is needed.
- Employees have low skill levels in accounting, especially in the mining sector. (The training program is addressing this.)
- Salaries for accountants and financial managers are very low. Many have two or three jobs and only work a few hours at each.

Under the budgeting and fiscal reform component the functions of the Finance Ministry are being changed in a major way. A Supreme Decree has restructured the Ministry by eliminating the undersecretary responsible for monetary and financial policy and reducing the Ministries responsibilities to budget, internal revenue, accounting and treasury functions. Rules and guidelines are being developed by a consulting firm for

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budgeting and treasury management. For the first time the 1989 budget was formulated before the year began and the same is hoped for 1990. A number of other reforms are in progress.

The reform of the Comptroller General's Office is the most ambitious part of the SAFCO effort because of the poor accounting systems in the government. This has been boosted by the new decree which introduces major changes in the audit function and the CG's relationship with the other public entities. Precontrol (preaudit) is abolished in favor of ex post audit. Internal audits are required as well as external audits. Internal audit reports will be sent to the CG within 30 days of their issuance. A quality control group has been set up in the CG's Office. External auditors on the CG's staff may participate in audits made by private firms to gain experience and on-the-job training. There is an increased number of external audits and more participation by the CG but a clear need for training continues.

There have been a number of changes in the organization and functions of the CG's Office. Staff has been reduced by eliminating the non-audit functions so as to focus on external auditing. Provincial offices have been reviewed and reduced. The challenge is not only to change the rules on paper but also to train the CG's staff.

In the training component, a one year course covers general FM principles, accounting, auditing, legal aspects, etc. The course is being tested and will eventually cover municipal FM and audit. The first phase is under way with about 250 trained in the basic course. This will eventually reach 600-800 persons.

The non-financial public sector entities component deals with surveys of salary structures and rates. There are tremendous disparities apparent in salaries and the way they are determined as well as in job descriptions. In effect, an analysis of the organization of the public sector is being made. Of course, it will be up to the new government to consider changes and discussions will take place soon.

The WB Financial Sector Adjustment Loan in Ecuador is one of several such financial sector loans made during the past few years to improve the way finance systems work. (Note: This refers to banking and credit systems, not financial management systems. The WB Public Sector Management Loan was not discussed as the person responsible for it was not available.)

There are three main problems in finance system management:

- control of interest rates and credit
- subsidies
- financing by money supply increases which elevate the public sector deficit.

This activity will seek to improve the banking system by strengthening supervision to concentrate on the main objective of achieving more sound financial institutions. It will also seek to improve conditions to encourage takeoff of capital market development and to improve the capital adequacy of the non-financial institutions. Proposals are to be presented to the Congress by the government including a new tax law to encourage equity financing. (In general this activity does not directly involve strengthening government financial management though its overall goals, if met, would no doubt have a salutary effect on the public sector).

Some of the comments during the discussion period were as follow:

- IDB has found the quality of audits by the CG's Office in Bolivia to be substandard due to lack of training of auditors.
- Audits made last year of the Central Bank and other institutions were "thoroughly condemning." The CB internal audit function is also receiving assistance under the project.
- Hopefully the new Bolivian government will not reverse the Supreme Decree setting up the SAFCO.
- The Integrated Financial Management System approach works well in a small country like Bolivia where a small number of public entities can be monitored and controlled without a sophisticated computer system. Integrating accounting is difficult where accounting systems are weak. There is a need for a period of training in the basic mechanisms. Accounting systems must be in place before integration. Auditing depends upon accounting. The SAFCO idea is good but it needs better basic accounting and auditing systems in place.

- Some pros and cons of the SAFCO approach and its possible applicability elsewhere:

Pros: ...avoids government structures, uses a dedicated team, dedication to reform is full time since the SAFCO team members do not hold regular government posts.

Cons:...staff does not come from Finance Ministry and do not know it, resentment is created due to team's higher salaries and lower prestige of regular posts.

- The Finance Ministry's salary structure needs to be raised as a key part of the project. It may be necessary to establish a semi-private institution outside the Finance Ministry to achieve this. WB financing of SAFCO will continue through 1990.

Wrap-up comments by IDB host Alberto Castillo on the meeting in general presented some suggestions for future meetings:

- Perhaps trying to cover four countries was too optimistic.

- Between now and the next Working Group Meeting we should complement our work by correspondence to assure:

. Obtaining for the data base project profiles or abstracts with a more detailed description of project content than shown on the forms distributed.

. Clarifying ideas about additional needs for technical collaboration/cooperation such as tax and customs administration, etc.

. Identifying areas where technical cooperation is lacking (by obtaining a better vision of the countries).

. Including in the data base information on projects being planned. We should not limit it to those countries where projects exist.

- With respect to the limitation of audits where financial management is poor, audits should cover broader aspects. Thus, they would not necessarily be related to the quality of financial management. Common problems which affect the production of the audit report need study and discussion.

THIRD WORKING GROUP MEETING

It was agreed that the third Donor Working Group Meeting will be held on Thursday, January 18, 1989. (Subsequent to the meeting the OAS agreed to host this meeting at its building at 1889 F Street, NW in Washington. Angel Boccia, telephone 202-458-3634, will coordinate the meeting arrangements. Regis Cunningham of Price Waterhouse, tel. 202-861-6276, will send out meeting notices, prepare the agenda, etc., as part of the secretariat services to be provided to the Working Group by PW).

The focus of the next meeting will be limited to no more than two countries. Country assessments now being made will be discussed. In addition, specific topics may be presented and discussed.

Attachments:

LAC Region Financial Management Professional Events through  
December, 1990  
Financial Management Activities Data Base form and  
instructions.

January 8, 1990

Cecile Adams, Deputy LAC Controller  
Agency for International Development  
LAC/CONT, Room 3253 NS  
Washington, DC 20523-0024

Dear Ms. Adams:

We are extremely pleased to announce that **Ambassador Edwin G. Corr** will be the guest speaker at the **LAC Region Donor Working Group on Improving Financial Management Meeting** to be held Thursday, January 18, 1990 at the OAS in Washington, D.C. As a career foreign service officer, Ambassador Corr has served throughout the developing world, including posts as Ambassador in El Salvador, Peru and Bolivia. He is currently Diplomat-in-Residence, Department of Political Science, University of Oklahoma. His topic will be **Foreign Assistance and Corruption: An American Ambassador's Perspective.**

As a result of current events in Panama, we would also like to include in the meeting agenda a discussion of any financial management projects carried out in Panama over the past several years. The Meeting Agenda should therefore be amended to read as follows:

"10:15 Identification of financial management projects executed, in-progress or planned in Honduras, Paraguay and Panama."

A representative from each donor agency should be prepared to identify the public sector financial management projects financed and/or executed by that agency. In particular, we would be interested in knowing if any country assessments of Panama's public sector financial management capabilities have been carried out.

We look forward to your participation in the third Donor Working Group Meeting. If you have any questions, please do not hesitate to call me at (202) 861-6276 or Mrs. Lynnette Asselin at (202) 296-0800, Ext. 400. Our fax numbers are: 296-2785 and 466-3918.

Very truly yours,

Regis Cunningham  
Deputy Project Director, A.I.D. LAC RFMIP

79'

James P. Wesberry, Jr Senior Financial Management Advisor  
Agency for International Development  
Bureau for Latin America and the Caribbean  
LAC/CONT, Room 3253 NS  
Washington, D.C. 20523-0024^R

Wayne McKeel, Deputy Controller  
Agency for International Development  
PFM/FM/FPD, Room 803, SA-2  
Washington, D.C. 20523^R

Ms. Cindy Rounds  
Agency for International Development  
S&T/RD, room 606, SA-18  
Washington, D.C. 20523^R

Mr. Kenneth Kornher, Chief  
S&T/RD, room 606, SA-18  
Development & Management Division  
Agency for International Development  
Washington, D.C. 20523^R

Ms. Maria Mamlouk  
Agency for International Development  
LAC/SAM room 2251NS  
Washington, D.C. 20523^R

James B. Durnil, Deputy Inspector General  
Agency for International Development  
Office of Inspector General  
Main State Bldg. Room 5644  
Washington, D.C. 20523^R

Ms. Julie S. Tessauro  
Agency for International Development  
Office of Inspector General  
Main State Bldg.  
Washington, D.C. 20523^R

Pedro E. Andrieu, Chief  
Inter-American Development Bank  
Social Development Studies Section  
1300 New York Ave., N.W.  
Washington, D.C. 20577^R

Luis A. Prieto  
Inter-American Development Bank  
1300 New York Ave., N.W.  
Washington, D.C. 20577^R

Luisa Rains, Fiscal Economist  
Inter-American Development Bank  
General Studies Division  
1300 New York Ave., N.W.  
Washington, D.C. 20577^R

Mario Cortes  
Inter-American Development Bank  
1300 New York Ave., N.W.  
Washington, D.C. 20577^R

Arnoldo da Fonseca, Sr. Officer  
Inter-American Development Bank  
Technical Cooperation Division 1  
1300 New York Ave., N.W.  
Washington, D.C. 20577^R

Angel Boccia, Senior Economist  
Organization of American States  
Development Finance Division  
1889 F Street, N.W. Room 200 Q  
Washington, D.C. 20006^R

Hernan Hurtado Prem  
Organization of American States  
Development Finance Division  
1889 F Street, N.W. Room 200 Q  
Washington, D.C. 20006^R

Ricardo Murua  
Organization of American States  
1889 F Street, N.W.  
Washington, D.C. 20006^R

Luis Illanes  
Organization of American States  
1889 F Street, N.W., Room 320-C  
Washington, D.C. 20006^R

Alvaro Lopez Cayzedo  
Organization of American States  
1889 F Street, N.W. Room 320-D  
Washington, D.C. 20006^R

Mr. Abu T. R. Rahman, Chief  
Public Financial and Enterprise Management Branch  
Development Administration Division  
Department of Technical Cooperation for Development  
DC 1-966  
United Nations  
New York, N.Y. 10017^R

41'

Alberto Favilla  
12117 Drews Court  
Potomac, MD 20854^R

Clay Wescott  
United Nations  
Development Programme  
One United Nations Plaza  
New York, N.Y. 10017^R

Nestor Arias, Area Officer  
Regional Bureau for Latin America  
and the Caribe  
Division II - Room DC 1-2288  
UNDP  
1 United Nations Plaza  
New York, N.Y. 10017^R

Ms. Jacqueline Hartvelt, Area Officer  
Regional Bureau for Latin America  
and the Caribe  
Division II - room 403  
UNDP  
Uganda House  
336 E 45th Street  
New York, N.Y. 10017^R

Donald Winkler, Sr. Fiscal Economist  
The World Bank  
Public Sector Management Unit  
Latin America and the Caribbean  
1859 I Street, N.W., Room I-5161  
Washington, D.C. 20433^R

Peter Aliferis, Director  
U.S. General Accounting Office  
Office of International Audit  
Organization Liaison  
441 G Street, N.W. Rm. 7806  
Washington, D.C. 20548^R

Donald Drach, Deputy Director  
U.S. General Accounting Office  
Office of International Audit  
Organization Liaison,  
441 G Street, N.W.  
Washington, D.C. 20548^R

Lee Weaver Richardson  
U.S. General Accounting Office  
Office of International Audit  
Organization Liaison  
441 G Street, N.W.  
Washington, D.C. 20548^R

WJ

A. Premchand  
Assistant Director  
Fiscal Affairs Department  
International Monetary Fund  
700 - 19th Street N.W., room 6-120  
Washington, D.C. 20431^R

Ernesto Perez  
International Monetary Fund  
700 - 19th Street N.W.,  
Washington, D.C. 20431^R

Paul Lohneis, Project Partner  
Price Waterhouse  
1801 K Street, N.W. Suite 700  
Washington, D.C. 20006^R

Regis Cunningham, Manager  
Price Waterhouse  
1801 K Street, N.W. Suite 900  
Washington, D.C. 20006^R

**TENTATIVE AGENDA FOR THE THIRD MEETING OF  
THE DONOR WORKING GROUP ON IMPROVING FINANCIAL MANAGEMENT  
IN THE LATIN AMERICA AND CARIBBEAN REGION**

**Hosted by the Organization of American States (OAS)**

*OAS - 1889 F Street, N.W.  
Washington, D.C*

*January '83, 1989*

- 9:00 am Opening Remarks, Ricardo Murua, Moderator, Organization of American States
- Introduction of Participants
- 9:15 am "History of OAS technical assistance in the area of financial management", Hernan Hurtado Prem, Director, Department of Economic Affairs, OAS
- 9:45 am Guest speaker (to be named)
- 10:15 am Identification of financial management projects planned and in execution in Honduras and Paraguay by:
- Agency for International Development (A.I.D)
  - Canadian International Development Agency (C.I.D.A.)
  - Inter-American Development Bank (IDB)
  - International Monetary Fund (IMF)
  - Organization of American States (OAS)
  - United Nations - Department of Technical Cooperation for Development (UN/DTCD)
  - United Nations Development Program - Management Development Program (UNDP/MDP)
  - World Bank
  - Other participating donor organizations
- 10:45 am Coffee Break
- 11:00 am Presentation of the UNDP Management Development Program mission in Paraguay, Alberto Favilla, Mission Leader
- 11:20 am Presentation of the IDB tax administration and policy project component in Paraguay, Luisa Rains, Fiscal Economist, General Studies Division, IDB.

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- 11:40 am Presentation of the IDB financing and budget administration project component in Paraguay, Mario Cortes, IDB
- 12:00 pm Open discussion on financial management improvement projects in Paraguay.
- 12:30 pm Lunch
- 2:00 pm Presentation of OAS public budgeting project in Honduras, Angel Boccia, Senior Economist, OAS
- 2:20 pm Presentation of IMF Zero Base Budgeting project in Honduras, A. Premchand, Assistant Director, Fiscal Affairs Department, IMF.
- 2:40 pm Presentation of A.I.D. technical assistance to the Honduran Controller General's Office project, Regis Cunningham, Deputy Project Director LAC/RFMIP, Price Waterhouse
- 3:00 pm Open discussion on financial management improvement projects planned or in execution in Honduras.
- 3:30 pm Coffee Break
- 3:45 pm Open discussion on donor agency cooperation
- 4:45 pm Closing Remarks, Ricardo Murua, OAS  
Discussion of next donor agency quarterly meeting
- 5:00 pm Adjourn

PARTICIPANTS AT THE THIRD MEETING OF  
THE LAC REGION DONOR WORKING GROUP ON IMPROVING  
FINANCIAL MANAGEMENT

Agency for International Development

Jim Wesberry  
Wayne McKeel  
Gary Byllesby  
Cindy Rounds  
Maria Mamlouk  
Kenneth Kornher

Agency for International Development-Inspector General's Office

James B. Durnil  
Julie S. Tessauro

Inter-American Development Bank

Pedro Andrieu  
Arnoldo da Fonseca  
Luis A. Prieto  
Luisa Rains  
Mario Cortes

Organization of American States

Hernan Hurtado Prem  
Ricardo Murua  
Angel Boccia  
Luis Ilhanes  
Alvaro Lopez Cayzedo

United Nations-Department for Technical Cooperation and  
Development

Abu T. R. Rahman

United Nations Development Program - Management Development  
Program

Clay Wescott  
Alberto Favilla

United Nations Development Program - LAC Bureau

Jacqueline Hartvelt  
Nestor Ames

The World Bank

Donald Winkler

International Monetary Fund

A. Premchand  
Ernesto Perez

U.S. General Accounting Office

Peter Aliferis  
Donald Drach  
Lee Weaver Richardson

Price Waterhouse

Paul Lohneis  
Regis Cunningham  
Lynnette Asselin

April 8, 1990

Dear

Enclosed for your review please find a draft Summary of the Third Meeting of the Donor Working Group on Improving Financial Management, held on January 18, 1990. Any changes or additions should be returned to us as soon as possible so that we may distribute the final copies prior to our next meeting.

Our next meeting will be held on Thursday, April 26, 1990 at 9:00 a.m. in the World Bank. Mr. Donald Winkler has arranged for the meeting and lunch to be held that day. The address is 1818 H Street, Washington D.C. The building is Building I and it is located across the street from the Farragutt West Metro Station.

Countries to be discussed will be Costa Rica and Jaimaca and we would like to request that a representative from each donor agency be prepared to identify the public sector financial management projects financed and/or executed by that agency. We will provide you with a copy of the agenda prior to the meeting. We shall also be honored to have the Comptroller General of Venezuela as a special honored guest at the meeting.

We look forward to your participation in the fourth Donor Working Group Meeting and any corrections to the Summary of the third Donor Working Group Meeting. Please confirm your attendance at the meeting with Regis Cunningham at (202) 861-6276 or me at (202) 296-0800, Ext. 400. Our fax number is (202) 296-8871.

Very truly yours,

Lynnette M. Asselin  
Manager

Enclosure

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SUMMARY OF THIRD MEETING OF LAC REGION  
DONOR WORKING GROUP ON  
IMPROVING FINANCIAL MANAGEMENT  
JANUARY 18, 1990

The third Donor Working Group Meeting was hosted by the Organization of American States (OAS) at its headquarters building in Washington, D.C. Donor organizations represented besides the OAS were the Agency for International Development (AID), the International Monetary Fund (IMF), the United Nations Department for Technical Cooperation and Development (UN/DTCD) and the United Nations Development Programs/LAC Bureau (UNDP/LAC). Present as observers were representatives of the U.S. General Accounting Office (GAO), the Inter-American Development Bank (IDB), and the World Bank. Ricardo Murua of the OAS served as Moderator.

The meeting was opened at approximately 9:00 a.m. at which time Ricardo Murua welcomed the participants to the third Donor Working Group Meeting. The Participants from each organization were introduced. A participant list is attached to this summary.

Mr. Hernan Hurtado Prem, Director, Department of Economic Affairs gave the introductory remarks on the "History of OAS Technical Assistance in the Area of Financial Management." The OAS has been providing technical cooperation in the area of financial management to member countries for some time. Early in the decade of the sixties, the OAS sponsored a series of Inter-American meetings for the purpose of examining past experiences and deciding on a plan of action. During the 1960's OAS sponsored conferences and regional seminars in the areas of taxation and development administration. In 1976 these two areas were merged under the Development Financing Program and currently the activities are carried out by the Department of Economic Affairs.

The main objective of the OAS Development Financing Program is to harmonize the instruments of technical cooperation, training and applied research to improve the financial management of its member countries. The technical cooperation component is directed toward solving specific problems in the collection and uses of financial resources. The training component is devoted to strengthening local capabilities to operate and improve financial management systems. The applied research element was conceived as an instrument to search for solutions relevant to particular needs.

When the program was first initiated, the Development Financing Program was aimed at raising tax revenues and improving the structure of the tax systems as a whole, including tax administration. A comprehensive approach to evaluating the tax systems then in force was designed which focused on the deficiencies in each country's system in order to provide guidance for reform. Models were designed which included value-added and selective excise taxes and taxes on traditional exports. Assistance was provided in the adoption of the customs duty nomenclature of the Customs Cooperation Council. Training efforts were undertaken to promote the creation of administrative units in charge of tax formulation which would be competent in the requisite techniques. The OAS has been instrumental in the preparation of a model tax code which has been adopted by Bolivia, Costa Rica and Peru, and which serves as the basis for studies currently being conducted in Colombia, Ecuador, El Salvador, Guatemala, Panama, Paraguay and Venezuela.

In the area of control, efforts are expected to result in a monitoring system that is more appropriate for the countries involved and should raise the levels of compliance substantially. The comprehensive control system rests on three cornerstones: 1) fast and effective auditing methods based on an effective reporting system that covers a large number of taxpayers; 2) rapid procedures for enforcement and for collection of taxpayer liabilities; and 3) a penalty system that gains in coverage what it loses in depth.

The Inter-American Center for Tax Studies (CIET) in Buenos Aires, Argentina, was created to provide training on a specialized technical level.

In the field of public expenditures, the activities of the Development Financing Program have concentrated on improving and developing the budget as an efficient tool for the allocation of public sector resources. The role of the budget as a tool must be adapted to the needs of the planning system and of the financial administration of the government. The budget plays a vital role in the implementation of governmental policies and related plans of action.

In the reform of budgetary systems, emphasis has been placed on highlighting those characteristics which facilitate implementation of medium and long-term plans. In particular, this includes the grouping of programs by sectors of government activity; specification of sectoral goals and activities; and elimination of the excessively detailed breakdown of expenditure categories.

Although budget preparation has received greater attention in the reform process than other aspects, problems persist. The insufficient involvement of department heads in final budget

formulation results in the arbitrary establishment of priorities; the failure to relate resource allocation to existing goals and an administrative inability to reach projected targets.

Deficiencies in government accounting systems hamper economic analysis of public sector expenditures and weakens management and control of government enterprises. The most common weaknesses detected in the area of accounting are inadequate centralization of accounts, recording of transactions on a cash basis, lack of coordination with national income accounting, and insufficient use of accounting information in decision-making. Also, public enterprises are not governed by a uniform system of budgetary control, and the commercial accounting procedures they use cannot be made consistent with the governments' budgetary classification of accounts.

The Program has found that budgetary evaluation is also weak because it is usually limited to a quantitative examination of the fiscal year's financial performance. This restricted concept of evaluation is inadequate for effective management of the public sector.

The Program has been successful in focusing on developing a comprehensive approach to budgetary control and evaluation. Cooperation has been provided through technical assistance missions and training and research activities. What is of interest at this stage is the evaluation of not only the Program's results in the area of financial management but also its impact in the future.

#### AMBASSADOR EDWIN CORR

Guest speaker, U.S. Ambassador Edwin Corr, gave a presentation on the importance of dealing with corruption and fraud in government financial management. Ambassador Corr pointed out that corruption is world wide. Systems of control and accountability have not kept pace with the times. It is through conferences, such as the Inter-American Conference on Fraud and Corruption, held in Miami in December 1989, that host countries can be assisted in focusing on this problem in order to reform their systems and provide more effective and efficient use of resources in the future.

Corruption in the public sector can be defined as the legal and illegal action of government and private sector officials which results in the misuse of the resources of the state. All government officials are stewards of public trust. Ambassador Corr gave the example of how a U.S. Ambassador is charged with the responsibility of efficient and effective use of the U.S. taxpayer's monies. Currently, over one-third of AID personnel serving in foreign countries are monitoring rather than implementing development programs. This is a costly use of development resources. It would benefit both the donor and the

grantee if the HC had better management and administrative systems. The U.S. Ambassador, as representative of the United States, should encourage the proper and effective use of host country funds as well, in order to promote the development of democracy and stability.

Although various other solutions have been tried over the years, effective development requires effective government and effective government cannot exist with corruption. Therefore the solutions to minimizing corruption in order to have good government and more effective development include: systems that function, internal and external audits, strong budgeting and accounting, independent outside inspection, public disclosure and accountability, punishment set to the gravity of crime, better salaries, professionalism, and democracy which includes a multi-party system based on strong family, church and education systems.

#### IDENTIFICATION OF FINANCIAL MANAGEMENT PROJECTS IN HONDURAS, PARAGUAY AND PANAMA

##### Honduras

AID currently has a project to improve the audit capability of the Controller General's Office through training and reorganization. The models designed during this project will be used in future regional applications.

IDB has a new project starting that is the continuation of a 1984-1987 project. It's objective is to strengthen the Ministry of Finance and Public Credit in tax policy, tax administration and enforcement and training.

IMF completed a zero-based budgeting (ZBB) project in September of 1989.

OAS has just completed a budgeting project for the years 1988 and 1989. They expect a follow-on project, however, the 1990-1991 project cycle will not be determined until March, 1990.

UNDP/MDP has been working with the Ministry of Planning and Budgeting for the past year and a half. They assisted with the formulation of the 1989-90 budget. The UNDP/MDP has recommended a program to strengthen the management capacity of the public sector. It has identified a \$3.9 million program for three years which will be co-financed by UNDP, the Honduras Government and other donors. The three-year program includes 22 projects. The first five projects in the launching stage deal with support to the institutional mechanism for the management of the Program, training of a cadre on macro-economic management, budgetary

programming, planning, economic forecasting, economic adjustment and co-ordination of the decentralized public sector. Projects 6 through 21 in the critical areas stage include information systems for decision-making, training of the basic cadre responsible for the implementation of the adjustment program and the renegotiation of the debt, formulation of investment projects including social evaluation of investment projects, programming of technical co-operation, improvement of the delivery of services in the agricultural, forestry, education, trade, water, energy and public works sectors, improvement of the tax and customs systems, decentralization, management of human resources (transforms the Civil Service Bureau), and the establishment of an integrated training program for the public sector.

The World Bank has no financial management projects in Honduras.

#### Paraguay

AID has supported no projects in the financial management area however they have just received a request from the Comptroller General for assistance in accounting, auditing and integrated financial management systems. There has also been a request for some assistance with a fraud and corruption conference as a result of attendance at the fraud conference in December 1989.

The IDB has been working in Paraguay since 1984 to strengthen tax policy and administration and financial management of expenditures. The project will end February 15, 1990. Tax issue studies have been carried out resulting in the development of a Taxpayer Master File. A model for public investment has been designed including the areas of expenditures, investment programming and budget administration. They have been asked to develop a proposal for work dealing with external debt. These projects have been executed by the OAS.

The IDB is currently in the approval process for a new project which will: 1) complete studies on external taxes, implement changes, and improve tax administration, and 2) strengthen financial management in the budgeting, treasury, public debt and non-financial public sector.

The IMF has not given any technical assistance to Paraguay in 20 years.

The OAS has been executing the IDB project.

UNDP finished a computerized accounting system project one year ago.

The World Bank has no financial management projects in Paraguay.

## Panama

AID is planning limited short term emergency assistance in assessing financial management and auditing with the Controller General under the LAC RFMIP.

The IDB has no specific program with Panama however it will be sending a mission to Panama.

The IMF was previously involved in a tax project, but not in general financial management. There is some likelihood they will become involved again.

The OAS has not been recently active in Panama because of arrears by Panama to the Development Fund. The information system project for tax policy and budget administration was cut short in 1987.

The UN has been working with the Ministry of Planning and Economic Policy in administrative planning and development since 1986.

The UNDP has no projects in Panama.

The World Bank has received a request from Panama and will be sending a mission.

## Regional

The United Nations has been working on a regional public administration project with a financial management component in Costa Rica.

Peter Aliferis of GAO gave a short presentation on the GAO work with INTOSAI. Working with the INTOSAI regional groups (ILACIF and CAROSAI), training has been provided to a limited number of Supreme Audit Institutions (SAIs) senior staff. A meeting attended by 15 Auditor Generals was held in March 1989 and another is planned for March 1990. GAO is starting a Spanish-language training program for instructors. Mr. Aliferis highlighted the fact that there have not been many participants from Latin America in the GAO fellowship program because of the language problem.

## IN-DEPTH DISCUSSIONS ON SELECTED PROJECTS IN PARAGUAY

### UNDP Management Development Program in Paraguay

Mr. Alberto Favilla, Mission Leader of the UNDP Management Development Program (UNDP/MDP) mission in Paraguay presented an overview of the MDP mission. The mission, upon the request of the Paraguayan government, was tasked with reviewing the public sector with the aim of identifying technical cooperation which would directly support institutional modernization and enhance overall operational efficiency. The mission recommended eight projects as a result of their review. The objectives of the eight are summarized below.

1. Revise the organization of the central government to modernize and streamline functions, delineating specific responsibilities, provide legal basis to the effective discharge of duties, ensure proper articulation and integration of policies and actions, and promote cooperation and coordination of activities as well as decentralization, follow-up, accountability and control.
2. Help strengthen public sector organization, methods and management in order that public sector institutions can deliver services on time, on target and in a cost effective way.
3. Help strengthen fiscal performance by increasing revenue collections from property taxes. This would be achieved through modernization and improvement of the Property Tax Administration's organization and operations.
4. Assist in the establishment and functioning of the Office of the Controller General of the Nation as an independent public sector agency to monitor and control (ex-post) financial and other key government transactions to ensure that they are in line with the requirements spelled out in the country's Constitution.
5. Ensure that procurement in the public sector is efficient, quick and transparent. The objective will be to reduce cost overruns and accelerate project execution.
6. Strengthen the personnel administration and human resources systems of the public sector by improving the central, normative capacity of the Public Service Directorate to create and implement technically and professionally sound personnel administration standards, policies and procedures.
7. Develop and execute a comprehensive program to restructure non-performing enterprises, liquidate those which cannot be made economically viable and privatize and/or enter into

joint-ventures that can be effectively operated by the private sector.

8. Strengthen the capacity of local governments to contribute to the process of economic and social development as part of the strategy of the national government to decentralize the attainment of national goals.

#### IDB Tax Administration Project Component in Paraguay

Luisa Rains of the IDB discussed the tax administration project in Paraguay. The objective of the project was the overall support for modernization of public sector tax policy and administration. The project began in December 1984 and its specific objectives were to assist the government in an analysis of tax policies and administration, examine the organizational structure, and develop and train staff. Analysis, evaluation and recommendations were provided for income, corporate, property and value added taxation (VAT). The tax code was revised and training seminars held. The project objective was to simplify and have only a few taxes but more efficient use of the revenues. In 1988 the tax office was set up. A follow-on project is in the approval stage at the IDB.

The objective of the project is the continued development of tax policy and administration. The goals are to implement tax reform, streamline tax administration and increase the productivity of the tax secretary through integration by function not taxes. Results will include: 1) implementation of the VAT, 2) rationalization of fewer taxes, 3) update taxes on foreign trade and 4) approval of a single body of law for taxes. The project proposes to train approximately 300 people in the office of the Subsecretary for Taxes. The work will be carried out by four long-term consultants in the fields of administration, policy, systems and customs administration. Short term technical assistance to be provided in tax legislation, property tax, foreign trade taxation, VAT, methodology, microcomputers, and statistics. Training will be given in control procedures for auditing, data base management, analysis, and VAT. Systems will be designed by local consultants and a condition precedent to the project will be the acceptance of this personnel on a permanent basis.

#### IDB Financing and Budget Administration Project Component in Paraguay

Mario Cortes of the IDB summarized three programs in developing financial management in Paraguay:

- 1) A project with the Ministry of Finance to upgrade the

financial and budget administration of the investment program. This project was completed January 25, 1990.

- 2) A project with the Planning Secretariat to improve the formulation of policies and programs. This was completed July 21, 1989.
- 3) Institutional strengthening for public sector training was completed September 10, 1988.

There are two subprojects now in the approval stage. The objectives of the first will be:

- o restructuring of the Ministry of Finance;
- o strengthening of the central government financial administration in the areas of budget, treasury and credit; and
- o strengthening of the Ministry of Finance in programming and monitoring of income, expenditures and non-financial resources.

The results of this subproject will include:

- o a proposal of options based on the separation of functions,
- o manuals,
- o an organic budget law,
- o implementation of budget execution plans,
- o implementation of modern processes and methods for the treasury,
- o implementation of records and control for public credit in the Central Bank,
- o completion of training in the new system,
- o an information system on cash transactions (including an econometric and simplified consistent model which permits analysis), and
- o training.

The second subproject involves the investment and development program. The objectives will to:

- o install a normative information system which links the investment program and economic policy,
- o install a computerized system which links the investment program and budgeting system,
- o institute a data based system for monitoring investment projects,
- o institute a cost benefit system for programming investment projects,
- o compile an inventory system for investment projects,
- o introduce breakeven analysis and macroeconomic models used for forecasting.

The results will be:

- o implementation of a system to evaluate and prioritize investment programming
- o implementation of a system to standardize program investment in the National Planning Office
- o compilation of a list of investment projects consistent with economic policy
- o updated national accounting parameters
- o a revised macroeconomic model for forecasting and its indicators
- o complete training of staff in programming, design, evaluation, and physical and financial monitoring

### Open Discussion on Paraguay Projects

The AID Paraguay Desk Officer has been asked to consider projects in economic policy and property tax implementation. UNDP is aware of this request. The implementation of a property tax program was referred to AID because of the level of funds needed to carry out this project. The German GTC is doing some work in this area but a major overhaul is necessary.

A law has been passed by one house of the Congress establishing a Comptroller General in Paraguay, however there are some concerns as to the proposed functions and areas of control.

IDB was asked to explain how it implements the projects discussed earlier. The IDB representative replied that the IDB is the executing agency and has direct control. UNDP hires a coordinator and specialized consultants are contracted by the UN for services.

Lunch was served in the Executive Dining Room of the OAS.

### IN DEPTH DISCUSSION OF SELECTED PROJECTS IN HONDURAS

#### OAS Public Budgeting Project in Honduras

Angel Boccia, OAS Senior Economist, gave the presentation. From 1987 through 1989, OAS executed a public budgeting project for the IDB in Honduras. The government of Honduras has requested an extension. The budgeting concept introduced emphasized program budgeting, i.e. output orientation and output indicators and less emphasis on legal control and output control. Manuals, forms and reports were designed. Analysis was undertaken and used to examine revenue and expenditures and make appropriate plans. This produced a positive effect and an Executive Order has been issued applying the budgeting process to all ministries.

The methodology for revenue estimation was first to obtain the necessary information. Various processes such as regression analysis for revenue estimation were introduced. At times this proved to be difficult because the input information was not readily available. The OAS considers this mostly a training mission. A seminar was given for financial programming. The idea of fiscal programming, as part of the broader economic programming, was introduced. More emphasis was placed on budget execution from outputs and integral fiscal programming with financial programming.

## IMF Zero Base Budgeting Project in Honduras

Mr. Ernesto Perez of the IMF gave the presentation on IMF's zero base budgeting (ZBB) project in Honduras. Based upon a survey of needs carried out in 1987, the government of Honduras requested technical assistance for two years to introduce the concept of zero base budgeting. The objectives of the project were:

- o to establish the basis for ZBB in the decentralized agencies of the government
- o to strength the budget function in the government and in decentralized institutions
- o to install an information system which would support the ZBB concept, review the government accounting system and formulate a plan to monitor the budget and fiscal activities of related agencies
- o provide training as necessary

In order to establish the basis for ZBB, a pilot program was implemented. A simplified manual was designed and training was provided. Also, a streamlined guide was developed which identified the information needs. The instruction manual was used in the preparation of the 1989 Budget and application of ZBB was used in 28 decentralized agencies.

Strengthening of the budget function was carried out by examining the budgets, decision packages provided and application of ZBB techniques utilized. Recommendations were made to the Ministry of Finance and Secretariat of Planning.

The training component made up the largest part of the program. Three courses, fifteen seminars and twenty round table discussions were held in order to develop the methodology to apply ZBB. ZBB is a very new technique for Honduran officials. The project was originally designed for one year, however it was extended for a second year. Most of the objectives were fulfilled and the Honduran government would like to install ZBB on the national level. The Fund believes that experience should first be gained at the decentralized agencies.

There are still some doubts and questions about introducing such new techniques in developing countries because of the lack of well-trained middle and lower level employees and the commitment to carry on with the techniques once the specialists have left.

## AID Technical Assistance to Honduras Controller General

Regis Cunningham of Price Waterhouse (the consulting firm contracted to execute this project) presented the technical assistance project to restructure the Controller General's Office in Honduras. It is a \$403,500 project beginning in July 1989 and finishing in September 1990. There will be one consultant for 15 months and 1 consultant for 10 months plus local PW staff.

The project was developed based upon the recommendations made in a diagnostic in 1987. The objectives of the project are summarized below.

1. To give the Controller General's Office a new focus and a reorientation from exception and irregularity reporting to constructive findings and recommendations.
2. To provide training which strengthens the audit skills of the employees and supervisors in the Office of the Controller General. Tasks include the design of a career development program and training programs in governmental accounting and auditing for the Controller General staff and internal audit personnel from other Government of Honduras centralized and decentralized institutions.
3. To provide technical policies and procedures in the area of audit standards, audit guides and administrative procedures.
4. To modernize the Office of the Controller General in the areas of organization, orientation, research and development of standards and training of personnel.

Some of the activities to be undertaken include:

- o Classroom and field training in governmental auditing
- o Assistance in the creation of a Planning, Organization and Systems Unit and an Audit Training Center, as approved by the Controller General in December 1989
- o Preparation of a new control policy with detailed policies and procedures for governmental auditing
- o Development of a guide for internal auditors in the various decentralized agencies in coordination with the Controller General's Office

Mr. Cunningham next discussed the results to be obtained during the life of the project. By area they include:

### A. Training

- In 1989, seven one-week "Introduction to Government Control" courses were given to 210 employees.
- In 1989, two courses were given to 60 students in Government Accounting and a third course will be given in 1990. These are 6-7 week courses.
- In January 1990, the first financial auditing course was given to thirty auditors of the Controller General's Office. During 1990, three more Governmental Financial Auditing courses will be given.
- Various specific topic courses will be presented in audit supervision, report writing and other areas as determined necessary.

The project plan assigns PW responsibility for the first course. The Controller General's Office personnel will assist PW in the first round of courses and will gradually assume overall responsibility for the training.

#### B. Organization and Administration

In this area, PW will draft the training and control policies for the new units mentioned above. They will also draft the operational policies for the Controller General's Office. This will include personnel policies and procedures as well as administrative policies and procedures.

#### C. Audit Policies and Procedures

PW will draft generally accepted government auditing standards, internal control standards, internal auditing policies and standards, and provisional audit manuals and guides.

#### D. Legal

Draft amendments to the legislation governing the Office of the Controller General will be presented for approval by the Controller General and the Congress. This legislation will change the focus from exception and irregularity reporting to constructive findings and recommendations based on ex-post audits executed by the Controller General's Office.

Among the lessons learned and principal problems encountered was

the recognition of the lack of a thorough understanding by legislators and others of the role of a modern supreme audit institution in the government. This must be communicated to the public and the professional organizations in the country. Some financial laws are quite old. Many government agency financial management systems are obsolete and there are no audit trails available. Consequently, it is difficult to apply modern government auditing techniques. It is apparent that there is a need for an integrated financial management system approach in the government.

The future medium and long-term needs are to expand field training, continue assistance to the training center, and eventually provide additional specialized training in operation audit, EDP auditing, internal auditing and investigative techniques.

#### Open Discussion on Projects in Honduras

The concept of the Honduran Controller General's Office Organizational Restructuring Project appears to be dealing with the idea of behavioral changes as well as technical issues. Price Waterhouse has found that the Controller General and Deputy Controller General support modernization because the need for a professional government audit function is widely recognized. There has been little difficulty in introducing changes although some anxiety is normal.

The topic of sustainability was introduced. Comments were invited on experience in this area. Mr. Premchand said that his experience was that if there is no commitment, then resources should be stopped immediately. Sustainability does not begin at one arbitrary point in time, rather, once concepts or techniques are internalized the process of sustainability begins to work. Sustainability and durability are tied into what is being yielded. Training often times results in high personnel turnover. However, the constant flow of people is part of the dynamics. Emphasis should be placed on providing policy and procedure documentation and manuals since loss of well trained personnel is a continual problem. Mr. Cunningham noted that public accounting firms also have the same experience with turnover. The firms use "in-house training" to train personnel and this concept should be used with the Controller General project. Besides training, supportive top level management is imperative for commitment.

Mr. Wesberry carried the point further using experience gained in El Salvador. Under an AID project, the existing Court of Accounts was modernized, a new law drafted, and a training center initiated. However, this project was not a success because of

the lack of leadership so necessary for sustainability. Mr. Wesberry believes that there is no such thing as short term training. Training is an on-going function. If training or technical assistance stops abruptly, sustainability of the improvements is difficult. If training or technical assistance gradually tapers, sustainability of the improvements stand a better chance. Accounting and auditing are fields which require discipline. Training in these areas should instill this discipline. Discipline can instill commitment and pride in achievements obtained and this will result in sustainability.

Mr. Boccia clarified that the OAS budget project was carried out with one expert for two years and the government has requested an extension of the project.

The ZBB project was carried out with one expert plus backstopping from IMF over 26 months.

The resultant changes from the elections in Honduras will be discussed at the next donor working group meeting. However, the Controller General will not change because his term runs for two more years.

#### Discussion on Donor Agency Cooperation

Mr. Cunningham encouraged each donor agency to submit articles on projects being carried out, success stories, events or short articles for inclusion in the quarterly LAC RFMIP Financial Management Exchange newsletter.

Moderator Murua stressed the important of cooperation and coordination of activities by donor agencies with the political changes currently taking place in Panama. Coordination of published materials is helpful for all donor agencies as well as coordination at the field and headquarters levels.

The issue of adequate compensation for government counterparts was discussed. Many donor agencies pay salary supplements to attract and maintain experienced personnel on their projects.

- |                    |  |
|--------------------|--|
| <b>AID:</b>        | Has formalized official policy on salary supplement and topping-off.                               |
| <b>World Bank:</b> | Officially cannot pay salary supplements.  |
| <b>UN:</b>         | Permits payment of compensation for six months and then the host government must continue payment. |

The universal problem of inequality of financial management

salaries and the resultant personnel turnover was discussed.

AID requested information on evaluations used by other donor agencies.

**OAS:** The OAS has no formal procedures. It uses ad hoc procedures. Every five years it carries out evaluation of its various centers.

**World Bank:** The World Bank does an evaluation on every project, but not in-depth.

**UNDP:** The UNDP carries out in-depth evaluations on all projects over \$1,000,000. It has annual review meetings and does impact evaluations as well.

**IDB:** The IDB carries out ex-post evaluations.

Joint efforts in technical cooperation were discussed. An example of this type of effort was the SAFCO project in Bolivia. AID can be helpful in this type of endeavor because of its local currency sources. The UN has fostered working with non-government organizations in Paraguay and Panama. The importance of working with the professional financial management organizations in Latin America was expressed. The LAC RFMIP will help to strengthen these groups.

The question of working towards a world donor group meeting was discussed. No conclusion was reached.

Countries to be discussed at the next meeting will be **Jamaica** and **Costa Rica**. Discussion of Panama will be delayed until the following meeting.

The next meeting of the donor working group was tentatively set for Thursday, April 26, 1990. The IMF and UN will be approached about hosting the meeting.

The idea of inviting local representatives of the donor agencies to attend and give presentations was supported.

It would be appreciated if those that give presentations at the meetings would also provide summary hand-outs.

Moderator Murua of the OAS gave the closing remarks. He said the group should continue to come together to share experiences and provide an efficient way to deal with common problems. He thanked Mr. Cunningham and Mr. Boccia for their efforts in arranging this meeting and looks forward to the next reunion in April.

April 9, 1990

^F1^

Dear ^F2^:

Enclosed for your review please find a draft Summary of the Third Meeting of the Donor Working Group on Improving Financial Management, held on January 18, 1990. Any changes or additions should be returned to us as soon as possible so that we may distribute the final copies prior to our next meeting.

Our next meeting will be held on Thursday, April 26, 1990 at 9:00a.m. in the World Bank. Mr. Donald Winkler has arranged for the meeting and lunch to be held that day. The address is 1818 H Street, Washington D.C. The building is Building I and it is located across the street from the Farragut West Metro Station.

Countries to be discussed will be Costa Rica and Jamaica and we would like to request that a representative from each donor agency be prepared to identify the public sector financial management projects financed and/or executed by that agency. We will provide you with a copy of the agenda prior to the meeting. We shall also be honored to have the Comptroller General of Venezuela as a special honored guest at the meeting.

We look forward to your participation in the fourth Donor Working Group Meeting and any corrections to the Summary of the Third Donor Working Group Meeting. Please confirm your attendance at the meeting with Regis Cunningham at (202) 861-6276 or me at (202) 296-0800, Ext. 400. Our fax number is (202) 296-8871.

Very truly yours,

Lynnette M. Asselin  
Manager

Enclosure

*I Building  
1850 I Street*

**INVITEES TO FOURTH MEETING OF THE LAC REGION**

**DONOR WORKING GROUP**

**APRIL 26, 1990 - WORLD BANK**

Cecille Adams, Deputy LAC Controller  
Agency for International Development  
LAC/CONT, Room 3253 NS  
Washington, DC 20523-0024

James P. Wesberry, Jr.  
Senior Financial Management Advisor  
Agency for International Development  
Bureau for Latin America and the Caribbean  
LAC/CONT, Room 3253 NS  
Washington, D.C. 20523-0024

Wayne McKeel, Deputy Controller  
Agency for International Development  
PFM/FM/FPD, Room 803, SA-2  
Washington, D.C. 20523

Ms. Cindy Rounds  
Agency for International Development  
S&T/RD/IDM, Room 608, SA-18  
Washington, D.C. 20523

Mr. Kenneth Kornher, Chief  
Agency for International Development  
Development & Management Division  
S&T/RD, Room 606, SA-18  
Washington, D.C. 20523

Ms. Maria Mamlouk  
Agency for International Development  
LAC/SAM, Room 2251 NS  
Washington, D.C. 20523

G. Daniels  
Agency for International Development  
Desk Officer Costa Rica, Room 5258-A NS  
Washington, D.C. 20523

Angel Diaz  
Agency for International Development  
Desk Officer Jamaica, Room 3242 NS  
Washington, D.C. 20523

James B. Durnil, Deputy Inspector General  
Agency for International Development  
Office of Inspector General  
Main State Bldg. Room 5644  
Washington, D.C. 20523

Ms. Julie S. Tessauro  
Agency for International Development  
Office of Inspector General  
Main State Bldg.  
Washington, D.C. 20523

Pedro E. Andrieu, Chief  
Inter-American Development Bank  
Social Development Studies Section  
1300 New York Ave., N.W.  
Washington, D.C. 20577

Sixto Aquino  
Chief, Regional Technical Cooperation Division  
Inter-American Development Bank  
1300 New York Ave., N.W. Room NE-634  
Washington, D.C. 20577

Guillermo Fuentes, Officer  
Inter-American Development Bank  
Technical Cooperation Division 2  
1300 New York Ave., N.W.  
Washington, D.C. 20577

Jorge Liacuris, Auditor  
Inter-American Development Bank  
Office of the Auditor General  
1300 New York Ave., N.W.  
Washington, D.C. 20577

Ademar Toro, Auditor  
Inter-American Development Bank  
Office of the Auditor General  
1300 New York Ave., N.W.  
Washington, D.C. 20577

Arnoldo da Fonseca, Sr. Officer  
Inter-American Development Bank  
Technical Cooperation Division 1  
1300 New York Ave., N.W.  
Washington, D.C. 20577

Alfonso Parra, Auditor  
Inter-American Development Bank  
PRA/PSF  
1300 New York Ave., N.W.  
Washington, D.C. 20577

Luis A. Prieto  
Inter-American Development Bank  
1300 New York Ave., N.W.  
Washington, D.C. 20577

Luisa Rains, Fiscal Economist  
Inter-American Development Bank  
General Studies Division  
1300 New York Ave., N.W.  
Washington, D.C. 20577

Mario Cortes  
Inter-American Development Bank  
1300 New York Ave., N.W.  
Washington, D.C. 20577

William Taylor, Auditor General  
Inter-American Development Bank  
1300 New York Ave. N.W.  
Washington, D.C. 20577

Angel Boccia, Senior Economist  
Organization of American States  
Development Finance Division  
1889 F Street, N.W. Room 200 Q  
Washington, D.C. 20006

Hernan Hurtado Prem  
Organization of American States  
Development Finance Division  
1889 F Street, N.W. Room 200 Q  
Washington, D.C. 20006

Ricardo Murua  
Organization of American States  
1889 F Street, N.W.  
Washington, D.C. 20006

fax: (202) 458 3744

Luis Illanes  
Organization of American States  
1889 F Street, N.W., Room 320-C  
Washington, D.C. 20006

Alvaro Lopez Cayzedo  
Organization of American States  
1889 F Street, N.W. Room 320-D  
Washington, D.C. 20006

Mr. Abu T. R. Rahman, Chief  
Public Financial and Enterprise Management Branch  
Development Administration Division  
Department of Technical Cooperation for Development  
DC 1-966  
United Nations  
New York, N.Y. 10017

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Clay Wescott  
United Nations  
Development Programme  
One United Nations Plaza  
New York, N.Y. 10017

Nestor Arias, Area Officer  
Regional Bureau for Latin America  
and the Caribe  
Division II - Room DC 1-2288  
UNDP  
1 United Nations Plaza  
New York, N.Y. 10017

Ms. Jacqueline Hartvelt, Area Officer  
Regional Bureau for Latin America  
and the Caribe  
Division II - room 403  
UNDP  
Uganda House  
336 E. 45th Street  
New York, N.Y. 10017

Peter Nicholas Dean, Inter-Regional Advisor  
United Nations  
Department of Technical Cooperation  
for Development  
1 United Nations Plaza, Room 948  
New York, NY 10017

Donald Winkler, Sr. Fiscal Economist  
The World Bank  
Public Sector Management Division  
Latin America and the Caribbean  
1850 I Street, N.W., Room I-4165  
Washington, D.C. 20433

Kathryn Baer, Consultant  
The World Bank  
Country Operations  
4421 Q Street, N.W.  
Washington, D.C. 20007

Mauricio Carrizosa, Economist  
The World Bank  
Trade and Finance Industry Division  
1818 H Street, N.W., Rm. I-6153  
Washington, D.C. 20433

Lee Weaver Richardson  
U.S. General Accounting Office  
Office of International Audit  
Organization Liaison  
441 G Street, N.W.  
Washington, D.C. 20548

Peter Aliferis, Director  
U.S. General Accounting Office  
Office of International Audit  
Organization Liason  
441 G Street, N.W. Rm. 7806  
Washington, D.C. 20548

Linda Weeks  
U.S. General Accounting Office  
Office of International Audit  
Organization Liaison  
441 G Street, N.W. Rm. 7806  
Washington, D.C. 20548

Donald Drach, Deputy Director  
U.S. General Accounting Office  
Office of International Audit  
Organization Liason,  
441 G Street, N.W.  
Washington, D.C. 20548

Tom Brogan, Assistant Director  
U.S. General Accounting Office  
Foreign Economic Assistance  
Office of International Audit  
Organization Liason  
441 G Street, N.W.  
Washington, D.C. 20548

A. Premchand  
Assistant Director  
Fiscal Affairs Department  
International Monetary Fund  
700 - 19th Street N.W., Room 6-120  
Washington, D.C. 20431

Ernesto Perez  
International Monetary Fund  
700 - 19th Street N.W.,  
Washington, D.C. 20431

Gerard Belanger  
Senior Project Officer-South America  
BMS Division  
Canadian International Development Agency (CIDA)  
200 Promenade du Portage  
Hull, Quebec  
Canada K1A 0G4

John M. Robinson, Vice President-Americas Branch  
Canadian International Development Agency (CIDA)  
200 Promenade du Portage  
Hull, Quebec  
Canada K1A 0G4

John Wood, Director Americas Branch  
Canadian International Development Agency (CIDA)  
200 Promenade du Portage  
Hull, Quebec  
CANADA K1A 0G4

Dr. Joachim Krell, President  
German Foundation for International Development  
Rauchstr. #22  
D-1000 Berlin 30  
FEDERAL REPUBLIC OF GERMANY

Mr. T. Igarashi  
Resident Representative  
Japanese Agency for International  
Cooperation (JICA)-USA Office  
2020 K Street N.W. Suite 435  
Washington, D.C. 20006

Mr. Agustin Santos  
Instituto de Cooperacion Iberoamericana  
Embassy of Spain  
2700 15th Street, N.W.  
Washington, D.C. 20009

**AGENDA FOR THE FOURTH MEETING OF  
THE DONOR WORKING GROUP ON IMPROVING FINANCIAL MANAGEMENT  
IN THE LATIN AMERICA AND CARIBBEAN REGION**

*Hosted by the World Bank  
1850 Eye Street N.W.  
Building I  
Washington, D.C.*

*April 26, 1990*

- 9:00 am Opening Remarks, Don Winkler, Moderator, World Bank
- Introduction of Participants
- Introduction of Jose Ramon Medina, Venezuelan Controller General
- 9:15 am "Financial Management and Budgeting", Mike Stevens, Economist, World Bank
- 9:45 am Guest speaker, Professor Robert Klitgaard, Harvard University and Rand Corporation. Assessment of the Effects of Corruption in the Government of Panama
- 10:45 am Identification of financial management projects planned and in execution in Jamaica and Costa Rica by:
- Canadian International Development Agency (C.I.D.A.)
  - Inter-American Development Bank (IDB)
  - International Monetary Fund (IMF)
  - Organization of American States (OAS)
  - United Nations - Department of Technical Cooperation for Development (UN/DTCD)
  - United Nations Development Program - Management Development Program (UNDP/MDP)
  - United Nations Development Program - Regional Bureau for Latin America and the Caribbean
  - U.S. Agency for International Development (A.I.D)
  - World Bank
  - Other participating organizations
- 11:15 am Coffee Break
- 11:30 am Presentation of the World Bank Administrative Reform project in Jamaica. Setsuko Ono, Senior Country Officer, World Bank
- 11:50 am Open discussion on financial management improvement in Jamaica

- 12:10 pm Distribution of LAC RFMIP Project Data Base reports and revised information collection forms, Lynnette Asselin, Manager, Price Waterhouse
- 12:30 pm Lunch
- 1:30 pm Presentation of A.I.D. Technical Assistance Project to the Costa Rica Controller General's Office, Regis Cunningham, A.I.D. LAC RFMIP Deputy Project Director
- 1:50 pm Presentation of A.I.D. LAC RFMIP Costa Rica Country Assessment, Regional Operational Audit Course and Organizational Design of a Controller General's Office, Mr. Jorge Barajas, Project Director, A.I.D. LAC RFMIP
- 2:45 pm Coffee Break
- 3:00 pm World Bank Public Finance Assistance in Costa Rica, Christine Kimes, Country Officer, World Bank
- 3:20 pm Open discussion on financial management improvement projects planned or in execution in Costa Rica.
- 3:40 pm Closing Remarks  
Discussion of next donor agency quarterly meeting
- 4:00 pm Adjourn

**SUMMARY OF THE FOURTH MEETING OF THE LAC REGION**  
**DONOR WORKING GROUP ON**  
**IMPROVING FINANCIAL MANAGEMENT**

*APRIL 26, 1990*

The fourth Donor Working Group Meeting was hosted by the World Bank at its headquarters building in Washington D.C. Donor organizations represented besides the World Bank (WB) were the Organization of American States (OAS), the Agency for International Development (A.I.D.), the Inter-American Development Bank (IDB), and the International Monetary Fund (IMF). Present as observers was a representative of the U.S. General Accounting Office (GAO). Donald Winkler of the World Bank served as Moderator.

The meeting was opened at approximately 9:20 a.m. at which time Donald Winkler welcomed the participants to the fourth Donor Working Group Meeting. A participants list is attached.

Mr. Winkler introduced himself as the Senior Fiscal Economist for the Latin America and Caribbean Public Sector Management Unit of the World Bank. He explained that the World Bank is organized by regions and within each region, by country. The Public Sector Management Unit has the responsibility of designing and providing technical assistance, supervising projects and loans. The Bank does not have many expert in public sector management in the LAC region and therefore his office has responsibility for the entire region.

Mr. Rafael Reyes, Chief Advisor to the Controller General of Venezuela was introduced and a letter from Controller General Jose Ramon Medina was read to the group. Mr. Medina expressed his disappointment at not being able to attend the meeting however he expressed his interest and hopes that meetings such as that of the Donor Working Group would be imitated by others. He believes in the modernization of the Controller General Offices of the region as part of a unified effort to make good economics part of financial administration and public control of funds. He would like Venezuela to have the best supreme audit institution in the region.

Mr. Michael Stevens, Public Sector Management and Private Sector Development Division of the World Bank gave the introductory remarks. He explained that the Public Sector Management and Private Sector Development Division was the central research and policy group for the public sector in the World Bank. It is composed of three units: Private Sector Development, Public Enterprise Reform, and Macromanagement of Public Expenditures, including management and civil service reforms. His presentation dealt with emerging issues in public expenditure management.

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List of Participants at Fourth Donor Working Group Meeting

April 26, 1990

World Bank, Building I, room I-4070

Cecile Adams - AID  
Pedro Andrieu - IDB  
Lynnette Asselin - PW  
Jorge Barajas - PW  
Regis Cunningham - PW  
Roberto Dominguez - Independent Consultant  
Len Horwitz - PW  
Christine Kimes - WB  
Robert Klitgaard - Independent Consultant  
Luis Danin Lobo - OAS  
Wayne McKeel - AID  
Alka Misra - WB  
Norma Jean Parker - AID  
Alfonso Parra - IDB  
A. Premchand - IMF  
Rafael Reyes - Advisor to CG of Venezuela  
Cindy Rounds - AID  
Maria A. Sheehan - PW  
Michael Stevens - WB  
Paul Stroh - DETEC  
Jaime Vazquez - WB  
Linda Weeks - GAO  
Jim Wesberry - AID  
Donald Winkler - WB

As a prologue, he pointed out that the Bank is heavily involved in financial management through structural adjustment lending. A review of loans the Bank had made during the last three years shows that 38 were for budget management, 44 for public investment, 17 in external debt management, 24 in the accounting field, 29 in revenue and taxes and 8 in the procurement area. Between 66% and 75% of the loans were made in the Sub-Saharan and African countries which probably have the most profound problems and where the capacity is the weakest. He stated that the primary issue is "what is likely to work in a particular country." It is necessary to define what improvements show results in each country and within what spectrum.

The first issue that Mr. Stevens presented dealt with **accounting systems**. The Bank has long been involved in improving accounting at the project level. In some cases, such as Indonesia, a \$113 million project was undertaken to strengthen a basically sound system. On the other hand, in Africa and the Sub-Saharan countries, the Bank has experienced the collapse of systems because of **institutional failure** rather than **system failure**. The issue being examined is: to retain the existing system or replace it with a new system. Since the Bank is lacking expertise in governmental accounting, consultants are used. The bias of consultants is to attack system failure rather than institutional failure. Most consultants tend to have a bias towards new systems. However, often the decay in public accounts has little to do with the type of accounting system in use. In these cases it is institutional failure. Institutional failure is defined as low pay, low skills, poor facilities, and similar structural deficiencies.

The second issue was that of **budgeting**. The Bank-supported adjustment programs have always attempted to address not just the size and quality of the public investment program, but also more fundamental issues of budget structure and composition. Increasing attention is being paid to such topics as the adequacy of operation and maintenance expenditures (**O & M**) and adjustment programs have specified higher **O & M** allocations for critically under-provided activities. However, defining the problem does not always result in a solution to the problem. Measuring existing **O & M** and determining future **O & M** can be extremely difficult. Mr. Stevens gave the example of a project in Ghana where the solution was defined but the monetary resources were not available to implement the solution. He also stated that the Bank, in particular in the Sub-Saharan and African countries, has recommended reduction or elimination of **earmarking** of the budget. He was aware that earmarking is being promoted in the **LAC** region. The discouragement of earmarking is based upon experience and practicality. Earmarking may be a good thing for the agency that enjoys the proceeds, but it limits the budgetary discretion of the finance ministry.

The third issue dealt with managing concessionary AID flows. Twenty four (24) countries receive 10% of their Gross National Product from foreign aid. The Bank is concerned with techniques to improve management of aid funding because:

- o There is substantial undercounting of resources from aid because there is no relationship between the HC budget and the donor. The recipient

government's budget does not reflect the full value of expenditure on projects because of understatement by the budget estimates or because the accounting system fails to capture all expenditures on a project.

- o Budgets become heavily donor driven.
- o The high level of aid erodes budgeting discipline.

**Civil Service** was the fourth issue. It has been recognized that it is a slow process to make adjustments in the structure of the civil service. The Bank has found that in the Francophone countries, the civil service employees are highly paid which results in a lack of funds for implementation and therefore productivity is lowered. The Anglophone countries have the opposite situation where civil servants compensation and motivation have declined. The crucial issue for the Bank is that of basic incentives.

The fifth issue was that of **auditing**. Although relatively few Bank operations support the strengthening of government audit systems, an important but relatively neglected function in many governments. This may be a reflection of the fact that little progress can be made with auditing until the accounting system is made operational. If auditing is addressed, the decision must be made to reinstate the traditional audit or to install performance auditing, depending on the situation in the country.

After Mr. Stevens' remarks, the group discussed the issue of **earmarking**. It was noted that in the LAC regions, from 33% to 50% of the budgets are earmarked. The economists view is that countries need to reduce earmarking in order to create flexibility. However, project people hold that in a collapsed budgetary system, earmarking is necessary in order to ensure fund availability for long-term items. It was noted that earmarking is really a balancing act. If the budget contains a large amount of earmarking, the budget becomes very rigid. The issue of weaker sectors vs. stronger sectors and their needs was also pointed out.

#### **GUEST SPEAKER: MR. ROBERT KLITGAARD**

**Mr. Robert Klitgaard**, Harvard professor and author of Controlling Corruption, was introduced. Mr. Klitgaard had just returned from Panamá where, under the auspice of A.I.D., he presented a seminar on government corruption. Mr. Klitgaard defined **corruption** as acts taken by people working in the public using public resources for private means. Three factors make discussion of corruption difficult: 1) it is ethically loaded, 2) it is difficult to study, and 3) it is politically difficult.

Mr. Klitgaard explained the techniques he uses in conducting a participatory diagnosis. They should include:

- o building internal goodwill
- o not making the meeting secretive
- o searching for operative suggestions

- o avoiding witch hunts by avoiding individuality
- o focusing on weak points in the organization which are subject to corruption
- o trying to identify solutions

He told how in the participatory diagnosis in Guatemala, they moved from discussing individual incidents of corruption to a more general discussion about points of vulnerability in the system for corrupt behavior. In this way the participants could propose remedial measures. In Guatemala, the amount of bribery was amazing which threatened reform of the judiciary system.

Mr. Klitgaard usually begins the seminar with real examples of **successful solutions** from another country. This generally works because people are not as sensitive when it is not personal and it helps to build an esprit de corps. Next, a country example is selected and used as a diagnostic case. In Panama, 150 public officials met every afternoon. They found these officials incredibly frank and open in their discussion of corruption in Panamá. When asked for their own suggestions, there was an almost emotional response. This was partly due to the fact that all idealism had been thwarted under Noriega. Suggestions which resulted from the Panama encounter included:

- o Accept only written orders. It is difficult to say no in a telephone conversation.
- o Rotate personnel
- o Use more internal auditing

Some **general suggestions** which Mr. Klitgaard gave were:

- o Successful reforms have one sentence themes that everyone grasps
- o Audits are the prevention body and should identify the points of vulnerability
- o Use audit sampling techniques
- o Provide incentives. Share savings made with employees. Initiate incentive reforms.
- o Involve citizens in the battle. People are natural enemies of corruption. Set up hot lines, radio shows, village councils, etc.

Mr. Klitgaard offered the following **suggestions for aid donors**:

- o As part of structural adjustment projects, link wages to performance, not just automatic raises
- o Begin with positive steps, not negative. In some countries corruption is easy to bring up, in others no.
- o Use terminology other than corruption, eg. financial management.
- o Go after big fish, not small.

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- o In under developed countries, neither the government nor the private sector work efficiently. When talking about reforms, emphasize collusion in private as well as public sectors, market and non-market.
- o Experiment and use an agile approach. Make plans flexible and then monitor the plans.
- o Bring in external catalysts.

Discussion about Mr. Klitgaard's presentation was held. Mr. Premchand stated that financial management alone cannot control corruption because:

- o Acts of defalcation of government funds is a relatively small percent of total corruption
- o Monies change hands through bribes. This is a major type and cannot easily be controlled by financial management systems
- o Changing government rules and regulations that favor some is not controllable by financial management
- o Politics is also outside of the realm of financial management.

Mr. Vasquez offered a different view of the ability of financial systems to deal with corruption. Profit and loss accounting concepts should not be used. If accounting systems are designed which measure productivity, efficiency and measure performance, this will control corruption and provide incentives.

A financial management system should be measured not by what it catches, but rather by what it doesn't catch because it doesn't happen. Key elements include:

- o Accountability in financial management system
- o Investigative auditing
- o Links with judicial system reforms
- o Links with administration/regulation reforms

Mr. Horwitz mentioned the need to link programs in corruption with judicial reforms, administrative reforms and modern money laundering technology. He believes corruption should be part of the policy dialogue with host countries.

A coffee break was held.

## **PROJECTS CURRENTLY UNDERWAY IN JAMAICA**

The IDB had a project 5 years ago but nothing is currently being done by the IDB in Jamaica.

The IMF is preparing Phase II of the Administrative Reform and Budget Project.

The OAS will be starting a project soon. It will deal with the role of the information system in stimulating investment accounting. The objective will be to provide training for the Jamaican staff and \$90,000 will be provided for years 1990-91.

AID has no projects at this time.

The World Bank will soon be implementing Administrative Reform Project II. Its objective will be to further provide training at the staff college and in the field of budgetary reform.

### ADMINISTRATIVE REFORM PROJECT I

Mr. Paul Stroh, a consultant with Development Technologies, Inc., gave a presentation on the Administration Reform Project I (ARP I). ARP I had its origins in the IMF in 1980. One of the conditions of the first standby agreement in 1981 was that experts be hired to help Jamaica meet the conditions specified. Four experts were hired and during 1982 looked at the financial management issues. Early in 1983, an in-depth analysis of the Ministry of Finance was held. There were serious problems in the Ministry of Finance. The Prime Minister gave high level support. Sixty recommendations were issued. The World Bank approved a \$4.5 million loan to implement financial and human resource recommendations in September 1984.

The institutional restructuring of the Ministry of Finance was considered a success. The work in the budgeting area was more controversial. Mr. Stroh's feeling is that overall it was unsuccessful. The Minister never really liked it, the World Bank didn't like it but the line people liked it. It has not been fully implemented.

The accounting reform never really functioned. In 1986 the Prime Minister set up the Controller General's Office to take over various functions which caused problems. The present Controller General is, in fact, exercising functional control of accounting staff and functions in the ministries. Personnel is a problem because of low status and low pay. The Financial Officer Core was developed to attack this problem. Since 1988, there has been a breakdown in synergy in the political/consultant/donor relationship. The Bank has an all new group of project people, the politicians are up for election this year and all contracts were terminated.

The massive Public Administration Reform Project was designed for 8-10 years but the money ran out after four years. The project took a fully integrated approach. Mr. Stroh directed the participants to read Mr. Jim Kern's Summary of the Project written in February 1985 and Mr. Phil Glastner's evaluation.

Mr. Stroh said the Audit General was a strong person in a weak office. Internal audit was extremely weak. He attempted to integrate but never got very far. External audit was devastating and needs to be addressed. The private sector accountants do a lot with the government but are not involved in the project. Public accounting is strong in

Jamaica. The Secretariat of the ICAC is currently located in Jamaica. Thus, accounting as a profession is strong but only in the private sector.

A Task Force was set up. Two people: one in financial management and one in human resources. They reported to an inter-ministerial committee. The Prime Minister met with the committee every two months. The World Bank recommended consultants and the UNDP hired a Coordinator with World Bank funds. The coordinator worked with two executive directors. There were a total of 30 consultants. The work was highly integrated on the financial side. The human resource side was not as integrated and had problems. The World Bank has been extremely active in monitoring the project.

ARP I ended in 1988. ARP II has not yet started. It is in the pre-approval stage. \$1.9 million was reprogrammed by the Bank to create a bridge between the old project and the new project.

Lunch was served.

#### **CONTROLLER GENERAL'S OFFICE RESTRUCTURING**

**Regis Cunningham, Deputy Director of the LAC/RFMIP**, gave a presentation on the A.I.D. technical assistance project to the Costa Rica Controller General's Office. The project began in August 1989 and will finish in June 1990. The cost is approximately \$285,000. Price Waterhouse Office of Government Services (OGS), the contractor, provided a team leader, three EDP Audit Specialist, one Public Works Audit Specialist, two Training Specialists and home office support.

There are three activities under this project. The first is the "Use of the Computer as an Audit Tool." This activity consisted of technical training of Controller General's personnel and assistance in the definition of a strategy to audit public sector EDP installations. An introductory course for 40 auditors was given in basic EDP concepts. Twenty auditor received classroom instruction in computer information system risks and controls. A course was given in computer-assisted auditing techniques.

Recommendations on the acquisition of software to do audits of computerized information systems were provided. Training in the use of software to audit in computerized information system environments is being provided. A definition of a strategy to audit in computerized information system environments will also be provided.

Activity 2 dealt with a Training Center Development. This activity had some difficulty in defining what could be done in a limited period of time and also with the limited training facilities available.

Activity 2 included organization of a training center, curriculum development and theoretical and practical training of Controller General Office instructors. It provided an analysis of the financial management and audit training in the Costa Rica public sector. A conceptual design for the Training Center was provided as well as an analysis of

training needs and a training plan for 1990. Twenty Controller General instructors were trained. These trainers will give a new developed course in the principles of government auditing.

Activity 3 was in Public Works Audit Training. The objective of this activity was to train Controller General personnel in public works auditing and to develop a CG strategy in this area. Weaknesses in fundamental auditing skills made the work more difficult than expected.

The technical assistance was funded for five months. Some thought this time period short for such training. However, the level of effort may have been adequate to provide specialized training, provided that fundamental audit skills were already well developed. This may not have been the case.

## **FINANCIAL MANAGEMENT ISSUES IN COSTA RICA**

**Christine Kimes, World Bank Country Officer**, gave a presentation on the issues which the Bank will discuss with President Calderon. The issues concern government expenditures and revenues.

On the expenditure side, the **budgeting process** needs to be reformed, integrating all executive agencies into process and programming both current and investment expenditures in a multi-year review exercise. Discussions need to be held on the strengthening of sectoral planning and coordination. This should also be linked to the restructuring of public sector institutions to eliminate duplications and to increase cost-effectiveness. **Social security pensions** are currently one of the biggest fiscal burdens in Costa Rica. There are 21 different regimes under this system. This has resulted in ballooning public sector expenditures and an urgent need for reform in this area. The Bank is urging the new administration to raise retirement age, stiffen qualifying conditions and phase out preferential treatment of certain programs. The **public employment/compensation** system is currently overly rigid, and does not attract/retain qualified staff. Employment patterns need to be restructured and complemented with a revised wage policy. The absence of action in these areas will result in a continued fiscal hemorrhage.

On the revenue side, the **tax system** needs to be thoroughly overhauled, both in terms of structure and administration. The principal shortcomings at present appear to be in the areas of income tax, value added tax, property tax and customs duties. Both AID and IDB have provided assistance in the customs area. In the area of **municipal finance**, the reform of the tax system, in particular property tax and value added tax, need strengthening and should be addressed through reforms.

The World Bank is very interested in exploring these topics with the new administration in Costa Rica.

## **A.I.D. LAC/RFMIP ACTIVITIES IN COSTA RICA**

**Mr. Jorge Barajas, LAC/RFMIP Acting Director**, presented the issue of "integrated financial management" and its acceptance in Latin American countries. In order to promote this concept, it should be presented at conferences and seminars. A presentation was used to convey the concept in Colombia.

A potential restructuring of the Costa Rica Controller General Office was discussed. Among other recommendations of the A.I.D. LAC/RFMIP assessment public sector financial management in Costa Rica was one to eliminate the budget control function from the Controller General's Office. The Controller General, while cognizant of the need to segregate the audit and budget functions, does not believe that this change is possible in the short-term. The new government is interested in the assessment of the situation and is currently reviewing this and other recommendations in the LAC/RFMIP report.

Operational Auditing Training will also be given at the Office of the Controller General under the A.I.D. LAC Regional project. It will run through January 1991. A needs assessment in this area and development of training materials began in March 1990.

### **OPEN DISCUSSION**

A discussion was held on where the next meeting will be held. The IMF and UN have not hosted a meeting yet and will therefore be requested to be the host. The tentative date is set for Thursday, September 6, 1990.

Countries to be discussed are Guatemala and Chile.

*Price Waterhouse*



August 17, 1990

Pedro E. Andrieu, Chief  
Inter-American Development Bank  
Social Development Studies Section  
1300 New York Ave., N.W.  
Washington, D.C. 20577

Dear Mr. Andrieu:

The Fifth Donor Working Group Meeting will be held on Thursday, September 6, 1990 and will be hosted by the United Nations. The meeting will focus on two countries: Chile and Guatemala.

The meeting will begin at 9:30 a.m. and will end at 1:00 p.m. Mr. Abu T. R. Rahman has graciously invited all participants to have lunch at the U.N. However he must have the names of all participants to the meeting and those that will be staying for lunch.

All participants should enter the U.N. through the main Visitors Entrance. Your name and identification pass will be available there.

We look forward to your participation in the Fifth Donor Working Group Meeting. Please confirm your participation by Friday August 24 to our fax number (202) 296-8871.

Very truly yours,

Lynnette Asselin

**INVITATIONS SENT TO THE FOLLOWING PERSONS**

**FIFTH DONOR WORKING GROUP MEETING**

**SEPTEMBER 6, 1990 - UNITED NATIONS, NY**

Cecille Adams, Deputy LAC Controller  
Agency for International Development  
LAC/CONT, Room 3253 NS  
Washington, DC 20523-0024  
tel: (202) 647-3176  
fax: (202) 647-8518

James P. Wesberry, Jr.  
Senior Financial Management Advisor  
Agency for International Development  
Bureau for Latin America and the Caribbean  
LAC/CONT, Room 3253 NS  
Washington, D.C. 20523-0024  
tel: (202) 647-0233  
fax: (202) 647-8518

Wayne McKeel, Deputy Controller  
Agency for International Development  
PFM/FM/FPD, Room 803, SA-2  
Washington, D.C. 20523  
tel: (202) 663-2168  
fax: (202) 673-5779

Ms. Taryn Rounds  
Agency for International Development  
S&T/RD/IDM, Room 608, SA-18  
Washington, D.C. 20523  
tel: (703) 875-4643

Mr. Kenneth Kornher, Chief  
Agency for International Development  
Development & Management Division  
S&T/RD, Room 606, SA-18  
Washington, D.C. 20523  
tel: (202) 875-4440  
fax: (202) 875-4394

Richard Thabet, Deputy Assistant  
Inspector General for Audit  
Agency for International Development  
Washington, D.C. 20523

Pat Isman  
AID/S&T/RD  
Agency for International Development  
Washington, D.C. 20523^R

James B. Durnil, Deputy Inspector General  
Agency for International Development  
Office of Inspector General  
Main State Bldg. Room 5644  
Washington, D.C. 20523  
tel: (202) 647-7845  
fax: (202) 647-5948

Ms. Julie S. Tessauro  
Agency for International Development  
Office of Inspector General  
Main State Bldg.  
Washington, D.C. 20523

Pedro E. Andrieu, Chief  
Inter-American Development Bank  
Social Development Studies Section  
1300 New York Ave., N.W.  
Washington, D.C. 20577  
tel: (202) 623-2530  
fax: (202) 623-3096

Sixto Aquino  
Chief, Regional Technical Cooperation Division  
Inter-American Development Bank  
1300 New York Ave., N.W. Room NE-634  
Washington, D.C. 20577  
tel: (202) 623-2531  
fax: (202) 623-3096

Guillermo Fuentes, Officer  
Inter-American Development Bank  
Technical Cooperation Division 2  
1300 New York Ave., N.W.  
Washington, D.C. 20577  
tel: (202) 623  
fax: (202) 623

Jorge Liacuris, Auditor  
Inter-American Development Bank  
Office of the Auditor General  
1300 New York Ave., N.W.  
Washington, D.C. 20577  
tel: (202) 623 1442

Ademar Toro, Auditor  
Inter-American Development Bank  
Office of the Auditor General  
1300 New York Ave., N.W.  
Washington, D.C. 20577  
tel: (202) 623 1441  
fax: (202) 623 3096

Arnoldo da Fonseca, Sr. Officer  
Inter-American Development Bank  
Technical Cooperation Division 1  
1300 New York Ave., N.W.  
Washington, D.C. 20577  
tel: (202) 623 2528  
fax: (202) 623 3096

Alfonso Parra, Auditor  
Inter-American Development Bank  
PRA/PSF  
1300 New York Ave., N.W.  
Washington, D.C. 20577  
tel: (202) 623 1811  
fax: (202) 623 2346

Luis A. Prieto  
Inter-American Development Bank  
1300 New York Ave., N.W.  
Washington, D.C. 20577  
tel: (202) 623 1813  
fax: (202) 623 3096

Luisa Rains, Fiscal Economist  
Inter-American Development Bank  
General Studies Division  
1300 New York Ave., N.W.  
Washington, D.C. 20577  
tel: (202) 623 2461  
fax: (202) 623 3096

Mario Cortes  
Inter-American Development Bank  
1300 New York Ave., N.W.  
Washington, D.C. 20577  
tel: (202) 623 2434  
fax: (202) 623 3096

William Taylor, Auditor General  
Inter-American Development Bank  
1300 New York Ave. N.W.  
Washington, D.C. 20577  
tel: (202) 623 1300  
fax: (202) 623 3096

Angel Boccia, Senior Economist  
Organization of American States  
Development Finance Division  
1889 F Street, N.W. Room 200 Q  
Washington, D.C. 20006  
tel: (202) 458 3634  
fax: (202) 458 3744

Hernan Hurtado Prem  
Organization of American States  
Development Finance Division  
1889 F Street, N.W. Room 200 Q  
Washington, D.C. 20006

Ricardo Murua  
Organization of American States  
1889 F Street, N.W.  
Washington, D.C. 20006  
tel: (202) 458 3634  
fax: (202) 458 3744

Luis Illanes  
Organization of American States  
1889 F Street, N.W., Room 320-C  
Washington, D.C. 20006  
tel: (202) 458 3641

Alvaro Lopez Cayzedo  
Organization of American States  
1889 F Street, N.W. Room 320-D  
Washington, D.C. 20006  
tel: (202) 458 3633  
fax: (202) 458 3744

Mr. Abu T. R. Rahman, Chief  
Public Financial and Enterprise Management Branch  
Development Administration Division  
Department of Technical Cooperation for Development  
DC 1-966  
United Nations  
New York, N.Y. 10017  
tel: (212) 963 8410  
fax: (212) 963 4116

Clay Wescott  
United Nations  
Development Programme  
One United Nations Plaza  
New York, N.Y. 10017  
tel: (212) 963 8654  
fax: (212) 986 6280

54

Nestor Arias, Area Officer  
Regional Bureau for Latin America  
and the Caribe  
Division II - Room DC 1-2288  
UNDP  
1 United Nations Plaza  
New York, N.Y. 10017  
tel: (212) 986 0378/906 5400  
fax: (212) 906 5892

Ms. Jacqueline Hartvelt, Area Officer  
Regional Bureau for Latin America  
and the Caribe  
Division II - room 403  
UNDP  
Uganda House  
336 E. 45th Street  
New York, N.Y. 10017  
tel: (212) 906 5400  
fax: (212) 906 5892

Peter Nicholas Dean, Inter-Regional Advisor  
United Nations  
Department of Technical Cooperation  
for Development  
1 United Nations Plaza, Room 948  
New York, NY 10017  
tel: (212) 963 8405  
fax: (212) 963 4116

Donald Winkler, Sr. Fiscal Economist  
The World Bank  
Public Sector Management Division  
Latin America and the Caribbean  
1850 I Street, N.W., Room I-4165  
Washington, D.C. 20433  
tel: (202) 473 8619  
fax: (202) 676 9373

Kathryn Baer, Consultant  
The World Bank  
Country Operations  
4421 Q Street, N.W.  
Washington, D.C. 20007  
tel:  
fax:

Mauricio Carrizosa, Economist  
The World Bank  
Trade and Finance Industry Division  
1818 H Street, N.W., Rm. I-6153  
Washington, D.C. 20433  
tel: (202) 473 9198

Lee Weaver Richardson  
U.S. General Accounting Office  
Office of International Audit  
Organization Liaison  
441 G Street, N.W.  
Washington, D.C. 20548  
tel:  
fax:

Peter Aliferis, Director  
U.S. General Accounting Office  
Office of International Audit  
Organization Liason  
441 G Street, N.W. Rm. 7806  
Washington, D.C. 20548  
tel: (202) 275 4707  
fax: (202) 275 4021

Linda Weeks  
U.S. General Accounting Office  
Office of International Audit  
Organization Liaison  
441 G Street, N.W. Rm. 7806  
Washington, D.C. 20548

Donald Drach, Deputy Director  
U.S. General Accounting Office  
Office of International Audit  
Organization Liason,  
441 G Street, N.W.  
Washington, D.C. 20548  
tel: (202) 275 4707  
fax: (202) 275 4021

Tom Brogan, Assistant Director  
U.S. General Accounting Office  
Foreign Economic Assistance  
Office of International Audit  
Organization Liason  
441 G Street, N.W.  
Washington, D.C. 20548  
tel: (202) 275 4707  
fax: (202) 275 4021

A. Premchand  
Assistant Director  
Fiscal Affairs Department  
International Monetary Fund  
700 - 19th Street N.W., Room 6-120  
Washington, D.C. 20431  
tel: (202) 623 8708  
fax: (202) 623 7347

Ernesto Perez  
International Monetary Fund  
700 - 19th Street N.W.,  
Washington, D.C. 20431  
tel: (202) 623 8352  
fax: (202) 623 7347

Gerard Belanger  
Senior Project Officer-South America  
BMS Division  
Canadian International Development Agency (CIDA)  
200 Promenade du Portage  
Hull, Quebec  
Canada K1A 0G4  
tel: (819) 994 4259  
fax: (819) 997 0926

John M. Robinson, Vice President-Americas Branch  
Canadian International Development Agency (CIDA)  
200 Promenade du Portage  
Hull, Quebec  
Canada K1A 0G4  
tel: (819) 997 6424  
fax: (819) 994 4259

John Wood, Director Americas Branch  
Canadian International Development Agency (CIDA)  
200 Promenade du Portage  
Hull, Quebec  
CANADA K1A 0G4  
tel: (819) 997 6424  
fax: (819) 994 4259

Dr. Joachim Krell, President  
German Foundation for International Development  
Rauchstr. #22  
D-1000 Berlin 30  
FEDERAL REPUBLIC OF GERMANY

Mr. T. Igarashi  
Japanese Agency for International  
Cooperation (JICA)  
2020 K Street N.W. Suite 435  
Washington, D.C. 20006

Mr. Agustin Santos  
Instituto de Cooperacion Iberoamericana  
Embassy of Spain  
2700 15th Street, N.W.  
Washington, D.C. 20009  
tel: (202) 265 0190  
fax: (202) 328 3212

# **FIFTH LAC REGION DONOR WORKING GROUP MEETING**

**SEPTEMBER 6, 1990**

**HOSTED BY THE UNITED NATIONS**

## **AGENDA**

- 9:15-9:30            Participants arrive at Visitor's Entrance to the United Nations in New York. Go to Conference Room A, Lower Level.
- 9:45                Introduction of Participants
- Opening Remarks by Abu T.R. Rahman, United Nations
- 10:00              Guest Speaker Hamdan BenAissa, Officer-in-Charge Department of Technical Cooperation for Development, Director of Development Administration Division, United Nations
- To be followed by questions and discussion
- 11:00              Coffee Break
- 11:15              Participant Discussion of Chile and Guatemala.
- Individual agency presentation of activities in Chile
- Luisa Rains, Inter-American Development Bank: Tax administration project
- Jacqueline Hartvelt, UNDP: Project in Chile
- Regis Cunningham, AID/Price Waterhouse: Development of automated accounting system
- Jim Wesberry, AID: Fiscal administration project
- 1:00                Update of LAC/RFMIP. Discussion of survey results
- 1:30                Lunch

We have been informed that Luz Aurea Saenz, President of ILACIF will be in New York and is planning to attend our meeting.

**FIFTH MEETING OF THE LAC REGION**  
**DONOR WORKING GROUP ON**  
**IMPROVING FINANCIAL MANAGEMENT**  
**PARTICIPANTS LIST**

United Nations Department of Technical Cooperation for Development

Hamdan BenAissa  
Peter Dean  
Abu T. R. Rahman

United Nations Development Programme

Jacqueline Hartvelt  
Clay Wescott

Inter-American Development Bank

Sixto Aquino  
Luisa Rains

Organization of American States

Ricardo Murua

Agency for International Development

Cecile Adams  
Pat Isman  
Richard Thabet  
Jim Wesberry

Spanish Mission to the United Nations

Ana Mendez

ILACIF

Luz Aurea Saenz

Price Waterhouse

Lynnette Asselin  
Regis Cunningham  
Paul Lohneis

**SUMMARY OF THE FIFTH MEETING OF THE LAC REGION  
DONOR WORKING GROUP ON  
IMPROVING FINANCIAL MANAGEMENT**

SEPTEMBER 6, 1990

The Fifth Donor Working Group Meeting was hosted by the United Nations at its headquarters building in New York City, New York. Donor organizations represented were the Inter-American Development Bank (IDB), the Organization of American States (OAS), the Agency for International Development (AID), the Spanish Mission to the United Nations. The United Nations was represented by the Department of Technical Cooperation for Development and the United Nations Development Programme. Mr. Abu T. R. Rahman of the Department of Technical Cooperation for Development served as Moderator.

The meeting was opened at approximately 9:55 a.m. at which time Mr. Abu Rahman welcomed the participants to the Fifth Donor Working Group Meeting. A participants list is attached. Mr. Rahman noted that the meetings were very useful and a learning experience that was not always confined only to the Latin American region. The meetings provide a forum for exchanging ideas on development issues.

**Mr. Hamdan BenAissa, Officer-in-Charge, Department of Technical Cooperation for Development, Director of Development Administration Division, United Nations** was introduced by Mr. Rahman and gave the introductory remarks. Mr. BenAissa welcomed the group to the United Nations and congratulated the participants on their spirit of cooperation. He explained that the UN programme in public financial management is part of the broader programme of the Department of Technical Cooperation for Development. The programme was established in 1948 and seeks to assist developing countries in creating capacities for improved public sector management. The financial management programme covers mainly **budgeting, accounting, auditing, tax administration and the performance of public enterprises and financial institutions in developing countries**. During the 40 years of existence the programme has carried out over 1,000 projects to improve public financial management. The commitment of the programme to these efforts is seen in the recognition that improved systems of financial management are crucial for the effective management and control of public financial resources in developing countries.

The four main elements of the programme are:

- a) Operationally oriented **research** and analysis in public financial management;
- b) **Training** programmes, seminars and workshops;
- c) **Technical cooperation** projects; and
- d) **Advisory services** in financial management and related fields.

### Research Activities

Research activities generally cover issues which are topical and of particular practical concern to developing countries. The publications focus on applying operational ideas, not theoretical ones. Information on critical issues in public financial management are disseminated to developing countries. Research and publication activities have covered such topics as financial management in least developed countries, public expenditure control, training of accountants and auditors, audit standards and their application, performance improvement of public enterprises and other similar topics.

An example of the operational approach is clearly seen in the publication Training of Government Accountants and Auditors, which is based on surveys and studies conducted in eight countries. It demonstrates that the nature and scope of existing training facilities in developing countries are inadequate in relation to current requirements and will not be able to cope with the new demands that will arise as modernization occurs. A massive effort needs to be made at the national, regional and international levels to strengthen training facilities in developing countries. The lack of quality and quantity will have predictable consequences in the area of financial management. Examining the role played by training in a number of developing countries, it showed how training and associated measures can be combined to ensure a better supply of financial skills to the public sector and concluded that the costs of improving financial management are likely to be much less than the losses which improved financial management would eliminate. Three titles currently being prepared for publication are Application of Audit Standards, Computerization of Government Accounting, and Government Financial Management in Least Developed Countries.

### Training Programmes, Seminars and Workshops

Each year, the programme organizes a series of inter-regional seminars and workshops in different fields of financial management. These seminars and workshops provide a forum for exchanging experiences by practitioners from developing countries who are concerned with financial management matters. They further serve as a means of disseminating information on new developments in the field. In recent years, seminars and workshops have been held in the areas of government budgeting, accounting, auditing and public enterprise performance. Papers, reflecting both conceptual and empirical aspects, as well as case studies are discussed. The analysis and

recommendations of the seminars provide a framework for the formulation of appropriate policies at the national level.

### Technical Cooperation

Under its technical cooperation activities, the programme provides technical assistance to requesting governments at the national and inter-regional levels. Over the years, hundreds of technical cooperation projects in the financial management field involving several millions of dollars have been implemented under the programme. The support includes assistance in project preparation and design, provision of experts, training of nationals abroad, acquisition of modern equipment, monitoring the project implementation and evaluation of completed project activities.

The objective of the technical assistance programme is to improve the productivity and performance of public services. While this remains the broad objective of the total programme of public administration and finance, the focus in public financial management projects has varied. In the case of **government budgeting**, the focus has been on improved budgetary systems and policies aimed at ensuring the efficient allocation of scarce public resources. In **accounting and auditing**, it has been on technical and management aspects. In **tax policy and administration**, the focus has been on the training of tax and customs officials, improving tax administration and legislation, and the computerization of tax systems. Finally, in **parastatals**, the focus has been on improving the financial performance of public enterprises, as well as assisting governments in the rationalization of their approach and policies towards this sector.

### Advisory Services

Closely linked to technical cooperation is the provision of advisory services, on request, to the governments of developing countries. The main difference is that the assistance provided is short-term and deals with a specific problem or issue. At present there are four inter-regional advisors specialized in the fields of accounting and auditing, fiscal policy and resource mobilization, government budgeting, and public enterprises. In the current calendar year eight short-term advisory missions have been carried out to the same number of countries.

In carrying out the activities of the programme in financial management, collaboration has been nurtured with international and regional development agencies. Included among those with which there has been a long history of collaboration are the World Bank, the IMF, the Interamerican Center of Tax Administrators, the International Organization of Supreme Audit Institutions, regional development banks and host governments. Collaboration is essential not only to avoid duplication of efforts but also to have inputs from various agencies and to combine experiences wherever possible.

The impact of the UN Development Administration Division's programme, particularly in terms of improved financial management systems in developing countries, is difficult to measure. However, experience has shown that in the countries where the programme has intervened at the project level, some improvements were achieved in terms of better

and improved systems. In countries where improvements may not have occurred, the governments at least have come to realize the importance of improved systems and are making efforts to solve the problems.

As part of the Development Administration Division's continuing efforts to foster improved financial management systems in developing countries, there has been increased emphasis on involving nationals in project design as well as in project implementation. The involvement of nationals is seen as a positive development for assuring the success of projects in that national participation in the exercise may increase the feeling of ownership of the project.

The programme will continue to provide support to developing countries to strengthen their national capabilities in public financial management through working closely with governments and in collaboration with other agencies and interested institutions. To achieve the goal of improved financial management in developing countries, the programme is exploring active collaboration from bilateral as well as multi-lateral development agencies.

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Mr. Rahman introduced **Luz Aurea Saenz, President of ILACIF and Comptroller General of Peru**. Ms. Saenz told the group she was present to hear more about what the agencies were doing.

After this introduction, a round table discussion was held based on Mr. BenAissa's remarks. Mr. BenAissa was asked how many people are in the field and how quickly can the programme respond to requests for assistance. The Public Financial and Enterprise Management Branch has sixteen members of staff in New York including four inter-regional advisers. In addition, it has 50 projects in the field, employing about 200 advisory staff. For short term advisory missions response is quite rapid. Such missions can be undertaken by inter-regional advisers or hired consultants. To field medium and long term project staff takes considerably longer, especially for direct recruitment which takes longer than securing personal services via sub-contracts.

The role of short-term assistance in financial management improvement efforts was queried since most experts agree that improvements take years to succeed. Mr. BenAissa explained that the short-term advisory mission was really an assessment mission. These assessments lead to full scale projects financed by the IDB and the World Bank. In the past, they had dealt with the long-term effort, but now the tendency is to respond to a specific request for a specified period of time or provide assistance to an existing project.

Mr. BenAissa discussed some of the key factors which contribute to successful projects. A project which has several phases and the same headquarters advisor returning at various intervals has a high chance of success. Another key factor is commitment on the part of the host government to the project and to provide personnel. Projects are commonly of 2 - 3 years duration. However the problems which they address, usually

require more sustained attention. Therefore follow-on projects are common. Projects are fully defined at the outset in terms of required inputs and expected outputs. They are monitored throughout their lives to ensure that the planned outputs are delivered. Projects have a record of success in delivering planned outputs, but it is far more difficult to achieve real and lasting improvements in financial management, which are usually the underlying objective.

Mr. BenAissa was asked how they ensure that the core staff in developing countries is trained and well paid and if the programme has addressed the civil service issue. Mr. BenAissa stated that training and remuneration of financial staff are at the heart of the problem of securing good financial management in developing countries. DTCD has addressed civil service issues in a succession of projects and seminars, and is currently carrying out research on the cost and size of civil services in developing countries. The human factor and its motivation are recognized as key to the process of development, but governments have been slow to improve training and conditions of service for financial management staff. As a result, government financial management often continues to be weak in many countries.

The majority of their work has been with LDCs in Africa with fewer projects in the Latin American and Caribbean region. They have worked in the Bahamas with the World Bank, and in Venezuela, Panama and Peru. There have been other smaller projects as well.

The methods for carrying out long-term projects under the programme are very flexible. If it is a very large project, they may subcontract and then monitor the outputs. If the project needs a resident expert, they would hire one. They have a roster of 5,000 to 6,000 trained consultants, many of whom have worked with them over the years.

A coffee break was held.

**Luz Aurea Saenz, President of ILACIF and Comptroller General of Peru** was asked to make some remarks. She once again thanked the group for inviting her and expressed her appreciation for the opportunity to participate. She explained that the presidency of ILACIF will move to Mexico in January of 1991. However, during the time it has been in Peru, they have learned a lot about the problems in the Comptroller General's and the Court of Accounts in the LAC region. Ms. Saenz noted that there are several problems which are common to the countries in the region. They include:

- o A lack of trained executives
- o Weak budget systems
- o Problems of hyperinflation (it is difficult to justify high salary levels when a country is under an austerity program)
- o Antiquated systems procedures (i.e., it takes months and months to audit entities for various reasons)

- o Inability to communicate to the public what audit actually does and the purpose for carrying out audits
- o Lack of technical expertise, as well as corruption (justice delayed is justice denied)

Most countries need technical assistance over the long term. They need help in improving technical skills. Executives need to be committed to action and willing to work for the government, in particular the Comptroller General's Office. Also, technical assistance is needed to educate the legislative branch of the importance of the independence of the Comptroller General's Office.

In November 1987, ILACIF solicited technical assistance through the IDB for an INTOSAI/IDI project. The five executive committee members of ILACIF have just signed a \$1,000,000 contract with the IDB to assess the needs of each Comptroller General's Office, define what training is needed to overcome problems, and offer a series of training courses over the next three years.

#### **PROJECTS CURRENTLY UNDERWAY IN CHILE**

The **WB** has a project implementing an information system in the Comptroller General's Office in Chile that will coordinate accounting information from regional offices. They are also restructuring public services to public enterprises. The second phase will include tax collection and social security.

**A.I.D.** is currently developing a financial management training course for financial and non-financial managers under the LAC RFMIP project. The course is being designed as a model which can be used throughout the region.

The **UNDP** has a management development program design project. They received the request for a mission in June, 1990 and have identified 5 areas for an expanded project. They are:

- o Assistance to the social sector ministry to improve their system of financial management
- o Assistance to the Ministry of Interior in decentralizing its functions
- o Assistance to the Ministry of Finance in revising its administrative statutes and providing a pilot management training plan
- o Assistance in formulating and evaluating social programs
- o Assistance in fomenting better relations between the executive and legislative branches.

The basic accounting systems are good in Chile; however, there are weaknesses in the delivery of services.

## **FISCAL ADMINISTRATION PROJECT IN GUATEMALA**

Ms. Luisa Rains of the IBD gave an update on the fiscal management projects underway in Guatemala. The regional project bank has 13 projects in tax administration and 2 in customs and internal taxation. There are two more projects in the budgeting stage. The current project is the second phase of a 1984-1988 project. Although the evaluation of Phase I supported the need to continue into Phase II, problems and delays similar to those encountered in Phase I characterize the second phase as well.

The goal of the project is to raise tax collections. The project began with an administrative reorganization and in July, 1989, the Inter-agency Center for Tax Administration became the executing agency. Its objectives are to:

- o Develop and implement a taxation system
- o Develop and execute a data base
- o Provide training
- o Strengthen the organization and institution

The output of the project is to consolidate and implement an integrated and efficient tax system. There is one coordinator, 3 long-term technical experts and 30 person-months of support.

Achievements to date have been less than expected due to the up-coming elections and general instability prior to the elections. Also, the information system for large taxpayers has not had the expected impact. Some problems which have been identified include:

- o There has been resistance to and even sabotage of using the information. Although increasing revenue is important, they have found that other factors such as debt is equally important. This type of project demands a high level executive committee, and the committee only recently was established.
- o Although the agreement stipulated the numbers and type of counterpart personnel, they have not been provided. Also rotation of personnel will become more difficult as the elections draw near.
- o The project is responsible for systems which were developed previously. The new project has new systems, and it is difficult trying to maintain the old systems at the same time that the new systems are being implemented.

- o \$380,000 had been budgeted for expansion of equipment; however, the equipment is still not in place. The Government is doing an assessment of the needs of the entire Ministry of Finance; therefore, no decisions have been made.

The project is in a holding pattern and no more consultants will be sent until there is some resolution to these problems. The IDB is working with the IMF.

### **UNDP PROJECT IN GUATEMALA**

The UNDP has a \$8.1 million cost-sharing project with the government and a third donor to modernize the state, reactivate the economic sector, modernize the Ministry of Finance in the areas of public investment projects, and strengthen the internal structure of tax collection.

The first objective is to mechanize the customs area in order to be more efficient and to collect data for the Ministry of Commerce and other entities. The Ministry of Finance receives the statistics for which there is a large demand. The system is operating in three customs areas. The conclusion is that there needs to be additional technical assistance in this area.

### **PC-BASED ACCOUNTING/BUDGETING/REPORT SYSTEM**

Regis Cunningham, Deputy Project Director, LAC RFMIP described a project underway in Guatemala to provide a software package which will overcome the constraints of inadequate technical skill levels and weak accounting, budgeting and reporting systems among host country agencies implementing technical assistance projects for the various donor agencies.

### **AID FISCAL ADMINISTRATION PROJECT**

The Georgia State University Policy Research Program is carrying out a multi-year research and technical assistance project on fiscal administration in Guatemala. The research is a joint project with KPMG Peat Marwick's Policy Economics Group.

The objectives of the project are: a) better government capability for planning and supervising fiscal decisions; b) better allocation of Guatemalan resources; c) generating adequate resources to pay for Guatemala's public services; d) equality in distribution of the country's tax burdens and social benefits; and e) simplification of the tax system and improvement of the tax administration.

The research will lead to the establishment of a Fiscal Analysis Institute in Guatemala's Ministry of Finance, the main institution to formulate public finance policy.

The project is estimated to last 27 months, and eight resident advisers will serve in Guatemala for two years.

## **OPEN DISCUSSION**

There was a small discussion on the results of the survey sent to all participants last summer (results attached). It was decided to keep the length of the meetings flexible depending on the topics covered. The group expressed its view that the minutes continue to be as comprehensive as possible so that those who miss the meetings will remain informed.

Mr. A. Premchand has volunteered to host the next meeting of the Donor Working Group, on Thursday January 24, 1991 at the IMF. Panama and Guyana will be the countries discussed.

The meeting adjourned for lunch at 1:10 p.m.

*Price Waterhouse*



November 7, 1990

Dra. Vilena Fuster  
Spanish Mission to the  
United Nations  
809 United Nations Plaza  
New York, N.Y. 10017

Dear Dra. Fuster:

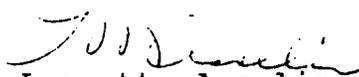
We are pleased to announce that Mr. A. Premchand of the International Monetary Fund has offered to host the Sixth LAC Region Donor Working Group on Improving Financial Management Meeting. The meeting will be held on Thursday, January 17, 1991. The Fund is located at 700-19th Street N.W. in this city. The meeting will focus on Panama and Guyana.

The meeting will begin at 9:30 a.m. and will end at 1:00 p.m. Dr. Rheinhold Basse of the German Foundation for International Development will be our speaker.

We look forward to your participation in the Sixth Donor Working Group Meeting. Any participant who would like to give a presentation on projects in Panama or Guyana is requested to notify us so that we may prepare the agenda.

Please confirm your participation by December 15, 1990 to our fax number (202) 296-8871.

Very truly yours,

  
Lynnette Asselin

*Price Waterhouse*



November 13, 1990

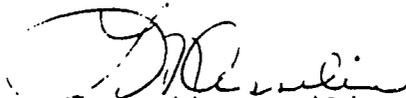
Dra. Vilena Fuster  
Spanish Mission to the United Nations  
809 United Nations Plaza  
New York, NY 10017

Dear Dra. Fuster:

Our invitation to the Sixth LAC Region Donor Working Group on Improving Financial Management stated the date of the meeting as **Thursday, January 17, 1991**. This is an error. The meeting will be held on Thursday, January 24, 1991. We apologize for any inconvenience this may cause you.

We look forward to your participation.

Very truly yours,

  
Lynnette Assilin

**INVITATIONS**

**SIXTH DONOR WORKING GROUP MEETING**

**JANUARY 24, 1991 - IMF**

William Schoux  
LAC Democratic Initiatives  
Agency for International Development  
Room 3253 NS  
Washington, DC 20523-0024

James P. Wesberry, Jr.  
Senior Financial Management Advisor  
Agency for International Development  
Bureau for Latin America and the Caribbean  
LAC/CONT, Room 3253 NS  
Washington, D.C. 20523-0024  
tel: (202) 647-0233  
fax: (202) 647-8518

Robert Asselin  
Director, Central America  
Latin American and Caribbean Bureau  
Room 5258 NS  
Agency for International Development  
Washington, D.C. 20523-0024

Norma Parker  
Director, South America and Mexico  
Latin America and Caribbean Bureau  
Agency for International Development  
Washington, D.C. 20523-0024

Wayne McKeel, Deputy Controller  
Agency for International Development  
PFM/FM/FPD, Room 803, SA-2  
Washington, D.C. 20523  
tel: (202) 663-2168  
fax: (202) 673-5779

Phil Amos, Deputy Controller  
Agency for International Development  
PFM/FM/FPD, Room 803, SA-2  
Agency for International Development  
Washington, D.C. 20523

Mr. Kenneth Kornher, Chief  
Agency for International Development  
Development & Management Division  
S&T/RD, Room 606, SA-18  
Washington, D.C. 20523

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John P. Competello, Assistant Inspector  
General for Audit  
Agency for International Development  
Room 5644 NS  
Washington, D.C. 20523-0060

Pat Isman  
AID/S&T/RD  
Agency for International Development  
Washington, D.C. 20523^R

Pedro E. Andrieu, Chief  
Inter-American Development Bank  
Social Development Studies Section  
1300 New York Ave., N.W.  
Washington, D.C. 20577  
tel: (202) 623-2530  
fax: (202) 623-3096

Sixto Aquino  
Chief, Regional Technical Cooperation Division  
Inter-American Development Bank  
1300 New York Ave., N.W. Room NE-634  
Washington, D.C. 20577  
tel: (202) 623-2531  
fax: (202) 623-3096

Guillermo Fuentes, Officer  
Inter-American Development Bank  
Technical Cooperation Division 2  
1300 New York Ave., N.W.  
Washington, D.C. 20577

Jorge Liacuris, Auditor  
Inter-American Development Bank  
Office of the Auditor General  
1300 New York Ave., N.W.  
Washington, D.C. 20577  
tel: (202) 623 1442

Ademar Toro, Auditor  
Inter-American Development Bank  
Office of the Auditor General  
1300 New York Ave., N.W.  
Washington, D.C. 20577  
tel: (202) 623 1441  
fax: (202) 623 3096

Arnoldo da Fonseca, Sr. Officer  
Inter-American Development Bank  
Technical Cooperation Division 1  
1300 New York Ave., N.W.  
Washington, D.C. 20577

10/1

Alfonso Parra, Auditor  
Inter-American Development Bank  
PRA/PSF  
1300 New York Ave., N.W.  
Washington, D.C. 20577  
tel: (202) 623 1811  
fax: (202) 623 2346

Luis A. Prieto  
Inter-American Development Bank  
1300 New York Ave., N.W.  
Washington, D.C. 20577  
tel: (202) 623 1813  
fax: (202) 623 3096

Luisa Rains, Fiscal Economist  
Inter-American Development Bank  
General Studies Division  
1300 New York Ave., N.W.  
Washington, D.C. 20577  
tel: (202) 623 2461  
fax: (202) 623 3096

Mario Cortes  
Inter-American Development Bank  
1300 New York Ave., N.W.  
Washington, D.C. 20577  
tel: (202) 623 2434  
fax: (202) 623 3096

William Taylor, Auditor General  
Inter-American Development Bank  
1300 New York Ave. N.W.  
Washington, D.C. 20577  
tel: (202) 623 1300  
fax: (202) 623 3096

Angel Boccia, Senior Economist  
Organization of American States  
Development Finance Division  
1889 F Street, N.W. Room 200 Q  
Washington, D.C. 20006  
tel: (202) 458 3634  
fax: (202) 458 3744

Patricio E. Chellew, Director  
Department of Economic and Social Affairs  
Organization of American States  
1889 F Street, N.W.  
Washington, D.C. 20006

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Ricardo Murua  
Organization of American States  
1889 F Street, N.W.  
Washington, D.C. 20006  
tel: (202) 458 3634  
fax: (202) 458 3744

Luis Illanes  
Organization of American States  
1889 F Street, N.W., Room 320-C  
Washington, D.C. 20006  
tel: (202) 458 3641

Alvaro Lopez Cayzedo  
Organization of American States  
1889 F Street, N.W. Room 320-D  
Washington, D.C. 20006  
tel: (202) 458 3633  
fax: (202) 458 3744

Mr. Abu T. R. Rahman, Chief  
Public Financial and Enterprise Management Branch  
Development Administration Division  
Department of Technical Cooperation for Development  
DC 1-966  
United Nations  
New York, N.Y. 10017  
tel: (212) 963 8410  
fax: (212) 963 4116

Clay Wescott  
United Nations  
Development Programme  
One United Nations Plaza  
New York, N.Y. 10017  
tel: (212) 963 8654  
fax: (212) 986 6280

Nestor Arias, Area Officer  
Regional Bureau for Latin America  
and the Caribe  
Division II - Room DC 1-2288  
UNDP  
1 United Nations Plaza  
New York, N.Y. 10017  
tel: (212) 986 0378/906 5400  
fax: (212) 906 5892

109

Ms. Jacqueline Hartvelt, Area Officer  
Regional Bureau for Latin America  
and the Caribe  
Division II - room 403  
UNDP  
Uganda House  
336 E. 45th Street  
New York, N.Y. 10017  
tel: (212) 906 5400  
fax: (212) 906 5892

Peter Nicholas Dean, Inter-Regional Advisor  
United Nations  
Department of Technical Cooperation  
for Development  
1 United Nations Plaza, Room 948  
New York, NY 10017  
tel: (212) 963 8405  
fax: (212) 963 4116

Donald Winkler, Sr. Fiscal Economist  
The World Bank  
Public Sector Management Division  
Latin America and the Caribbean  
1850 I Street, N.W., Room I-4165  
Washington, D.C. 20433  
tel: (202) 473 8619  
fax: (202) 676 9373

Alka Misra  
The World Bank  
Public Sector Management Division  
Latin America and the Caribbean  
1850 H Street N.W., Room I-4165  
Washington, D.C. 20433

Jaime Vasquez Caro  
The World Bank  
1850 I Street N.W., room I-6165  
Washington, D.C. 20433

Kathryn Baer, Consultant  
The World Bank  
Country Operations  
4421 Q Street, N.W.  
Washington, D.C.

Mauricio Carrizosa, Economist  
The World Bank  
Trade and Finance Industry Division  
1818 H Street, N.W., Rm. I-6153  
Washington, D.C. 20433  
tel: (202) 473 9198

Lee Weaver Richardson  
U.S. General Accounting Office  
Office of International Audit  
Organization Liaison  
441 G Street, N.W.  
Washington, D.C. 20548

Peter Aliferis, Director  
U.S. General Accounting Office  
Office of International Audit  
Organization Liason  
441 G Street, N.W. Rm. 7806  
Washington, D.C. 20548  
tel: (202) 275 4707  
fax: (202) 275 4021

Linda Weeks  
U.S. General Accounting Office  
Office of International Audit  
Organization Liaison  
441 G Street, N.W. Rm. 7806  
Washington, D.C. 20548

Donald Drach, Deputy Director  
U.S. General Accounting Office  
Office of International Audit  
Organization Liason,  
441 G Street, N.W.  
Washington, D.C. 20548  
tel: (202) 275 4707  
fax: (202) 275 4021

Tom Brogan, Assistant Director  
U.S. General Accounting Office  
Foreign Economic Assistance  
Office of International Audit  
Organization Liason  
441 G Street, N.W.  
Washington, D.C. 20548  
tel: (202) 275 4707  
fax: (202) 275 4021

A. Premchand  
Assistant Director  
Fiscal Affairs Department  
International Monetary Fund  
700 - 19th Street N.W., Room 6-120  
Washington, D.C. 20431  
tel: (202) 623 8708  
fax: (202) 623 7347

Ernesto Perez  
International Monetary Fund  
700 - 19th Street N.W.,  
Washington, D.C. 20431  
tel: (202) 623 8352  
fax: (202) 623 7347

Yvan Gaudette, Executive Vice President  
INTOSAI - Development Initiative  
240 Sparks Street, 11th Floor West  
Ottawa, Ontario, K1A0G6  
Canada

Richard Gagne, Director of Programs  
INTOSAI - Development Initiative  
240 Sparks Street, 11th Floor West  
Ottawa, Ontario, K1A0G6  
Canada

Gerard Belanger  
Senior Project Officer-South America  
BMS Division  
Canadian International Development Agency (CIDA)  
200 Promenade du Portage  
Hull, Quebec  
Canada K1A 0G4  
tel: (819) 994 4259  
fax: (819) 997 0926

John M. Robinson, Vice President-Americas Branch  
Canadian International Development Agency (CIDA)  
200 Promenade du Portage  
Hull, Quebec  
Canada K1A 0G4  
tel: (819) 997 6424  
fax: (819) 994 4259

John Wood, Director Americas Branch  
Canadian International Development Agency (CIDA)  
200 Promenade du Portage  
Hull, Quebec  
CANADA K1A 0G4  
tel: (819) 997 6424  
fax: (819) 994 4259

Dr. Joachim Krell, President  
German Foundation for International Development  
Rauchstr. #22  
D-1000 Berlin 30  
FEDERAL REPUBLIC OF GERMANY

Dr. Rheinhold Basse  
Public Administration Promotion Centre of the  
German Foundation for International Development  
Rauchstrasse #25  
D-1000 Berlin 30  
FEDERAL REPUBLIC OF GERMANY

Mr. Hideki Abe  
Japanese Agency for International  
Cooperation (JICA)  
2020 K Street N.W. Suite 435  
Washington, D.C. 20006

Mr. Agustin Santos  
Instituto de Cooperacion Iberoamericana  
Embassy of Spain  
2700 15th Street, N.W.  
Washington, D.C. 20009  
tel: (202) 265 0190  
fax: (202) 328 3212

Ana Mendez  
Spanish Mission to the  
United Nations  
809 United Nations Plaza  
New York, N.Y. 10017

Dra. Vilena Fuster  
Spanish Mission to the  
United Nations  
809 United Nations Plaza  
New York, N.Y. 10017

**SIXTH LAC REGION DONOR WORKING GROUP MEETING**

**JANUARY 24, 1991**

**HOSTED BY THE INTERNATIONAL MONETARY FUND**

**AGENDA**

- 8:45-9:00 Participants arrive at Security Gate of IMF, 700 19th Street NW, Washington D.C. Guards will direct to conference room.
- 9:00 Introduction of Participants
- Opening Remarks by A. Premchand, Assistant Director, Fiscal Affairs Department, International Monetary Fund.
- To be followed by questions and discussion
- 9:45 Agencies discussion of projects in Guyana and Panama
- o Presentation by Sixto Aquino, Inter-American Development Bank on project in Guyana
- Questions following
- o Presentation by Price Waterhouse on AID financial management improvement project in Panama
- Questions following
- 11:00 Coffee Break
- 11:15 Discussion of other projects in Latin American and Caribbean
- 12:00 Discussion of key issues and constraints to improving financial management:
- a. Host country support (see attachment)
  - b. Quality and timeliness of audits
- 12:45 Site of next meeting, topics and countries
- 1:00 Adjournment

## ISSUE: HOST COUNTRY SUPPORT

At the Fifth Donor Working Group in September, Luisa Rains of the IDB raised the following issues in her presentation on the IBD project underway in Guatemala. There was not enough time to discuss the problems and therefore, they are presented here for discussion in the Sixth Donor Working Group.

**Achievements** to date have been less than expected **due to the up-coming elections and general instability prior to the elections.** Also, the information system for large taxpayers has not had the expected impact.

1. Although the agreement stipulated the numbers and type of counterpart personnel, **personnel has not been provided.**
2. Projects demand a high level executive committee and **only recently** (i.e. not at the commencement of the project) **a committee was established.**
3. Money was budgeted for expansion of equipment; **however the equipment is still not in place.** The government is doing an assessment of the needs of the entire ministry and therefore no decisions have been made.

SIXTH LAC REGION DONOR WORKING GROUP MEETING  
JANUARY 24, 1991

HOSTED BY THE INTERNATIONAL MONETARY FUND

The meeting opened at 9:20 am.

Jim Wesberry introduced A. Premchand, Assistant Director, Fiscal Affairs Department International Monetary Fund and congratulated him on the recent publication of Mr. Premchand's book, *Government Financial Management* (not sure if this is the correct title). Mr. Premchand thanked Mr. Wesberry for his kind words and complimented him in return on his noteworthy contribution to the book, an article entitled *Financial Management: Practices and Problems*.

Mr. Premchand then began his opening remarks on *The Role and Activities of the IMF in Financial Management* by indicating that participants should refer to two pamphlets, *Technical Assistance and Training Services of the International Monetary Fund* and *Promoting Development: The IMF's Contribution*, for more information on the topic.

Mr Premchand stated that the primary mission of the IMF was to provide financial assistance to the 150 member countries, generally when they were encountering balance of payments difficulties and required a quick injection of funds to stabilize the situation. Money is loaned out by the IMF for 7 to 10 year terms in amounts that are determined in part as a percentage of the quota that each country pays in membership dues.

In the Fund's early years, from 1950 through 1960, only financial resources were extended and it was seen that managing and using these monies required a high degree of multiple skills. Therefore, it was quickly determined that technical assistance should be provided as well. In 1964, the IMF began to offer technical assistance.

Technical assistance activities are offered through the Central Banking Department which aids the operations of central banks; the Fiscal Affairs Department (FAD), to which Mr. Premchand belongs; and the IMF Institute which provides training.

The FAD provides primarily operational assistance in tax policy, tax administration, and government financial management (defined as budgeting, accounting, financial reporting, expenditure controls and public sector enterprises). Assistance is extended in response to a request from a member country which is generally sparked as part of the annual consultations that the IMF has with member countries when it reviews their economic developments. The IMF evaluations the member countries because vulnerable areas in the economy impact on stabilization programs.

The technical assistance provided is of two types: diagnostic mission (short term) and advisory mission (long term). Fifty to 60 short term technical assistance diagnostics are carried out per year usually entailing a three week assessment carried out by FAD's staff or contractors. The assessment's findings are summarized in a report on the economic situation in the country which identifies problems, formulates recommendations and prioritizes the recommendations.

The advisory mission is designed as a long term technical assistance project. The Department provides a technical advisor who is usually assigned to a country's Ministry of Finance. This advisor has no other role in a country except to provide advice to local officials. Consequently, a team of host country counterparts must be provided so that the advisor's advice can be carried out. It is important to emphasize that technical assistance does not include any money or equipment--only advice is provided. Unfortunately, this program is hindered by its size--currently, 12 countries are hosting advisors.

Two monitoring systems exist in this program. First, the advisor must send monthly reports to the Department. The second system entails periodic on-site inspections that make sure that the problem is being addressed, that the advisor is providing the skill as requested and that the advisor is maintaining his independence from the government. In this last regard, recall that the member country does not pay the salary of the advisor--the IMF does--although sometimes a token subsistence or housing allowance is paid by the member country.

The technical assistance projects are a highly visible part of the fund stabilization projects.

In the past, the IMF provided annual funding which was generally rolled over. After the oil crisis, the new Extended Funding Facility program began in 1976 which provided funding in 3 year increments. Later, the Structural Adjustment Fund was implemented which provides funding opportunities that extend for a minimum of 3 years or more.

In order to continue funding from year to year, member countries must provide Policy Framework Papers. These reports indicate that 60% of institutional improvement is in the area of government financial management.

Over the years, technical assistance has grown in importance. Most recently, it has begun to address the problems of centrally planned economies in transition such as those of Eastern Europe, Algeria (? or Albania?), Vietnam and others. In Latin America, the IMF has technical assistance programs in the following countries:

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Bahamas  
Barbados  
Haiti  
Haiti  
Grenada  
Guyana  
St. Lucia  
St. Vincent  
Surinam

Belize  
Costa Rica  
El Salvador  
Guatemala  
Honduras

Argentina  
Brazil  
Bolivia  
Chili  
Columbia  
Ecuador  
Uruguay  
Venezuela

A pilot project is under consideration for Nicaragua.

In addition to technical assistance, the Fiscal Affairs Department also produces publications directed toward government financial managers addressing topics of operational guidance.

It also provided training in Spanish and English for government officials nominated by the IMF.

That concluded Mr. Premchand's remarks. The floor was opened for questions.

Jim Wesberry: Which LAC countries host technical advisors?

A.Premchand: El Salvador has a technical advisor addressing accounting issues; the Bahamas is hosting an advisor on budgeting and Cordova (? Argentina?) is has one on budget as well.

J.C.: Is IMF staff used in short term training projects also?

A.P.: All training is offered by the IMF. Long term technical assistance projects are usually staffed by contractors from the member country's own pool of technical assistance experts. These experts are all highly knowledgeable about their country's government financial management. Most are employed by the government or have recently retired from it. The IMF

maintains a roster of experts which is valid for one year. As an example of the quality of contractors the IMF hires, the advisor on assignment in El Salvador was formerly employed by Chile's Office of the Controller General.

**Luis Danin L.:** Does the IMF support Finance Centers?

**A.P.:** In order to insure the success of operations, technical assistance cannot be isolated from those operations. The IMF is also hindered in supporting the concept of Finance Centers because assistance projects must be offered **only** by the IMF and because it does not sponsor or fund assistance provided by other entities. Due to the financial arrangements of the IMF, all assistance must be of IMF origin or by IMF contractors.

**Jose Cruz Ossuno:** What does the IMF do in the area of tax administration?

**A.P.:** The IMF does analyses a country's tax structure including those on international trade, it provided customs classifications, organizes tax files, improves internal revenue office organization, gives advice on tax policy and suggests ways to increase revenue collection.

**J.C.O.:** In which countries does the IMF have work in this area?

**A.P.:** Most recently, the IMF has initiated a project in Peru. The IMF also has projects in Argentina, Paraguay, Nicaragua and Costa Rica; however, this is not an exhaustive list.

**J.W.:** Considering the importance of information exchange to avoid duplication and share lessons learned, how can information from IMF reports be shared?

**A.P.:** Diagnostic assessment reports are not public documents. They deal with highly sensitive areas and the information provided is confidentially. The IMF reciprocates the trust that countries give it by treating everything in the highest confidence. The relationships that the IMF has with countries are similar to client relationships. Because the IMF works with a country's Ministry of Finance, sometimes even the Executive Director (??Head of State) is not given a copy of the report. Reports are labeled "Private and Confidential" and have extremely limited distribution. Twenty copies are supplied to the Ministry of Finance and one is sent to the World Bank. Of course, once a government has the report, it can do whatever it wants with it, including, in some cases, publishing it.

**J.W.:** So access can only be gained through the country's government?

**A.P.:** Yes.

**J.W.:** Considering that most countries do not make this information public, has the IMF ever considered publishing a sanitized version, with the country's permission?

**A.P.:** The suggestion is a tempting one. Unfortunately, the IMF has neither the time nor the funding to address itself to this. Ninety percent of our resources go towards operations, 5% to training, and 5% to research. Already, the work we have is too onerous. Perhaps the question will be addressed in the future as time and resources become available.

**J.W.:** Well, it would sure save us all some resources.

#### **END OF OPENING REMARKS**

At this point in the meeting, Mr. Premchand formally welcomed Mr. Hideki Abe of the Japan International Cooperation Agency (JICA) who was attending for the first time.

Jim Wesberry continued by introducing Mr. William Schoux, the new Director of Democratic Initiatives (DI) at A.I.D. Mr. Schoux explained that DI program helps countries finance and provide technical assistance for elections. They have had projects in Guatemala, Haiti, Nicaragua and El Salvador. DI also works with legislatures on improvement activities, mediates the relationship between military and civilian authorities, encourages democratic values, fosters an independent media, and creates alternative opinion sources. DI is primarily concerned with two interrelated issues: the accountability of a government to its citizens which is enhanced by the degree of openness in a society and transparency which is the concept that whatever a government does should be open to the scrutiny of the people.

Other participants introduced themselves:

Mr. Claude Stein who recently joined the IMF's Budget and Expenditures Division;

Ms. Linda Weeks of the GAO's Management Development Program which sponsors SAI auditors for four and one-half weeks of training. A few auditors receive an additional 6 - 8 weeks of training in a GAO regional office. In the upcoming fellows program beginning on April 16, six out of 20 participants are from Latin America (Trinidad, Tobago, Belize, Mexico, Guyana and another country);

Peter Aliferis, GAO;

Venecia Canard, GAO, IDI/OLACEFS;

Joan Solwitsky, GAO;

Diane Rawl, GAO;

John Competello, A.I.D.;

Robert Rabatsky, MSI/A.I.D.;

Jose Cruz Ossuno, UNDP;

Sixto Aquino, IDB;

Regis Cunningham, Price Waterhouse;

Hideki Abe, JICA, mentioned that his organization maintains 700 - 800 volunteers in Latin America;

Don Winkler, World Bank, mentioned projects that the Bank is sponsoring in Guyana and in Chile on tax customs;

Alka Misra, World Bank;

Alain Tobelem, World Bank, who updated the group on the SAFCO project in Bolivia. Mr. Tobelem mentioned the two major risks in the project: political instability and cultural incompatibility. With reference to the latter, Mr. Tobelem asserted that we play lip service to norms and principles which don't work in Latin America simply because society does not recognize that it has a problem, just a system that functions differently. A third problem is one of the difficulty of trying to find co-financing for the project;

Caryl García, Price Waterhouse;

John Zemko, Price Waterhouse, who invited participants to send in articles to the newsletter *Accountability*.

Luis Danin Lobo, Department of Economics and Social Affairs, OAS, mentioned that the OAS is currently developing a proposal to sponsor National Training Centers for Finance Ministries in each country. He also reminded participants of the upcoming 18th Inter American and Iberian Budget Seminar.

Lynnette Asselin;

A. Premchand; and

Jim Wesberry.

Mr. Paul Lohneis, Price Waterhouse, and Mr. Clay Wescott, UNDP arrived after introductions were made. Three members were unable to attend (German Development?, Canadian representative?, and Mr. Abu T.R. Rahman, UN/DT).

At this point, Mr. Aquino interjected with a question for Mr. Tobelem.

Sixto Aquino:           Are the \$30 million recently released for the exclusive use of SAFCO?

12/1

A.T.: Yes

Satisfied, Mr. Aquino began his presentation on the Inter American Development Bank's (IDB) project in Guyana.

The IDB just approved a \$3.5 million institutional strengthening project that will be carried out in conjunction with the World Bank and the UNDP. The objective of this project is to create and expand the Office of the Auditor General and the Ministry of Finance's area of operations, as well as that of the Customs Excise Department and another agency. It will help improve tax administration, aim to decrease tax evasion, and increase tax revenues. In the OAG, computer facilities used for budget formulation will be improved. One component of the project is to initiate changes in procedures used in carrying out audits. This \$100,000 element will be carried out under the aegis of the GAO.

This project is all part of the IDB's Economic Recovery Program. It will involve 18 - 20 consultants over a 2 year period. All consultants will work in the financial management area: 12 in tax administration, 4 in budget, 2 in the auditor general's office.

Mr. Aquino concluded his remarks and accepted questions from the participants:

A.T.: How can Guyana absorb a project of this magnitude?

S.A.: The first difficulty lays with getting the Guyanese authorities grant us the authority to carry out the project. Delays and difficulties must be addressed by circumventing the government structure entirely and using UNDP consultants. Secondly, the 2 year execution period provided for is admittedly overly optimistic. The project will certainly require additional input by the IDB.

In terms of whether or not the program can be absorbed is a question that all donor agencies must grapple with.

A.T.: Surely, more problems exist than these. Taxes are not paid. Any audit released with negative findings would be closed down.

S.A.: Not in my experience. All work done in the IDB is conditional upon the government's dedication to reform. If this dedication is absent, the project may encounter the difficulties you mention. It's all a question of verifying the government's commitment to the project.

P.A.: The Auditor General is a recent graduate from the GAO's fellows program. We are confident that he will be receptive to change.

This is why it is important that we share experiences, especially limited successes.

S.A.: Or money is wasted.

**P.A.:** And a lot of money is wasted. Take the example of Ecuador. Or that of Bolivia: the project collapsed with the Auditor General left.

**A.T.:** This is not a technical problem. Technical solutions are basically sound. Responsibility is not a cultural norm.

**Joan Solwitsky:** Expectations must be clear, consistent and realistic. A recent project in El Salvador posited changing the judicial system in 2 years! The GAO is constantly coming across projects that have obviously unrealistic goals. Objectives must be defined. There must be clearly measurable results.

**P.A.:** In the U.S. Controller General's new report, it says right up front that improvements in the U.S. debt problem are possible. What is needed is government commitment to addressing the problems.

**Somebody:** The U.S. books are the worst in the world!

**J.W.:** I hate to interrupt this lively discussion, but if you'll notice, this item appears later in the agenda. But obviously any efforts in this area must address incentives and Host Country commitment must be an item of conditionality. We will return to this topic. For now, does anyone else have any other activities going on in Guyana?

Ms. Misra, World Bank, mentioned a 3 year program on financial management that complements its structural adjustment program. In this program, consultants act as advisors and provide equipment and training in the following areas:

- o Public Enterprise Monitoring System
- o State Planning System to review proposals
- o Assistance to the Ministry of Finance to facilitate external aid requirements and strengthen overall macroeconomic monitoring
- o Work with the Bureau of Statistics to develop a data base that will help in decision making

Mr. Danin mentioned that Guyana was not yet a member of the OAS.

Mr. Wesberry stated that as far as he knew, A.I.D.'s involvement was limited to P.L. 480 programs. He added that at the Key Financial Managers Meeting, the two representatives from Guyana were outstanding and made many high quality contributions.

Mr. Cruz said that the UNDP was offering comprehensive technical assistance through ERP (???), a \$32 million project (plus \$3 million from the World Bank, \$2.6 from the IDB and \$1 million from the Caribbean Development Bank). Also the UNDP was in the middle of a Public Servant Remuneration Project.

**THIS CONCLUDED THE PRESENTATION ON GUYANA.**

Mr. Wesberry introduced the next speaker, Ms. Lynnette Asselin, Price Waterhouse by describing a little bit about the background of A.I.D.'s Regional Financial Management Improvement Project. Originally, he said, no project activities were contemplated for Panama. When the need for assistance there arose, resources were diverted from the Caribbean.

.....Speech presented by L.A.....

Ms. Asselin concluded her remarks and asked Mr. Wesberry if he had any comments to add regarding the long-term project.

Mr. Wesberry described how the Project Paper written for the nascent project was based on work done by Price Waterhouse. The firm had come up with a "boiler plate" framework that a former A.I.D. official had helped develop. Since the interim program was slated to conclude on March 15, it was to be hoped that the project would hit the ground in March. This would avoid a common problem: the gap between short- and long-term projects. Mr. Wesberry added that the Panama project would serve as a model for similar projects in other Latin American countries.

J.S.: Please clarify the proposed changes in operational management for me.

L.A.: The Comptroller General will maintain control over funds. The OAG will take over audit role while the OCG takes over financial management responsibilities. The OAG will eventually move out of the OCG completely and answer to the legislative branch. The OCG will become part of the executive branch. USAID has signed on to the idea.

J.W.: The Comptroller General of Panama is already the Chief Financial Officer of Panama. We decided that it would be easier to create an AG than change the CG. This model is closer to the Canadian model than that of the United States. Since many CG's have financial management duties which they are very jealous of and will not give up, perhaps it would be easier to get them to give up their audit functions and create the position of AG. We are hopeful that it will be a precursor of trends in Latin America.

P.A.: Spain is also making similar changing—an important point considering their influence in the region.

Paul Lohneis: There are, after all, precedences for this kind of separation of authority. (His example of Illinois)

Clay Wescott: Keep in mind that an independent auditor does not guarantee that the audits will be effective. Audits may be prepared but disappear into a black hole.

A.P.: ...?...

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**J.W.:** A.I.D. has the \$1.6 million Tax Administration Improvement Project to improve the Government of Panama's ability to organize and operate its tax collection system. The objectives include helping the elected government gain credibility and public confidence; and sound tax administration and open accountability. The project operates in the following areas: 1) Management, planning and human resource development, including supporting procedures and operations manuals; 2) Automatic Data Processing (ADP), including plans for maintenance and procurement, and ADP procedures; 3) Returns processing including case load tracking, use of data, and standard operating methods; 4) Audit, including planning, operations, and appeals; 5) Standard methods of collecting; 5) Public information and relations, and taxpayer services, and 7) Training programs for government staff in the above areas. Technical assistance will be provided by the U.S. Internal Revenue Service, and training will be conducted by the Inter-American Center of Tax Administrators (CIAT) and the IDB. The Government of Panama is contributing 25% of the costs of this project.

As an aside, CIAT is the type of organization that is needed throughout Latin America.

**J.C.O.:** The UNDP in Panama is working with the Maritime Commission (?) to improve public administration, increase the capacity for administrative reforms, to modernize the machinery of government; and to provide assistance in organizing the future administration of the Panama Canal.

**Hideki Abe:** JICA has no presence in Panama.

**L.D.:** Nor does the OAS.

Mr. Wesberry asked the participants to comment on other miscellaneous projects in Latin America. He began.

**J.W.:** A.I.D. has a project pending to perform an country assessment in Nicaragua. It's a Integrated Financial Management System project similar to that installed in Panama. The project has been delayed by the internal turmoil that I'm sure you've all been reading about in the newspapers.

If the new government survives in Haiti, the A.I.D. mission has requested a Financial Management Improvement Project there as well.

Recently, A.I.D. carried out a quick crash study in Argentina with the help of the IDB.

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The project in Paraguay is on hold and we have all heard how the SAFCO project is faring.

J.C.O.: The UNDP has a public sector management assessment project coming up in Nicaragua in February. A Financial Management Workshop on improving public sector financial management is coming up in Haiti. There is a project in Paraguay (??). A budget area assessment review will take place in Ecuador in May, 1991. There is also a project in Honduras on overall macroeconomic management and project evaluation. Lastly, we have a financial management project in the Eastern Caribbean.

J.W.: Jose, your project in Honduras reminds me that we also have an evaluation of the Comptroller General of Honduras pending.

L.D.: The OAS has a hospital management project in the Dominica.

At this point, when Mr. Wesberry introduced the next item on the agenda on key issues and constraints on improving financial management, Mr. Premchand stated that in his opinion he thought the subject too important to be considered informally like this. He suggested that this be the sole topic for the next working group meeting. The topic should be: Utilization of Technical Assistance: Role of National Authorities, Lessons of Experience.

He further suggested that each participant come prepared to discuss the agency's experiences, lessons learned and possible solutions to the difficulty.

S.A.: An excellent suggestion. I think that we should assign subtopics to narrow the topic down and provide an agenda.

C.W.: The problem needs to be defined. Really, what it comes down to is this core problem: the management of change in an institution. This is a well-defined area and it would be possible to get an expert speaker on the subject to address theoretical aspects on the topic.

A.P.: We have to keep in mind that this problem is one of external stimuli. It does not have domestic aspirations which are not articulated. Moreover, it is clearly an area of professional and organizational frustration.

S.A.: Management of Change is a good topic but I think that this should set our agenda for several meetings. Major donors should present their experiences, then we should get a speaker.

J.W.: What can a donor agency do? What conditions can be imposed on a country where the government will change in 3 or 4 years? International agencies must apply pressure.

**A.P.:** This problem has 3 facets: 1) Political interest is non-existent in this area. There is no visibility. No immediate benefits. 2) Politicians are confused by technical jargon. 3) From our experience, a change of power in government does not affect financial management. When a reform is not working it is due to internal organizational sabotage—not political blockage.

The group determined that Mr. Aquino and Mr. Wesberry would together formulate the agenda for this topic. After February 15, Mr. Premchand would assist them.

The 7th donor working group meeting is scheduled for April 18, 1991. The IDB will sponsor it in Washington, D.C.

The 8th working group meeting is scheduled for June 6. Mr. Wesberry suggested that the topic be on quality control or requirements of audits. (I assume A.I.D. will host) Mr. Competello and Mr. Wesberry will work together on the agenda.

The 9th and 10th working group meetings are tentatively scheduled for September 19 and December 5. Members are encouraged to submit ideas for topics.

**Announcements:**

Miami Conference, April 8 - 10

Mid-term evaluation of the LAC project will occur in the spring. Evaluators will be attending the conference to hear the opinions of attenders from SAIs in Latin America.

Co-sponsors are sought for the Second Fraud and Corruption Conference to be held two years from now.

A list of documents available from Price Waterhouse under LAC will be attached to the minutes.

Mr. Premchand thanked the participants for attending.

**THE MEETING ADJOURNED AT 12:30 P.M.**

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## *Price Waterhouse*



February 21, 1991

William Schoux  
LAC Democratic Initiatives  
Agency for International Development  
Room 3253 NS  
Washington, DC 20523-0024

Dear Mr. Schoux:

We are pleased to announce that Mr. Sixto Aquino of the Inter-American Development Bank has offered to host the Seventh LAC Region Donor Working Group on Improving Financial Management. The meeting will be held on Thursday, April 18, 1991. The Inter-American Development Bank is located at 1300 New York Ave., N.W. in this city.

The topic for the meeting will be "Utilization of Technical Assistance: Role of National Authorities, Lessons of Experience." Each participant should come prepared to discuss their agency's experiences, lessons learned and possible solutions. Messrs. Wesberry, Premchand and Aquino are preparing the agenda and framework for this meeting and a copy will be forwarded to you in March.

We take this opportunity to make you aware of three important conferences sponsored by the LAC Financial Management Project:

- o IV Conference of Key Financial Management Officers of Central America and Panama, March 6-8, 1991 to be held in Managua.
- o Conference of Caribbean Key Financial Management Officers, April 11-12, 1991 to be held in Miami, Florida.

Your organization is invited to participate in these two conferences.

A brochure is enclosed for the Fifth Annual International Conference on New Developments in Government Financial Management, April 8-10, 1991, in Miami, Florida.

We look forward to your participation in the Seventh Donor Working Group Meeting because of this important topic. Please confirm your participation by April 1, 1991 to our fax number (202) 296-8871 or by telephone (202) 296-0800.

Very truly yours,

  
Lynhette Asselin

**William Schoux**  
LAC Democratic Initiatives  
Agency for International Development  
Room 3253 NS  
Washington, D.C. 20523-0024

**Robert Asselin**  
Director, Central America  
Latin American and Caribbean Bureau  
Room 5258 NS  
Agency for International Development  
Washington, D.C. 20523-0024

**Carole H. Tyson**  
Director, Latin American and Caribbean Bureau  
Agency for International Development  
Room 3242 NS  
Washington, D.C. 20523-0024

**Phil Amos, Deputy Controller**  
Agency for International Development  
S&T/FM/FPD Room 803 SA-2  
Washington, D.C. 20523

**Kenneth Kornher, Chief**  
Agency for International Development  
Development & Management Division  
S&T/RD, Room 606, SA-18  
Washington, D.C. 20523

**Sixto Aquino, Chief**  
Regional Technical Cooperation Division  
Inter-American Development Bank  
1300 New York, Ave. N.W. - Room NE-634  
Washington, D.C. 20577

**Jorge Liacuris, Auditor**  
Inter-American Development Bank  
Office of the Auditor General  
1300 New York Ave. N.W.  
Washington, D.C. 20577

**James P. Wesberry Jr.**  
Senior Financial Management Advisor  
Agency for International Development  
Bureau for Latin America and the Caribbean  
LAC/CONT, room 3253 NS  
Washington, D.C. 20523-0024

**Norma Parker**  
Director, South America and Mexico  
Latin American and Caribbean Bureau  
Agency for International Development  
Washington, D.C. 20523-0024

**Maria Mamlouk, Deputy Director**  
Office of Democratic Initiatives  
Room 3253 NS  
Agency for International Development  
Washington, D.C. 20523-0024

**Pat Isman**  
Agency for International Development  
S&T/RD, IDM, Room 606, SA-18  
Washington, D.C. 20523-1814

**John P. Competello, Assistant Inspector**  
General for Audit  
Agency for International Development  
Room 5644 NS  
Washington, D.C. 20523-0060

**Guillermo Fuentes, Officer**  
Inter-American Development Bank  
Technical Cooperation Division 2  
1300 New York Ave. N.W.  
Washington, D.C. 20577

**Ademar Toro, Auditor**  
Inter-American Development Bank  
Office of the Auditor General  
1300 New York Ave. N.W.  
Washington, D.C. 20577

**Rafael da Fonseca, Sr. Officer**  
Inter-American Development Bank  
Technical Cooperation Division 1  
1300 New York Ave. N.W.  
Washington, D.C. 20577

**Alfonso Parra, Auditor**  
Inter-American Development Bank  
PRA/PSF  
1300 New York Ave. N.W.  
Washington, D.C. 20577

**Luis A. Prieto**  
Inter-American Development Bank  
1300 New York Ave. N.W.  
Washington, D.C. 20577

**Luisa Rains, Fiscal Economist**  
Inter-American Development Bank  
1300 New York Ave. N.W.  
Washington, D.C. 20577

**Mario Cortes**  
Inter-American Development Bank  
1300 New York Ave. N.W.  
Washington, D.C. 20577

**William Taylor, Auditor General**  
Inter-American Development Bank  
1300 New York Ave. N.W.  
Washington, D.C. 20577

**Angel Boccia, Senior Economist**  
Organization of American States  
Development Finance Division  
1889 F Street N.W., Room 200 Q  
Washington, D.C. 20006

**Patricio E. Chellew, Director**  
Department of Economic and Social Affairs  
Organization of American States  
1889 F Street N.W.  
Washington, D.C. 20006

**Luis Danin Lobo**  
Organization of American States  
1889 F Street N.W.  
Washington, D.C. 20006

**Ricardo Murua**  
Organization of American States  
1889 F Street N.W.  
Washington, D.C. 20006

**Luis Illanes**  
Organization of American States  
1889 F Street N.W.  
Washington, D.C. 20006

**Alvaro Lopez Cayzedo**  
Organization of American States  
1889 F Street N.W. Room 320-D  
Washington, D.C. 20006

**Mr. Abu T.R. Rahman, Chief**  
Department of Technical Cooperation  
for Development- DC 1-966  
United Nations  
New York, NY 10017

**Vivian Monteith, Technical Adviser,**  
Mgmt. Branch, Development Admin. Div.  
Dept. of Technical Cooperation  
for Development - room DC 1-954  
United Nations  
New York, N.Y. 10017

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**Clay Wescott**  
United Nations  
Development Programme  
One United Nations Plaza  
New York, N.Y. 10017

**Nestor Arias, Area Officer**  
Regional Bureau for Latin America  
and the Caribe  
Division II - Room DC 1-2288  
UNDP, 1 United Nations Plaza  
New York, NY 10017

**Peter Nicholas Dean, Inter-Regional Advisor**  
Department of Technical Cooperation for  
Development  
1 United Nations Plaza, Room 948  
New York, NY 10017

**Alka Misra**  
Public Sector Management Division  
The World Bank, room I-4165  
Washington, D.C. 20433

**Kathryn Baer, Consultant**  
Country Operations  
The World Bank  
4421 Q Street N.W.  
Washington, D.C. 20007

**A. Premchand**  
Assistant Director  
International Monetary Fund  
700 - 19th Street N.W.  
Washington, D.C. 20431

**Yvan Gaudette, Executive Vice President**  
INTOSAI - Development Initiative  
240 Sparks Street, 11th floor West  
Ottawa, Ontario, K1A0G6  
CANADA

**Jose Cruz-Osorio**  
United Nations  
Development Programme  
One United Nations Plaza  
New York, N.Y. 10017

**Ms. Jacqueline Hartvelt, Area Officer**  
Regional Bureau for Latin America and  
the Caribe, Division II - room 403  
UNDP - Uganda House  
336 E 45th Street  
New York, NY 10017

**Donald Winkler, Sr. Fiscal Economist**  
Public Sector Mgmt. Division  
Latin America and the Caribbean  
The World Bank  
1850 I Street, N.W., Room I-4165  
Washington, D.C. 20433

**Jaime Vasquez Caro**  
The World Bank  
1850 I Street N.W., room I-4161  
Washington, D.C. 20433

**Lee Weaver Richardson**  
U.S. General Accounting Office  
Office of International Audit  
Organizational Liaison  
441 G Street N.W.  
Washington, D.C. 20548

**Ernesto Perez**  
Fiscal Affairs Department  
International Monetary Fund  
700 - 19th Street N.W.  
Washington, D.C. 20431

**Richard Gagne, Director of Programs**  
INTOSAI - Development Initiative  
240 Sparks Street, 11th floor West  
Ottawa, Ontario, K1A0G6  
CANADA

**Venecia Rojas Kenah**  
/OLACEF  
240 Sparks Street, 11 floor West  
Ottawa, Ontario, K1A0G6  
CANADA

**Diane Rawl**  
U.S. General Accounting Office  
Office of International Audit  
Organizational Liaison  
441 G St. N.W.  
Washington, D.C. 20548

**Linda Weeks**  
U.S. General Accounting Office  
Office of International Audit  
Organizational Liaison  
441 G St. N.W.- Room 7806  
Washington, D.C. 20548

**Tom Brogan, Assistant Director**  
U.S. General Accounting Office  
Office of International Audit  
Organizational Liaison  
441 G St. N.W.  
Washington, D.C. 20548

**John Wood, Director Americas Branch**  
Canadian International Development Agency  
200 Promenade du Portage  
Hull, Quebec K1A 0G4  
CANADA

**Dr. Rheinhold Basse**  
Public Administration Promotion Centre of the  
German Foundation  
for International Development  
Rauchstrasse #25  
D-1000 Berlin 30, FEDERAL REP. OF GERMANY

**Mr. Agustin Santos**  
Instituto de Cooperacion Iberoamericana  
Embassy of Spain  
2700 15th Street N.W.  
Washington, D.C. 20009

**Peter Aliferis**  
U.S. General Accounting Office  
Office of International Audit  
Organizational Liaison  
441 G St. N.W.  
Washington, D.C. 20548

**Joan Slowitsky**  
U.S. General Accounting Office  
Office of International Audit  
Organizational Liaison  
441 G St. N.W.  
Washington, D.C. 20548

**Donald Drach, Deputy Director**  
U.S. General Accounting Office  
Office of International Audit  
Organizational Liaison  
441 G St. N.W.- Room 7806  
Washington, D.C. 20548

**John M. Robinson, Vice President**  
Americas Branch  
Canadian International Development Agency 200  
Promenade du Portage  
Hull, Quebec K1A 0G4  
CANADA

**Dr. Joachim Krell, Director**  
Public Administration Promotion Centre of the  
German Foundation  
for International Development  
Rauchstrasse #25  
D-1000 Berlin 30, FEDERAL REP. OF GERMANY

**Mr. Hideki Abe**  
Japanese Agency for International  
Cooperation (JICA)  
2020 K Street N.W., Suite 435  
Washington, D.C. 20006

**Ana Mendez**  
Spanish Mission to the United Nations  
809 United Nations Plaza  
New York, NY 10017

**Dra. Vilena Fuster**  
**Spanish Mission to the United Nations**  
**809 United Nations Plaza**  
**New York, NY 10017**

+

Reges, PW

Paul Lohner, PW

John - 10/16

**SIXTH MEETING OF THE LAC REGION DONOR WORKING GROUP ON  
IMPROVING FINANCIAL MANAGEMENT**

**List of Participants**

International Monetary Fund

A. Premchand

Klaus Stein

Agency for International Development (A.I.D.)

John Competello

William Schoux

James P. Wesberry, Jr.

Robert Rabatsky

U.S. General Accounting Office (GAO)

Peter Aliferis

Venecia Kenah - IDI/OLACEF

Diane Rawl

Joan Slowitsky

Linda Weeks

Inter American Development Bank (IDB)

Sixto Aquino

Japan International Cooperation Agency (JICA)

Hideki Abe

Organization of American States (OAS)

Luis Danin Lobo

United Nations Development Programme (UNDP)

Jose Cruz-Osorio

Clay Wescott

World Bank

Alka Misra

Alain Tobelin

Don Winkler

Price Waterhouse

Paul Lohneis

Regis Cunningham

Lynnette Asselin

John Zemko

Caryl García

## SUMMARY OF THE SEVENTH MEETING OF THE LAC REGION

### DONOR WORKING GROUP ON

### IMPROVING FINANCIAL MANAGEMENT

APRIL 18, 1991

The Seventh Donor Working Group Meeting was hosted by the Inter-American Development Bank at its headquarters in Washington D.C. In addition to the Inter-American Development Bank (IDB), donor organizations represented were the International Monetary Fund (IMF), the Organization of American States (OAS), the Agency for International Development (AID), the United Nations Department of Technical Co-operation for Development (UNDTCD), the United Nations Development Programme (UNDP), the World Bank (WB), and the Japan International Cooperation Agency (JICA).

The meeting was opened at 9:10 a.m. by **Mr. Enrique Iglesias, President of the IDB**. Mr. Iglesias welcomed the participants to the seventh meeting. He expressed his views on the timeliness and appropriateness of the donor agencies convening to discuss the efforts by international agencies to assist the Latin American governments in restructuring the public service. Latin American public service must improve in parallel with improvements in the private sector. The private sector can only deliver if the government works; i.e. the public sector must produce the expected goods and services that will support privatization and the private sector. The atmosphere is conducive for Latin American social and economic development. People have discovered that good management is essential. Mr. Iglesias point out the IDB's record in the area of tax and custom administration with projects in 12 countries. He also strongly supported the role of coordination among donor agencies in providing assistance for the integral reform of the public sector in Latin America. The UNDP now has a permanent representative at the IDB to assist in coordination. Mr. Iglesias closed his remarks reiterating his welcome and support for the consultative meetings and the IDB's deep conviction that the donor agencies can help.

**Mr. Sixto Aquino, IDB**, then welcomed the group and introduced the theme of the meeting, "Constraints Encountered in the Improvement of Government Financial Management in the Latin American and Caribbean Region."

Mr. Aquino introduced **Mr. Luis Carlos Danin-Lobo**, of the OAS to make the first presentation.

Mr. Lobo presented an outline of the work done in public administration training by the OAS since 1950. The most important lesson the OAS has learned is that professionalization will be necessary to transform public sector management.

The Public Administration Unit of the OAS, since the beginning of its activities in 1960, provided assistance to administrative reform programs which included the organization or strengthening of public administration centers, schools, and training institutes. The first two interventions were in Ecuador and Bolivia. A massive training program was undertaken during the Ecuador Reform Effort of 1962. Technical support was provided by the University of Pittsburgh, the UN and the OAS. Further supporting the idea of professionalization, the Association of Ecuadorian Government Employees was formed. Although a short time later a new government tried to come in and make changes, the employees association and the Civil Service Law prohibited complete reorganization. This law and organization still functions in Ecuador today.

The second country in which the Public Administration Unit directly participated was Bolivia. The OAS and AID helped to establish the Superior Institute of Public Administration. The Institute, during its first years, was essentially a training institute for lower and intermediate government employees. The greatest emphasis was on financial management and accounting.

The Public Administration Unit strengthened its regional activities in 1965 with the creation of the Inter-American Public Administration Training Center (CICAP) in Buenos Aires, Argentina. Because of the high demand for this type of center, a second was created in Caracas, Venezuela in 1968. Both centers were established by agreement between the OAS and the government of the member countries. Initially both centers were dedicated to the preparation and training of government employees. Later they provided technical assistance programs and investigation.

In Venezuela, the United Nations had supported the establishment of the National School for Public Administration (ENAP) in 1962 whose principal objective was the preparation of junior administrative analysts at the high school level, as well as intermediate supervisory and technical personnel through intensive training courses. Later, with CICAP-Caracas support, a graduate level program was introduced and designed to prepare Venezuelan officials with various university level backgrounds, to carry out the administrative reforms in Venezuela. In 1977 ENAP was incorporated into a new School of Public Administration and Finance (ENAHP) and CICAP-Caracas continued to operate until the completion of its agreement which started in 1968.

In the 1970's the OAS priority became focused more on public finance, in particular budgeting and public expenditures. The Economic Commission for Latin America, the Inter-American Development Bank and the World Bank were also working in this area. It was during this period that the Inter-American Association of Public Budgeting was created, which later became the Inter-American and Iberian Association of Public Budget. It was during the 1970's that the Latin American Center for Development

Administration was created in Caracas, Venezuela. Its role was to study and evaluate the administrative reforms carried out during the first part of the decade, in particular in Venezuela, Mexico and Brazil.

In 1977, the OAS was invited to participate at the Iberian-American and Caribbean Meeting of Training Institutions sponsored by the Economic Development Institute (EDI) of the World Bank. The purpose of the seminar was to discuss the role of training based on the experiences of the participating institutions, look for institutional answers for the demands and needs of training, analyze structures and contents of training programs, identify the objectives in the various programs, and based on the interchange of experiences, verify the principle problems, establish methods to realize efficiency and utility of the programs and stimulate cooperation among training institutions for better achievement of the objectives.

In the year of 1983, the World Bank introduced public sector management as a major aspect of its concern for achieving structural adjustments in developing countries, and EDI is actively supporting today, formation and training centers in several continents. Furthermore, regional integration became an important priority for the Inter-American System member-states and as such is providing additional support on behalf of public sector professionalization and improvement. There is no doubt that the 40 years of external bilateral and multilateral cooperation have produced a strong contingent of professionals better trained in the areas of administration, economics and public finances. Diplomacy has also been recognized as an important component, and today there exist at least 12 Latin American Diplomatic institutions. Although there is the argument that a large part of the professionals trained in administration, economics and finance have left the public sector for the private sector, it can also be argued that if the private sector must be included in the modern development process - if privatization must occur - it is better that it includes personnel with experience in public sector. It remains, however, the need to achieve more coordination within public sector major components, as well as between the public and private sectors, and that effort, in itself, will require much further professionalization, and institution building of a more integrated nature.

## **DISCUSSION**

The first point made identified many government's general lack of capacity to absorb and use efficiently the highly qualified work force because of politicized administrations. Although there is talk of involving the private sector more in government, this does not contribute to real professional careers in the government.

It was recognized that there is room for both university training and for internal government on-the-job training. Each has its own identity and a role to play. Professionalization cannot be done quickly; it must be a steady process over time. Academic education should include training by highly qualified top level officials who have working experience. Furthermore, training needs to cover multiple disciplines.

Two constraints were identified: professionalization and institutional strengthening. Although, in Latin America there does not appear to be a shortage of trained professionals, government financial management has not improved. Solutions suggested included:

- o Professionalization linked to career systems
- o Consistent integration of approaches in the areas of public and private sector
- o Increased productivity through measurable expectations within both areas

**Mr. Clay Wescott** of the **UNDP** gave a presentation on the various approaches used by the UNDP in financial management improvement projects.

The UNDP promotes two approaches to development: 1) **The Management Development Program**, and 2) **The National Technical Cooperation Assessment**.

**A. The Management Development Program** has three key approaches:

- o **The Strategic Management Approach** which is based on the government's priorities and needs assessments. This approach helps a government define its broad goals, clearly communicate these goals to involved parties and then design and carry out the strategy for achieving the goals. Managers are held accountable as to where and how actions taken contribute to the long-term targets of the government.
- o **The Process Approach** is used when external experts work jointly with the host governments to identify the problem and to define the program. The approach has been identified as at times having cultural problems since external agencies have pre-established biases.
- o **The Comprehensive Approach** espouses the idea that reforms must be packaged in large programs. Change is a systems problem. This approach results in a loss of smaller reform items, but this is counteracted by other gains.

**B. The National Technical Cooperative Assessment**

- o This approach was developed in Africa and is now being used in Latin America for financial management reforms. The idea behind this approach is that for technical assistance to be useful, it should be tied into the human resource strategy of the country, i.e. define development priorities and identify the gaps in skills necessary to meet the priorities. Once skill gaps are identified, technical assistance can be used to help develop the human resources needed to meet the priorities and address the problems.

A current example of the Management Development Program's comprehensive approach is being undertaken in Ecuador. As part of a larger project, a decentralized budgeting system is being set up, the contracting system streamlined and the Treasury's capability to manage the budget strengthened.

**Mr. Hideki Abe** of JICA stated that the Japanese government does not have a financial management program in effect at this time. They have extended technical assistance to countries in Africa and Asia in computerization and government EDP auditing. They are working with the Economic Development Institute of the World Bank to establish a financial management, auditing and accounting program.

**Mr. Alain Tobelem** of the World Bank informed the meeting on the status of the preparation of the Bolivia Second Financial Management Operation. The proposed project was phased so as to ensure financing for key initial steps in program-based budgeting, cash and debt management, auditing and government control, standards and norms, and training to sustain the proposed reforms. Total cost is now US\$22.3 million of which US\$11.3 million would be provided by the Bank and the remaining US\$11.0 million from counterpart funds generated from USAID's Economic Support Fund. A third phase could be assisted by IDB or the World Bank itself as soon as achievements require it.

Mr. Tobelem also informed the group on the new developments in the World Bank for developing accountability for results. Project designs increasingly include measurable performance indicators against which progress is assessed periodically. Besides annual operating plans (POA is the Spanish acronym) allow for review of performance (using the already mentioned performance indicators) which must be satisfactory before the following POA can be approved. Such covenants are now systematically included in the conditionality attached to operations among others aimed at ensuring government commitment to reform.

**Mr. A. Premchand** of the IMF began his statement highlighting two constraints to effective technical assistance in the area of financial management with which the IMF has had experience. As background, the IMF defines financial management as everything except auditing. He explained that the IMF usually is asked by a country to carry out an assessment and make recommendations for improvement. Technical assistance generally has very little conditionality and is provided through one person assigned to the

government. This has at times, posed a constraint to successful implementation because of a person's lack of inter-personnel skills in the host country.

Secondly, since the IMF is generally requested to look at only a specific area or specific problem, the approach ignores the overall environment of financial management. Since problems do not exist in isolation, this can limit the effectiveness of the technical assistance.

The IMF does not have a specific framework for technical assistance. The IMF is generally requested to approach a specific problem with some degree of urgency. However, since the IMF only operates with single macroeconomic loans, they are generally for structural adjustments.

#### The issues of assistance within a country

There are often too many donor agencies in a country and they are often working at cross purposes. Attention should be paid to the coordination of assistance within a country and clarity by the host government of what it wants to do and how it wants to do it. Many projects are actually carried out for the donor agency rather than for the host country. The awareness of the importance of financial management is limited. Often political commitment only comes when there is public outcries. Political commitment usually is a notion, not reality. Despite the assistance that has been funneled to the LAC region, results have not been forthcoming.

Another constraint has been identified in the area of where the assistance is centered. The IMF has found that unless the Ministry of Finance is involved in taking the initiative to improve financial management and the spending agencies accept the initiative, there is little chance of project success. This is exaggerated by the common political "musical chairs" syndrome in Latin America. There needs to be greater stability in the staff operating ministries and agencies for a significant transfer of technology to take place.

**Mr. Abu Rahman** of the **United Nations Department of Technical Co-operation for Development** agreed with the constraints identified by Mr. Premchand. However, the experience of UNDTCD has been that the Ministry of Finance is among the oldest government activities and therefore often resistant to changes. Finance likes predictability, not uncertainty associated with change. The UNDTCD has worked for years in this area but the result has been mixed.

Mr. Rahman also identified the issue of donor agency coordination, particularly in accountability requirements. He stated that this issue came forward out of experiences during the 1980s. Each agency has its own agenda and all of this puts a burden on the host government to meet each agency's requirements. In recognition of this constraint, the UN organized a meeting in Vienna in September 1990 and another in Paris in April 1991. The last meeting was to bring the donors together to review the issue of

harmonization of accountability requirements and to form a working group for this purpose.

The UNDTCD is also interested in carrying out a capacity building initiative because the question of trained staff is so important. They support national and regional training institutions which will develop modern concepts and train trainers. Most of the focus is in Africa at this time.

Computerization and standardization of software in the accounting is another area of interest. UNDTCD is helping the Controller General in Peru in computer auditing.

**Mr. Jim Wesberry** of AID introduced two observers who are in the process of evaluating the A.I.D. LAC Regional Financial Management Improvement Project. Mr. Wesberry asked that any suggestions for the second phase of the project be directed to the two evaluators.

Mr. Wesberry then identified a series of constraints to providing effective technical assistance by donor agencies when the assistance is geared towards improving government financial management in the LAC region.

- o Use of consultants who are not fluent in the native language of the host country or do not have professional experience working in the public sector.
- o Application of unproven, ad hoc ideas in projects. Proven ideas should be used.
- o Use of consultants on projects who have many years of experience but who are not familiar with modern techniques.
- o Isolated projects or single activities. Emphasis should be placed on integrated systems and coordination, not fragmentation.
- o A duplication of efforts by different agencies.
- o A lack of communication of goals in the face of the inevitable criticism of change.
- o Over-dependence on international consultants.
- o Multinational or multi-disciplinary task forces makes coordination extremely difficult. Teams need to be integrated.

- o Excessive emphasis on diagnostic studies instead of applying efforts to implement solutions; i.e. paperwork not action.
- o The over-planning of projects and programs. There tends to be an overemphasis on planning in developing countries. There should be more flexibility.
- o Over-reliance on home office review. More money is spent on planning when it should be spent on implementation.
- o Financial management projects fragmented within a country.
- o Short-term attempts to improve financial management. Short-term technical assistance does not result in long-term improvements.
- o Training programs should be linked to financial management reforms. Training should be a conditionality of agreements.
- o Technical assistance is often delivered too late to really be effective. This is caused by contracting bottlenecks in the donor agencies. Opportunities are missed because of this problem.
- o Programs often include extensive conditionality of legislative reform. This is not possible in democracies.
- o The use of university consultants who are too academically and theoretically oriented.
- o Project design done by persons who will not be implementing the project.
- o Contracts carried out locally without supervision by the donor agency.
- o Development of new decrees, legislation, manuals, documents, etc., without any testing of their effectiveness or applicability.
- o Institutional jealousy is sometimes aroused as a result of where the reform unit and staff is placed. There needs to be assigned a neutral structure to manage the process of change. All units which will be effected should be involved from the beginning.
- o Esoteric, overly sophisticated plans, procedures, and goals defined.

Over the past few months, A.I.D. has been developing a new strategy for how it can work with various governments in the region on achieving the common accountability

goals that we all have over the next decade. The proposed accountability strategy recommends and lends support for three interrelated areas of national activities:

- o The development of an Integrated Financial Management System in a country's national government and in each public agency under the direction of a national "Chief Financial Officer" charged with producing useful, timely and accurate annual and interim financial reports available to the public;
- o The creation or strengthening of a "legislative Auditor General" to perform independent professional audits of public activities according to generally accepted government auditing standards supported by internal audit units in all significant agencies; and
- o The establishment of a sound internal control environment and structure throughout the government, including emphasis on applying ethical principles in public service and seeking out, disclosing, persecuting, and punishing corruption, fraud, and "white collar" crime in the public sector.

**Mr. Sixto Aquino** of the IDB explained that much of the Bank's experience has been in the expenditure and revenue areas of financial management. They have carried out 40 operations in these areas. The following conditions have been found to be important features of successful projects:

- o Recognition that it is a long-term commitment.
- o Ensure that local institutional capacity exists and invest in the training and development of local resources.
- o The individual project should be part of a larger reform project.
- o Once the conditions are in place, the project or program must become part of the governments political agenda. Initiate the party in power and their potential successors as possible.
- o The projects should be sequenced in 2 - 2 1/2 year segments so that the successful of achievement of one objective will lay the groundwork for future improvements.
- o All projects should have clear goals and objectives which can be measured and are attainable.
- o The project design should be completed before any resources are approved.

- o Ensure that there is strong project supervision during implementation.

During the project design stage, the following factors are important:

- o Ensure strong bank staff or consultant involvement
- o Determine what type of implementation should be used
- o Maximize the use of local consultants
- o Define the local counterpart requirements
- o Bring in other sources of financing

Supervision of projects should have a very hands-on orientation. The following factors should be considered:

- o The local supervisory capacity; i.e. ability to supervise on the bank's behalf.
- o On the basis of interim reports, perform yearly performance reviews to insure that the project is being carried out and the government is fulfilling its commitments, implementing appropriate systems, and that the training being provided is being used.

It is also important to keep up with the political problems and changes within the government in order to minimize the impact these changes may have on project implementation.

During the review process the IDB tries to keep in touch with the World Bank and the IMF, especially when restructuring programs are involved.

Two areas which can compromise the success of a project are:

- o Lack of civil service reform
- o Public sector compensation

## **DISCUSSION**

The first topic of discussion was government employee incentives. It has been found that some agencies support incentive payments since progress can not be made without an incentive system in place. The problem comes more in trying to get the donors to coordinate their policies of incentives. Each agency is paying different rates and this leads to a lack of transparency. Civil service reforms take a long time. Another participant disagreed with this view because felt it is very difficult to combat without

getting into trouble. The lack of employees incentives and low compensation contribute to the problem of retention of trained employees. The low level of salaries also support corruption.

On conditionality, the UNDP usually opposes it, however, they are often reliant on the conditionality imposed by the IMF and the World Bank. However, they have imposed conditionality to ensure stability of a project.

The constraint of the lack of human resource stability within governments is one of the most serious in the LAC region. Several ideas were exchanged on the use of "awards" to acknowledge successful projects in the region. Although the donor agencies have not done this previously, because of political implications, several in the group felt the idea had merit. The idea could be addressed at some of the upcoming conferences in the region this year.

The theme of lessons learned from the management of successful reform programs was suggested for a future meeting. It was felt that it was very important to look at where something has been tried and why it was successful.

"Quality Control requirements of audits of international assistance in the LAC region" will be the theme of the next meeting to be held June 6, 1991. Mr. Jim Wesberry and Mr. John Competello would work together on the agenda.

It was tentatively decided that the September 19th meeting would be devoted to a discussion of the A.I.D. LAC regional strategy to improve financial management.

No topic was selected for the meeting scheduled to be held December 5, 1991.

The meeting adjourned at 1:00 p.m.

May 20, 1991

The Eighth LAC Region Donor Working Group Meeting on Improving Financial Management will be held on June 6, 1991. A.I.D. will host this meeting. The address is the Department of State, 23rd and C Streets N.W., Washington D.C.

As previously decided, the theme for this meeting will be the Quality Control Requirements of Audits of International Assistance in the LAC Region.

Because of the theme, we would appreciate your efforts in extending an invitation to this meeting to those persons in your agency who deal with quality control, internal and external audit and related contracting and policies.

We have included an extra invitation for you to pass along. Please feel free to extend verbal invitations as well. However, because of current security regulations at the State Department, we will need a list of all participants as soon as possible.

Please call me at (202) 296-0800 or FAX (202) 296-8871 to confirm before June 3, 1991.

Thank you.

Very truly yours,

Lynnette M. Asselin  
LAC RFMIP

**EIGHTH LAC REGION DONOR WORKING GROUP MEETING  
ON IMPROVING FINANCIAL MANAGEMENT**

**JUNE 6, 1991**

**AGENDA**

**HOSTED BY AGENCY FOR INTERNATIONAL DEVELOPMENT  
DEPARTMENT OF STATE  
WASHINGTON D.C.**

**8:45** Participants should arrive at the C Street Entrance of the State Department. Security will have a list of participants. Participants should go the pre-clearance receptionist at the entrance. All participants should have an identification with photo.

**9:00** Meeting Called to Order  
Opening Remarks

**9:45** Opening statements by each agency on "Quality Control Requirements of Audits of International Assistance" in the LAC region.

After a statement by each agency represented, discussion will center on those points which the group wants to pursue. Mr. Jim Wesberry will serve as the moderator of the discussion. A list of the points to be considered during the discussion is attached.

Please bring 30 copies of any audit quality control specifications, procedures or requirements to give other participants.

**1:00** Announcements and decision on the subject and site of the September meeting.

Adjourn

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**QUALITY CONTROL REQUIREMENTS OF AUDITS OF  
INTERNATIONAL ASSISTANCE  
IN THE LAC REGION**

As discussed at the last two meetings, the theme of this meeting is to be quality control requirements of audits of international assistance in the LAC region including problems faced and potential solutions. In order to provide a framework for the discussion, the following points have been recommended to be addressed. The points listed below are not all encompassing and we encourage participants to bring forward any further issues or constraints which they feel should be addressed.

**I. The Audit Process**

- A. Types of audits where independent public accountants (IPA) or government auditors (GA) are utilized
- B. Scope of audits performed
- C. Types of guidance provided to the IPA or GA
- D. Selection and contracting procedures and methods
- E. Relationship during execution of the audit and report preparation
- F. Evaluation and control of quality of audit work and reports
- G. Corrective action and reporting of substandard audit work
- H. Impact of auditing requirements by international agencies on developing countries

**II. Common Problems Found with Audit Work**

- A. IPA
- B. GA

**III. Actions to Solve Problems Involving Poor Audit Quality**

- A. Actions by the organization's audit group
- B. Actions involving technical assistance and/or training to improve audit quality
- C. Possible collective actions by working group member organizations

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William Schoux  
LAC Democratic Initiatives  
Agency for International Development  
Room 3253 NS  
Washington, D.C. 20523-0024

Robert Asselin  
Director, Central America  
Latin American and Caribbean Bureau  
Room 5258 NS  
Agency for International Development  
Washington, D.C. 20523-0024

Carole H. Tyson  
Director, Latin American and Caribbean Bureau  
Agency for International Development  
Room 3242 NS  
Washington, D.C. 20523-0024

Phil Amos, Deputy Controller  
Agency for International Development  
PFM/FM/FPD, Room 803 SA-2  
Washington, D.C. 20523

Kenneth Kornher, Chief  
Agency for International Development  
Development & Management Division  
S&T/RD, Room 606, SA-18  
Washington, D.C. 20523

James P. Wesberry Jr.  
Senior Financial Management Advisor  
Agency for International Development  
Bureau for Latin America and the Caribbean  
LAC/CONT, room 3253 NS  
Washington, D.C. 20523-0024

Norma Parker  
Director, South America and Mexico  
Latin American and Caribbean Bureau  
Agency for International Development  
Washington, D.C. 20523-0024

Maria Mamlouk, Deputy Director  
Office of Democratic Initiatives  
Room 3253 NS  
Agency for International Development  
Washington, D.C. 20523-0024

Pat Isman  
Agency for International Development  
S&T/RD, IDM, Room 606, SA-18  
Washington, D.C. 20523-1814

John P. Competello, Assistant Inspector  
General for Audit  
Agency for International Development  
Room 5644 NS  
Washington, D.C. 20523-0060

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to Aquino, Chief  
Regional Technical Cooperation Division  
Inter-American Development Bank  
1300 New York, Ave. N.W. - Room NE-634  
Washington, D.C. 20577

Guillermo Fuentes, Officer  
Inter-American Development Bank  
Technical Cooperation Division 2  
1300 New York Ave. N.W.  
Washington, D.C. 20577

Jorge Liacuris, Auditor  
Inter-American Development Bank  
Office of the Auditor General  
1300 New York Ave. N.W.  
Washington, D.C. 20577

Ademar Toro, Auditor  
Inter-American Development Bank  
Office of the Auditor General  
1300 New York Ave. N.W.  
Washington, D.C. 20577

Arnaldo da Fonseca, Sr. Officer  
Inter-American Development Bank  
Technical Cooperation Division 1  
1300 New York Ave. N.W.  
Washington, D.C. 20577

Alfonso Parra, Auditor  
Inter-American Development Bank  
PRA/PSF  
1300 New York Ave. N.W.  
Washington, D.C. 20577

Luis A. Prieto  
Inter-American Development Bank  
1300 New York Ave. N.W.  
Washington, D.C. 20577

Luisa Rains, Fiscal Economist  
Inter-American Development Bank  
1300 New York Ave. N.W.  
Washington, D.C. 20577

Mario Cortes  
Inter-American Development Bank  
1300 New York Ave. N.W.  
Washington, D.C. 20577

William Taylor, Auditor General  
Inter-American Development Bank  
1300 New York Ave. N.W.  
Washington, D.C. 20577

gel Boccia, Senior Economist  
Organization of American States  
Development Finance Division  
1889 F Street N.W., Room 200 Q  
Washington, D.C. 20006

Patricio E. Chellew, Director  
Department of Economic and Social Affairs  
Organization of American States  
1889 F Street N.W.  
Washington, D.C. 20006

Luis Danin Lobo  
Organization of American States  
1889 F Street N.W.  
Washington, D.C. 20006

Nelson Mello de Souza  
Inspector General  
Organization of American States  
1889 F Street N.W.  
Washington, D.C. 20006

Ricardo Murua  
Organization of American States  
1889 F Street N.W.  
Washington, D.C. 20006

Luis Illanes  
Organization of American States  
1889 F Street N.W.  
Washington, D.C. 20006

Alvaro Lopez Cayzedo  
Organization of American States  
1889 F Street N.W. Room 320-D  
Washington, D.C. 20006

Mr. Abu T.R. Rahman, Chief  
Department of Technical Cooperation  
for Development- DC 1-966  
United Nations  
New York, NY 10017

Vivian Monteith, Technical Adviser,  
Mgmt. Branch, Development Admin. Div.  
Dept. of Technical Cooperation  
for Development - room DC 1-954  
United Nations  
New York, N.Y. 10017

Clay Wescott  
United Nations  
Development Programme  
Daily News Bldg.  
220 East 42nd. Street  
New York, N.Y. 10017

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e Cruz-Osorio  
United Nations  
Development Programme  
Daily News Bldg.  
220 East 42nd. Street  
New York, N.Y. 10017

Nestor Arias, Area Officer  
Regional Bureau for Latin America  
and the Caribe  
Division II - Room DC 1-2288  
UNDP, 1 United Nations Plaza  
New York, NY 10017

Ms. Jacqueline Hartvelt, Area Officer  
Regional Bureau for Latin America and  
the Caribe, Division II - room 403  
UNDP - Uganda House  
336 E 45th Street  
New York, NY 10017

Peter Nicholas Dean, Inter-Regional Advisor  
Department of Technical Cooperation for  
Development  
1 United Nations Plaza, Room 948  
New York, NY 10017

Donald Winkler, Sr. Fiscal Economist  
Public Sector Mgmt. Division  
Latin America and the Caribbean  
The World Bank  
1850 I Street, N.W., Room I-4165  
Washington, D.C. 20433

Alka Misra  
Public Sector Management Division  
The World Bank,  
1850 I Street, N.W. room I-4165  
Washington, D.C. 20433

Jaime Vasquez Caro  
The World Bank  
1850 I Street N.W., room I-4161  
Washington, D.C. 20433

Alain Tobelem  
The World Bank  
Room I-4167  
1818 H Street N.W.  
Washington, D.C. 20433

Lee Weaver Richardson  
U.S. General Accounting Office  
Office of International Audit  
Organizational Liaison  
11 G Street N.W.  
Washington, D.C. 20548

A. Premchand  
Assistant Director  
International Monetary Fund  
700 - 19th Street N.W.  
Washington, D.C. 20431

Ernesto Perez  
International Affairs Department  
International Monetary Fund  
700 - 19th Street N.W.  
Washington, D.C. 20431

Yvan Gaudette, Executive Vice President  
INTOSAI - Development Initiative  
240 Sparks Street, 11th floor West  
Ottawa, Ontario, K1A0G6  
CANADA

Richard Gagne, Director of Programs  
INTOSAI - Development Initiative  
240 Sparks Street, 11th floor West  
Ottawa, Ontario, K1A0G6  
CANADA

Venecia Rojas Kenah  
IDI/ OLACEF  
240 Sparks Street, 11 floor West  
Ottawa, Ontario, K1A0G6  
CANADA

Peter Aliferis  
U.S. General Accounting Office  
Office of International Audit  
Organizational Liaison  
441 G St. N.W.  
Washington, D.C. 20548

Diane Rawl  
U.S. General Accounting Office  
Office of International Audit  
Organizational Liaison  
441 G St. N.W.  
Washington, D.C. 20548

Joan Slowitsky  
U.S. General Accounting Office  
Office of International Audit  
Organizational Liaison  
441 G St. N.W.  
Washington, D.C. 20548

Linda Weeks  
U.S. General Accounting Office  
Office of International Audit  
Organizational Liaison  
441 G St. N.W.- Room 7806  
Washington, D.C. 20548

Donald Drach, Deputy Director  
U.S. General Accounting Office  
Office of International Audit  
Organizational Liaison  
441 G St. N.W.- Room 7806  
Washington, D.C. 20548

Tom Brogan, Assistant Director  
U.S. General Accounting Office  
Office of International Audit  
Organizational Liaison  
441 G St. N.W.  
Washington, D.C. 20548

John M. Robinson, Vice President  
Americas Branch  
Canadian International Development Agency 200  
Promenade du Portage  
Hull, Quebec K1A 0G4  
CANADA

John Wood, Director Americas Branch  
Canadian International Development Agency  
200 Promenade du Portage  
Hull, Quebec K1A 0G4  
CANADA

Dr. Joachim Krell, Director  
Public Administration Promotion Centre of the  
German Foundation  
for International Development  
Rauchstrasse #25  
D-1000 Berlin 30, FEDERAL REP. OF  
GERMANY

Dr. Rheinhold Basse  
Public Administration Promotion Centre of the  
German Foundation  
for International Development  
Rauchstrasse #25  
D-1000 Berlin 30, FEDERAL REP. OF  
GERMANY

Mr. Hideki Abe  
Japanese Agency for International  
Cooperation (JICA)  
1-20 K Street N.W., Suite 435  
Washington, D.C. 20006

Mr. Agustin Santos  
Instituto de Cooperacion Iberoamericana  
Embassy of Spain  
2700 15th Street N.W.  
Washington, D.C. 20009

Ana Mendez  
Spanish Mission to the United Nations  
809 United Nations Plaza  
New York, NY 10017