

SUPPORTING TRANSPARENCY AND ACCOUNTABILITY IN LATIN AMERICA AND THE CARIBBEAN



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Governance



SUPPORTING TRANSPARENCY AND ACCOUNTABILITY IN LATIN AMERICA AND THE CARIBBEAN



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FOREWORD

In recent years there have been many high-profile corruption cases coming to light in Latin America. To many this is just bad news. After all, corruption diverts public resources that could be used to address many of the needs of the region. For example, corruption in public works increases the prices paid by governments, reducing resources for additional public works, which in turn lowers investment and negatively affects growth. And corruption in the delivery of public services limits the social programs that could be offered to the population, thereby negatively impacting poverty reduction. Corruption also creates a sense of unfairness and injustice, which is particularly corrosive for societies. Not surprisingly, we have seen examples of social outrage,

perhaps intensified by an economic situation characterized by low growth and subdued employment projections.

But, at the same time, it needs to be recognized that these cases also reflect a lower regional tolerance for corruption. They also reflect the commitment of many public officials, law enforcement officers, and judicial agents working hard to uncover these activities and, in the process, make the region more transparent. In my many trips over the years to the Latin American region I have heard so many times that what we are witnessing now would have been unthinkable just a few years ago. And this is good news because it means that things are changing for the better.

The World Bank wants to be part of these efforts and accompany countries fighting to improve governance and transparency. Building on our global experience and expertise, we can help improve enforcement, and change perceptions. In some cases, we support efforts to strengthen the ability of citizens to engage in public policy and denounce illegal activities. In others, we work with client countries to make governments smarter, more

transparent and accountable. And in others we help create incentives for increased integrity in the public sector.

This booklet highlights some of the World Bank initiatives in the region, which we consider good examples of what can be done to strengthen state capacity and increase citizens' trust in their government. We recognize that designing and implementing anti-corruption strategies requires change on many levels, and we are aware of our responsibility to offer support to build effective institutions able to offer quality services to citizens.

Jorge Familiar Calderon

Vice-President for Latin America and the Caribbean
World Bank





BANK SUPPORT FOR GOOD GOVERNANCE AND ANTI-CORRUPTION

Support for good governance, from public sector management to citizen engagement to confronting corruption, justice reforms and promoting the rule of law, continues to be a major focus of the World Bank Group's portfolio. From 2005 to the present, the Bank Group has supported over 400 projects to strengthen governance across sectors around the world. These include investments in infrastructure, social sectors, and core government systems, among others.

The Bank assists clients to combat corruption directly, as well as part of projects in other sectors, including supporting innovative uses of technology to deliver better services to citizens. The Bank

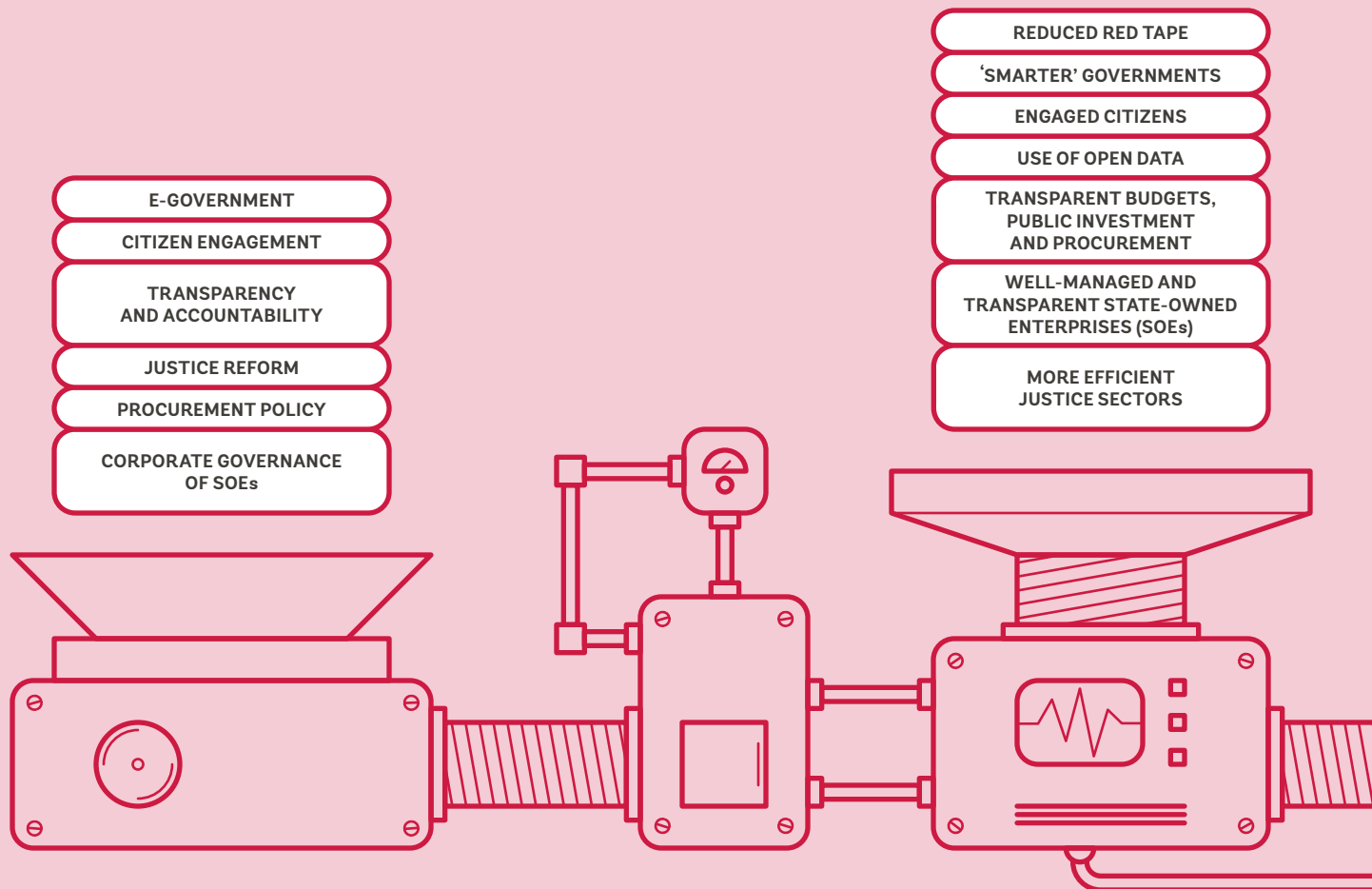
is currently partnering with clients to support conflict of interest prevention, whistleblower protections, financial disclosure systems, support to oversight functions, and judicial reform. The WBG also works with governments to advance public sector transparency and accountability through support for open data and open government initiatives, proactive data analytics, supreme audit institutions, anti-corruption agencies, global financial reporting and auditing standards, and improvements to corporate governance of state-owned enterprises (SOEs), to name but a few.

A growth area over the past decade has been digital governance, with improvements such as electronic civil registries and e-invoicing; dashboard platforms to strengthen monitoring and evaluation of public services, including at the sub-national level; electronic procurement systems and auctions; and contract management systems. We are also committed to supporting clients' use of technology to develop greater resilience in the public sector through interventions on government continuity and accountability in the face of natural disasters.

Corruption is a major challenge to the World Bank Group's twin goals of ending extreme poverty and boosting shared prosperity. Corruption has a negative impact on the poor and on economic growth:

- Business and individuals pay an estimated \$1.5 trillion in bribes each year. This is about 2% of global GDP – and 10 times the value of overseas development assistance.
- Empirical studies have consistently demonstrated that the poor pay the highest percentage of their income in bribes. For example, in Paraguay, the poor pay 12.6 percent of their income to bribes while high-income households pay 6.4 percent.
- Corruption discourages poor people from accessing health services and negatively impacts health outcomes, such as infant mortality.
- Data on international financial flows shows that money is moving from poor to wealthy countries in ways that fundamentally undermine development.

World Bank. 2017. Combating Corruption.
Washington, DC: World Bank Group. [http://
www.worldbank.org/en/topic/governance/
brief/anti-corruption](http://www.worldbank.org/en/topic/governance/brief/anti-corruption)



LESS SCOPE
FOR CLIENTELIST POLITICS

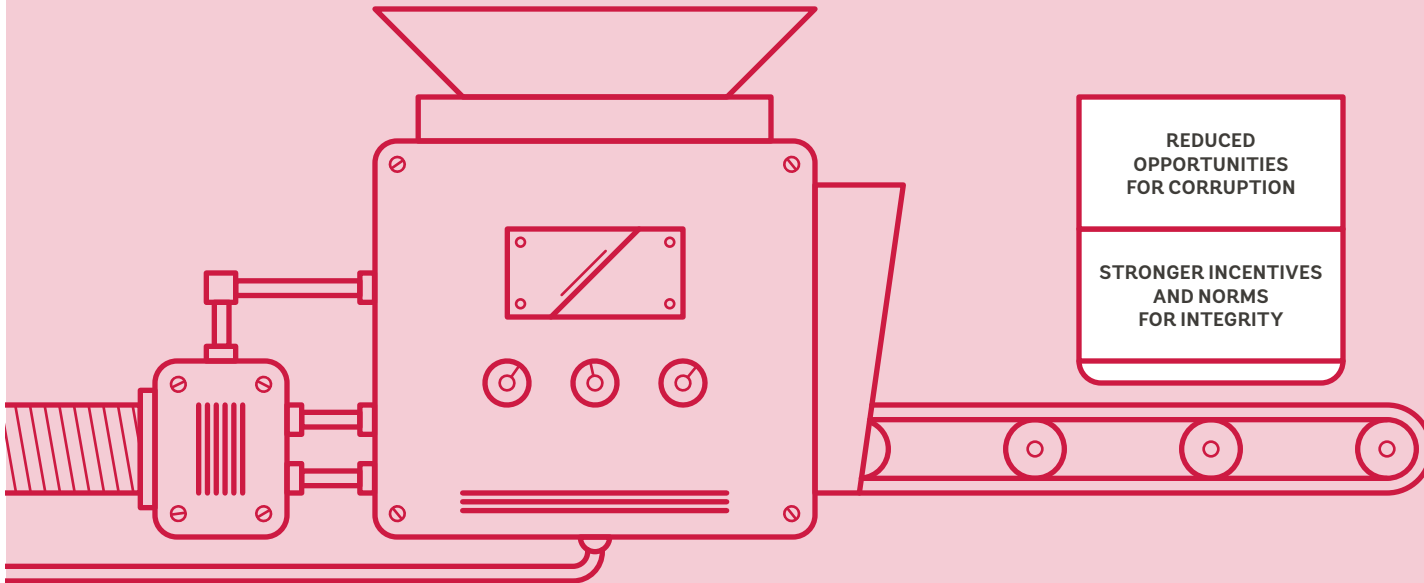
ARM'S-LENGTH RELATIONSHIP
BETWEEN GOVERNMENT,
BUSINESS AND CITIZENS
(STRONGER "RULE OF LAW")

DETERRENCE THROUGH
TRUSTED AND PREDICTABLE
ENFORCEMENT MECHANISMS

The Bank works with
a mix of policies and
practices to prevent and
detect corruption and
support enforcement and
accountability mechanisms

REDUCED
OPPORTUNITIES
FOR CORRUPTION

STRONGER INCENTIVES
AND NORMS
FOR INTEGRITY





CITIZEN ENGAGEMENT

Citizen feedback about public services has the potential to substantially improve the quality of service delivery. Timely feedback can help service providers improve their efficiency and effectiveness, inform them in real time of delivery delays or problems, and assist in uncovering instances of negligence, mismanagement, or even corruption.



Beneficiary Feedback and Data Analytics for Business Licensing in the State of Ceará, Brazil

CONTEXT

Environmental licensing has been a focus of debate for decades in Brazil. The main tension centers on how to make environmental licensing clearer and less bureaucratic, while at the same time making sure environmental protection and sustainability provisions are upheld. In Brazil, 90% of environmental licenses required to open a business fall under the responsibility of individual states. In the state of Ceará, the situation is far from optimal. Shortfalls highlighted by recent research include: excessively complex and cumbersome regulation; the involvement of too many agencies in the regulatory process; and the lack of transparency and predictability in the implementation of regulation. As a result, research shows that two-thirds (67%) of the clients of the state's environmental licensing agency, SEMACE, worry that their license application may be denied. Meanwhile,

more than six in 10 (62%) of SEMACE's clients report postponing important investment decisions until a license is granted.

THE PROJECT

This project pilots innovative approaches to reduce the inefficiency and uncertainty of licensing processes in the state of Ceará. It does so through a combination of proactive listening/ user feedback, performance monitoring, and case tracking. As a



first step, an institutional analysis of SEMACE was conducted. This drew on data analytics, surveys and semi-structured interviews to identify bottlenecks. Also identified were gaps and discretionary stages that could facilitate corruption. Following this initial analysis, a set of recommendations was presented with a view to streamlining the process, reducing subjective steps, and encouraging more consistent and replicable results. As a result, SEMACE introduced a client satisfaction survey, monthly data analytics, and a public interactive dashboard. These measures helped increase transparency and minimize uncertainties in the licensing process. SEMACE is now internalizing a real-time client satisfaction survey, while also initiating proactive communication with its clients via SMS and email. In partnership with a local start-up, randomly selected clients are receiving information about the licensing process at three different stages. At each stage, they are invited to evaluate the process via an automated cell phone call. Feedback is provided through electronic voice messages. SEMACE is also introducing a chatbot (virtual assistant) with the aim of further clarifying the licensing process with clients. The chatbot uses artificial intelligence to provide

clients with basic information and to answer frequently asked questions in an interactive fashion. In a similar vein, the health sector in Ceará is currently piloting a new survey technology called Interactive Voice Response, which collects data from respondents with the help of their mobile phones.

IMPLEMENTATION PARTNERS

World Bank, SEMACE (environmental licensing agency of the state of Ceará), and Mgov (Brazilian start-up). This project is a component of the Ceará Program for Results: <http://projects.worldbank.org/P127463?lang=exn>. For additional information contact: semace@semace.ce.gov.br.

Civic Tech in the Dominican Republic: The Cuido Mi Ciudad App

CONTEXT

Local governments in Dominican Republic, as in many other jurisdictions, lack actionable and relevant information required to improve service delivery. One common limitation is the lack of appropriate channels through which citizens can voice their concerns about issues affecting their communities. Even when such channels are available, citizens may be unaware how to communicate their concerns or how to make specific requests to their municipality. In many cases, local governments may also lack appropriate mechanisms for receiving and responding to citizens' requests. In the Dominican Republic, the World Bank is supporting an initiative by the Mayor's Office of Greater Santo Domingo to use social accountability tools for improving the monitoring and delivery of public services. Guiding aims of the initiative are to give greater voice to citizens and for the government to constructively engage with civil society in service provision.

civic technology approach. CMC puts citizens at the center of the city's urban governance by empowering them to proactively demand transparent and accountable services. Via the use of mobile platforms developed under the project, citizens are capable of monitoring and auditing the quality of municipal services on a real-time basis. Service delivery requests submitted through CMC are open to all users of the mobile platform. This allows users to see citizens' original service reports, as well as the Municipality's responses to reported problems. Citizens can report a wide variety of concerns to the Mayor's Office, ranging from unauthorized public works and uncollected garbage to the inappropriate use of public spaces. In its first month of operation, service requests received through CMC increased substantially compared to the volume of requests received during the preceding month. In addition, most of these service requests were resolved satisfactorily within a matter of days. CMC was developed through a project funded by the U.S. Agency for International Development, via the World Bank's Global Partnership for Social Accountability.

IMPLEMENTATION PARTNERS

Mayor's Office of Greater Santo Domingo (ADN for its acronym in Spanish), the U.S. Agency for International Development, the World Bank, mySociety (a UK-based social enterprise), and local civil society organizations. For additional information visit: www.cuidomiciudad.do.



The background of the slide features a close-up of a hand with its index finger pointing towards the right. The hand is positioned over a document that contains a pie chart. A semi-transparent fingerprint graphic is overlaid on the right side of the document. The entire image has a warm, orange-yellow color cast.

E-GOVERNMENT

E-government – by digitizing administrative processes and creating new channels for remote interaction, offers opportunities to increase public sector efficiency and service quality, to improve transparency and traceability, and to increase possibilities for citizen participation and improved access to services.

Modernizing Core Government Functions and Increasing Transparency in Argentina

CONTEXT

In Argentina, most public sector processes used to be paper-based. For this reason, they did not take advantage of widely available information and communication technologies (ICT) to improve the quality and accessibility of government services or to increase the transparency of the public administration. For example, the decentralized and incomplete nature of procurement data for the public sector undermined the government's capacity to propose evidence-based reforms or identify risks of corruption. Data on government processes and spending are key to enabling public accountability, yet these are not readily available. Meanwhile, channels for citizens and businesses to obtain information about government procedures tend to be complicated, time-consuming, and not user-friendly. The same problems affect those seeking to apply for public services or to provide feedback to government agencies. These shortfalls leave space for public



officials to exercise discretion and thereby create opportunities for corruption. The Anti-Corruption Office (known by its Spanish acronym as OAC) suffers from capacity constraints similar to those in many other Argentine government agencies. To fulfill its mandate of preventing and detecting conflicts of interest and illicit enrichment in the public sector, the OAC analyzes 1,500 asset declarations from high-level officials every year. The total number of declarations amounts to 45,000 declarations. Given its limited capacity and the absence of supporting tools, however, the OAC has to undertake this task manually.

THE PROJECT

The Modernization and Innovation for Better Public Services in Argentina Project was approved in 2017. Its aim is twofold: to improve the quality and accessibility of selected government administrative services for citizens, businesses and public officials; and to enhance the transparency of public administration. The project has a strong focus on citizen engagement and openness in government. To this end, it supports key interfaces for citizen engagement with the government through administrative channels such as the argentina.gob.ar

portal and open data platforms. The initiative is also promoting the introduction of an electronic document management platform. This feeds electronically generated documents into government workflow processes, thus assisting with the creation, circulation, registration and sharing of information between public entities. Another innovation supported through the project is the adoption of virtual services for administrative processes (*trámites a distancia*). These are expected to help reduce transaction costs, improve transparency and quality of the government services, and facilitate monitoring of service provision performance. The project has also seen the implementation of shared ICT services, a measure designed to improve the efficiency of public resources associated with infrastructure and to help meet software needs in government through ARSAT (the government owned telecommunications company). Among the project's highlights is the relaunching of argentina.gob.ar as a one-stop-shop for citizens looking to interact with the government. The online service promises to make it easier for citizens to access information on government processes and procedures, such as obtaining a national ID or

a driver's license, receiving pension benefits, or applying for financing (in the case of small and medium-sized enterprises). The project also envisions a digital citizen profile service, which will unify the information submitted online by citizens when accessing public services, thus avoiding unnecessary re-entry of data. The government's e-procurement system is also being upgraded and will be rolled out across purchasing units of the national public administration. In the OAC, management of the asset declaration system is being revamped through the creation of automated workflows and the adoption of business intelligence tools. This will allow for improved data analysis and risk assessment by the OAC.

IMPLEMENTATION PARTNERS

Ministry of Modernization, in coordination with the Ministry of Production, Anti-Corruption Office, and the Government of the Province of Buenos Aires. Information about the project is available at <http://projects.worldbank.org/P157136/?lang=en&tab=overview>.

**CORRUPTION IS
A MAJOR CHALLENGE
TO THE WORLD BANK
GROUP'S TWIN GOALS
OF ENDING EXTREME
POVERTY AND BOOSTING
SHARED PROSPERITY.**

Strategic Second and Third Generation E-Government Reforms in Uruguay

CONTEXT

Over the last decade, Uruguay has placed a strong emphasis on reducing the digital divide and improving service delivery using information and communication technologies (ICT). It has also made important advances in connectivity and in the introduction of e-government services. Today, citizens can initiate many administrative procedures online, while government entities are increasingly generating information in electronic formats. Despite this significant progress, however, government efforts to deliver e-government services are currently facing challenges on the supply side (i.e. the availability, quality, and accessibility of services) as well as on the demand side (i.e. low public use of such services). The government is keen to resolve these challenges so it can move to the next stage of digital transformation and make its institutions more capable, accountable, and collaborative. On the supply side, government entities have identified the need for second-generation reforms of existing online processes. These

reforms include further process simplification, more effective utilization of data, and the possible adoption of automation in back-office management. At present, for example, almost 4,000 taxpayers emit electronic invoices yet the government is not equipped to accept them from its providers. This means that paper invoices still need to be presented to state agencies. On the demand side, initial uptake of e-services has been low, with recent data showing that only around a quarter of citizens (27%) prefer to use the internet in order to learn about an administrative process.

THE PROJECT

The Improving Service Delivery to Citizens and Businesses Through e-Government Project came into effect in 2017 and aims to improve the quality of selected e-government services for citizens, businesses, and public entities, and to facilitate access to these services. The project brings together seven agencies with important roles in the area of e-government. This group comprises AGESIC (the e-government agency) ANII (the national research and innovation agency), CGN (the General Accounting Office), Centro Ceibal, DGI (the Directorate General of Taxation), the Ministry of Economy and Finance, and VUCE (the

International Trade Single Window). Together, these agencies have already undertaken a set of first-generation reforms aimed at making government institutions more effective by increasing the availability of e-government services for citizens, businesses, and other government entities. Now, they are looking to drive forward the next stage of the digital transformation through administrative process improvements, better management and interoperability, greater uptake of digital services by citizens, and related measures. Pro-accountability moves are already under way. AGESIC, for example, is working to promote effective citizen engagement through electronic means. By facilitating channels through which citizens' voices can be heard, the agency hopes to strengthen the environment for government accountability. With a similar goal in mind, DGI is helping expand the roll-out of electronic invoicing to small and medium businesses, while CGN is enabling public entities to accept electronic invoices from providers. VUCE, meanwhile, is enabling administrative processes linked to international trade to be carried out electronically, which will increase traceability and should therefore lead to the promotion of greater accountability. In general, the project's

activities are expected to play an important role in advancing the next stage of e-government reforms in Uruguay by providing a channel through which new and innovative approaches to e-government service delivery can be showcased. Hopefully, this will lead to the wider adoption of digital governance measures in Uruguay and further afield.

IMPLEMENTATION PARTNERS

Ministry of Economy and Finance, with the participation of AGESIC, ANII, CGN, Centro Ceibal, DGI, MEF, and VUCE. Information about the project is available at <http://projects.worldbank.org/P161989/?lang=en&tab=overview>.





TRANSPARENCY & ACCOUNTABILITY

Transparency ensures that information is available to measure government performance and to guard against any possible misuse of powers. Transparency serves to achieve accountability, so that officials can be held responsible for their actions.

Creating Networks in Latin America & the Caribbean: CReCER

CONTEXT

High-quality financial reporting and auditing are essential to strengthening governance and transparency in the use of public funds, not to mention in improving market access and economic competitiveness. This is of particular importance for Latin America and the Caribbean, where high-profile corruption scandals over the past several years have brought to the fore instances of poor governance. More positively, these scandals have exposed the role that enhanced governance measures can play in bringing to light such corruption. Brazil's drive to implement International Public Sector Accounting Standards, for example, has helped to make the government's financial statements more transparent. Reforms to the methodologies used for auditing these statements, meanwhile, has led to audit reports becoming more informative. Corruption has a corrosive effect on inclusive and sustainable growth, which in turn hampers the ability of governments to achieve the World Bank's



twin goals of eradicating extreme poverty and boosting shared prosperity. With this in mind, the WBG launched an Accounting and Accountability for Regional Economic Growth Initiative (*'Contabilidad y Responsabilidad para el Crecimiento Económico Regional'* in Spanish or, in short, CReCER) in 2007. This ongoing initiative has encompassed a series of regional conferences to date: Mexico (2007), El Salvador (2008), Brazil (2009), Panama (2010), Argentina (2011), Nicaragua (2012), Colombia (2013), Ecuador (2015), and Mexico (2017), and has also served as a catalyst for other networks in the region such as the Accountant's

General Forum (FOCAL by its name in Spanish – Foro de Contadores Gubernamentales de América Latina).

THE PROJECT

CRcER has two main objectives: to enhance awareness of the role that high-quality corporate financial reporting and auditing practices play in the creation of a well-functioning market economy and an efficient public sector; and to foster such practices in Latin America and the Caribbean by adopting international accounting and auditing standards. CRcER's knowledge events convene diverse stakeholders from the public and private sectors, as well as standard setters, civil society representatives, academics, and journalists, with the aim of advancing the transparency and accountability agenda. These regional conferences, which are jointly held with accounting and auditing firms in the host countries, result in widely circulated reports that synthesize the events' main findings. CRcER's south-south knowledge exchanges have been key to strengthening and professionalizing accounting and auditing practices throughout the region. This leads to greater oversight of government behavior, higher quality auditing, and greater

accessibility and standardization of government accounts for internal and external scrutiny. All these factors serve to promote financial stability as well as increase accountability and transparency. The 2017 CReCER conference, entitled ‘Promoting Trust for Sustainable Growth’, centered on the ways in which accounting and financial reporting in the private and public sectors can help foster trust in markets and society. This ensures greater transparency in government expenditure and drives sustainable development. The 2017 conference examined the extent to which lack of trust has contributed to some of the highest profile corruption cases in the region. In this vein, delegates also interrogated current efforts to address trust deficits in the private and public sectors. Also under discussion was the question of how global best practices could be leveraged in the future to tackle the region’s corruption problems.

IMPLEMENTATION PARTNERS

The World Bank, the Inter-American Development Bank, the International Federation of Accountants, and the Global Public Policy Committee, together with the support of local hosts and global accounting firms.

**FROM 2005
TO THE PRESENT,
THE BANK GROUP
HAS SUPPORTED OVER
400 PROJECTS
TO STRENGTHEN
GOVERNANCE
ACROSS SECTORS
AROUND THE WORLD.**

Enhancing Supreme Audit Institutions in the Caribbean: CAROSAI

CONTEXT

Prospects for economic growth and development in the Caribbean are severely affected by limited natural and financial resources, as well shocks related to natural disasters. In this constrained environment, the need for stronger accountability and for more efficient use of public resources is particularly relevant. Governments in the Caribbean have long struggled to design and efficiently implement public investment projects that directly contribute to the delivery of national development strategies. The implementation cycle of capital projects is supported by virtually every function of Public Financial Management (PFM) systems. Experience accumulated through the World Bank's engagements in the Caribbean sub-region, coupled with findings from various PFM-related assessments, point to two areas for improvement: external oversight and public procurement processes. In the Caribbean's Westminster-style parliamentary systems, legislatures are constitutionally required to scrutinize



government budgets and monitor their implementation. This function is carried out through Public Accounts Committees (PACs). However, constitutionally elected PAC members often lack the necessary technical background to effectively fulfill their functions. At the same time, Supreme Audit Institutions (SAIs) often lack the capacity to meet their mandate to carry out

specialized technical evaluations, such as value for money audits and procurement audits of capital projects. SAIs also struggle to produce credible reports that can be presented for further examination and action to PACs. In recent years, Caribbean governments have signaled a strong commitment to improve performance of their public investment programs and have requested technical assistance in this area through the Caribbean Organization of Supreme Audit Institutions (CAROSAI).

THE PROJECT

In 2017, the World Bank completed a three-year project with CAROSAI to improve the ability of its 23-member countries to effectively implement capital projects by enhancing external accountability, particularly in the areas of legislative oversight and public procurement. The project supported the development and dissemination of an audit manual for capital projects. It also saw the production of a parliamentary oversight reference guide designed to support the capacity of the PACs in overseeing the execution of public funds. Capacity-building events targeted staff from SAIs and PACs from beneficiary countries with the aim of enhancing the auditing of capital projects and strengthening

coordination between SAIs and PACs. Pilot audits were conducted with three SAIs (Grenada, Guyana, and Saint Lucia) using the audit manual. The findings of these audits were then presented to the PACs in the three beneficiary countries. The audit manual and the guide are currently being utilized by various CAROSAI members. Capacity building on how to conduct a procurement audit and how to understand risks related to procurement was also provided to officials from SAIs. This included an introduction to e-procurement platforms and how these can be used to assist a procurement audit. Data mining from e-procurement platforms has been useful to identify pitfalls in the procurement process and deter potential corruption.

IMPLEMENTATION PARTNERS

With support from the World Bank, the project was implemented by the CAROSAI Secretariat (based in the Office of the Director of Audit of Saint Lucia) in coordination with the CAROSAI Executive Council. The Inter-American Development Bank co-financed one of the activities related to procurement. More information available at <http://carosai.org/>.

Upgrading Accountability Mechanisms in Mexico

CONTEXT

Mexico is currently the lowest-performing OECD member in Transparency International's Corruption Perceptions Index. Despite significant public information about corruption issues, sanctions applied to offenders are minimal and perceptions of impunity have therefore increased. In response, the country's legal framework for anti-corruption has been strengthened, with citizens playing a critical role in the process. A systematic and well-organized social movement against corruption (and against conflict of interest, in particular) put the issue on the public agenda. The Mexican government worked with Congress to enact new laws and modify existing legislation to address this phenomenon. As a result, a National Anti-corruption System (NAS) was created in July 2016 with the aim of bringing together seven key institutions in the fight against corruption. This system is presided over by a Mexican citizen, who is part of the Citizen Participation Committee of the NAS. The NAS was mandated to

THE PROJECT

draw up a new national anti-corruption policy and a new financial disclosure form in order to improve levels of integrity among public servants.

The 2016 Improving Transparency and Accountability Mechanisms in the Federal Public Administration Program supports the federal administration in improving the design and effectiveness of government policies related to transparency, citizen participation and public integrity. The program has two components: fostering government openness and promoting public sector integrity. The program seeks to advance the integrity agenda by creating a national financial disclosure form; establishing a conflict of interest baseline; designing a data-driven model for the prevention, investigation and sanctioning of conflicts of interest; and building government capacity to manage the conflict of interest system. The financial disclosure form was co-created through a collaborative process involving a diverse group of stakeholders. Unlike the current declaration form, it directly addresses the issues of illicit enrichment and conflict of interest, with fields presented in a structured way to ensure

automated analysis. The financial disclosure form is undergoing the approval process of the NAS. Once implemented, about 325,000 public employees at the federal level will be required to electronically submit the form. This will generate a massive dataset that will facilitate analysis of the information, as well as the prevention, detection and sanctioning of corruption. The Bank also facilitated a detailed technical debate among different actors regarding conflict of interest and the instruments required to prevent it, as well as promoting discussion around the scope, structure, and elements of the financial disclosure form.

IMPLEMENTATION PARTNERS

The World Bank, the Secretariat of Public Administration, the National Anti-corruption System's governing body, and the United States Agency for International Development. Within Mexico, the Secretariat of Public Administration is the main counterpart. Other partners include key civil society stakeholders such as Transparencia Mexicana, IMCO, CIDE, MCCI, México Evalúa, and RRC.



The background of the slide features a photograph of children playing with a ball. The image is heavily filtered with a purple color and has a wavy, abstract overlay on the right side. The title 'TAX TRANSPARENCY' is centered at the top in a white box.

TAX TRANSPARENCY

Tax transparency and financial integrity are at the heart of global efforts to tackle illicit financial flows.

Enhancing Tax Transparency and Financial Integrity in Panama

CONTEXT

Illicit financial flows (IFFs) and the criminal activities that underlie them significantly impact developing countries. Offences such as corruption, tax evasion, organized crime, illegal trade in natural resources, and trafficking of drugs, weapons and people, plus the money flows linked to them, are all interrelated. IFFs and their associated criminality reduce the domestic resources available to developing countries and limit the tax revenues needed to fund critical poverty reduction programs and infrastructure. Despite lack of consensus on the total amount of IFFs or even how best to measure them, it is widely accepted that IFFs from developing countries are substantial. According to estimates by Global Financial Integrity, a Washington DC-based research organization, IFFs out of developing countries exceed overseas development aid and foreign direct investment combined. The leak of information from the Panama-based Mossack Fonseca law firm regarding ownership interests in shell

companies highlighted the need to tighten the framework for international tax transparency. It also demonstrated the need to ensure effective implementation of recently adopted legal regimes concerning anti-money laundering and combating the financing of terrorism.

THE PROJECT

In June 2016, the second Panama Development Policy Financing (DPF) program was enhanced in scope to support reforms in the areas of international tax and financial integrity. The reforms aimed to help Panama respond to the Mossack Fonseca crisis while also indirectly supporting other Bank members to protect their tax revenues. The program established a reform path that would see the Automatic Exchange of Tax Information adhere to Common Reporting Standards. It also supported the international community's fight against abuses of the global financial system as well as global efforts to combat terrorism and other illicit activities. These reforms helped to restore confidence among international investors by preventing an increase in withdrawals of correspondent banking relationships. This was crucial given the importance of the offshore financial system for

the Panamanian economy. The government's actions reflected its intention to implement the legislative requirements for international tax transparency and legislative progress under new anti-money laundering norms. As such, Panama now has the necessary legislative systems in place to automatically exchange information for tax purposes. In the third phase of the program, Panama's government criminalized tax evasion and established tax crimes as a predicate offence to money laundering. Panama also implemented the supervision procedures on bearer shares and beneficial owners on banks and fiduciaries in line with amendments to anti-money laundering legislation. Despite progress, the country's framework for international tax transparency needs further strengthening, as shown by the European Council's recent decision to include Panama in a monitoring list of preferential tax regimes. A fourth phase of the DPF program series is therefore envisaged in order to provide support for Panama's ongoing reform process.

IMPLEMENTATION PARTNERS

The World Bank, the Organization for Economic Co-operation and Development, the Global Forum on Tax Transparency and

Exchange of Information, the Inter-American Development Bank, and the Inter-American Center of Tax Administrations. More information about these DPFs is available at <http://projects.worldbank.org/P154819/?lang=en&tab=overview> and <http://projects.worldbank.org/P166159/?lang=en&tab=overview>.

Transparency and Efficiency in Guatemala's Tax Administration

CONTEXT

Guatemala experienced a political and institutional crisis in 2015 triggered by the uncovering of a corruption scheme permeating the highest political levels. The Tax Administration Superintendence (SAT) found itself at the center of the scandal, with the Customs Service particularly implicated. A massive social uprising followed, resulting in the resignation of the president and moves to strengthen the country's governance. A new administration took office in October 2015 on a platform of combatting corruption. At 10.3% of Gross Domestic Product in 2016, Guatemala has one of the lowest tax collection rates in the world (and significantly below the 13.4% average for Latin America and the Caribbean). Modest tax collection is also due to persistently low levels of tax compliance. Key priorities for the government include increasing revenue collection, fighting corruption, and improving transparency.

THE PROJECT

The Transparency and Efficiency in Tax Administration Project, which is awaiting approval of the Guatemalan Congress, seeks to increase compliance with tax and customs obligations by individual and business taxpayers in Guatemala. It is supporting the transparency, integrity, and institutional development of SAT, as well as strengthening its tax collection functions and customs operations. The project is also boosting enforcement procedures. Among the structural weaknesses targeted by the project are SAT's inadequate internal governance framework, its outdated business processes, its ineffective controls on tax compliance and customs, and its lack of transparency. In terms of transparency and institutional integrity, the project is supporting the establishment of a new Internal Investigation Unit. This will report directly to the Board of Directors as opposed to SAT management, thus providing the necessary independence for SAT to perform its controlling functions. The project is also assisting with the upgrade of SAT's Information and Communication Technologies governance model, including the creation of a Chief Information Office. Addressing the fragmentation of information (SAT currently has over 70 separate information systems in place)

IMPLEMENTATION PARTNERS

will allow for better strategic decision-making, as well as the improved tracking and control of taxpayer obligations. Internal audit functions are being strengthened through the establishment of procedures to assess risks and perform investigations. In addition, institutional integrity prevention policies are being introduced. The project has also seen enforcement procedures enhanced through: the introduction of an integrated, risk-based management model covering internal revenues and customs; the promotion of a culture of information analysis that draws on the use of business intelligence tools; and the establishment of a comprehensive auditing strategy based on taxpayer segmentation and risk analysis. Auditors will also receive specialized training by sectors and taxpayer segmentation. Finally, the project supports a human resource management component. The goals here are to professionalize SAT personnel and improve internal employment structures, as well as to update SAT's disciplinary system so as to reduce the potential for corruption or conflicts of interest.

The Guatemalan Tax Administration Superintendence (SAT), supported by the Bank through financing and technical

assistance, in conjunction with partners including the International Monetary Fund, the Inter-American Development Bank, the U.S. Agency for International Development, among others. Coordination is through the Ministry of Finance in Guatemala. More information is available at <http://projects.worldbank.org/P153366?lang=en>.





PROCUREMENT POLICY AND SYSTEMS

As procurement comprises a large share of the government budget, improvements in the effectiveness of government procurement can have first order impacts on the effectiveness of service delivery and public good provision. Moreover, procurement is one of the largest government spending activities and is estimated to account for up to 15 percent of global GDP. Public procurement is also a government's most vulnerable activity to waste and corruption due to the volume of financial flows it generates (IMF, 2016).

Using Data Analytics in Public Procurement to Increase Efficiency and Identify Corruption Red Flags

CONTEXT

Recently, the Latin America and Caribbean region has introduced data analytics into public procurement to identify performance inefficiencies. This development was occasioned by a confluence of events. The most important of these was the improvement in data quality following the implementation of electronic procurement systems by a number of countries in the early 2000s. During the past decade, some of these platforms have grown in sophistication, allowing transactions to be electronically managed. This has helped capture crucial procurement information that was not previously available. The Bank has been supporting these initiatives, which have seen data quality continuously improve. The result is a situation in which data analytics can now be used to identify opportunities for improving procurement systems.

THE PROJECT

At the request of several countries in the region, a procurement chapter was included in a number of Public Expenditure Reviews and other analytical programs to support governments in achieving efficiency gains. Since 2016, analyses of this kind were carried out in numerous countries, including Brazil, Colombia, Costa Rica, El Salvador, St. Lucia, Paraguay and Peru. Going forward, a pipeline of assessments is planned for the next fiscal year.

The methodology for the analysis of the data focuses on five core areas: time, cost-efficiency, transparency, fairness, and quality. With the wealth of procurement information now available, this approach has helped produce many meaningful insights for governments. These relate to trends in prices, seasonality issues, and the need for centralized procurement, among other factors. All these insights have supported greater efficiency in public resources administration. Each analysis concludes with short-term and long-term recommendations of differing levels of complexity.

While the objective of this analysis is not primarily focused on anti-corruption policies, the results of the assessments can

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identify trends and red flags that may indicate possible irregular practices. As an example, the assessments have so far helped identify procurement environments where the contracting model has only one bidder, where calls go unpublished, or where modifications to the bidding documents have been made, among other irregularities. The results of these studies, together with the recommended corrective measures, are delivered to the respective governments so they can analyze them for themselves and take the necessary actions.

In Latin America and the Caribbean, the World Bank is joining efforts with the national procurement entities in each of the countries where this analysis work is being carried out in order to help gather the necessary data and information.



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