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Institutional transformation and strengthening of Latin America's ministries of finance

From control to the strategic use of public resources for development

Alberto Arenas de Mesa
Edgardo Mosqueira

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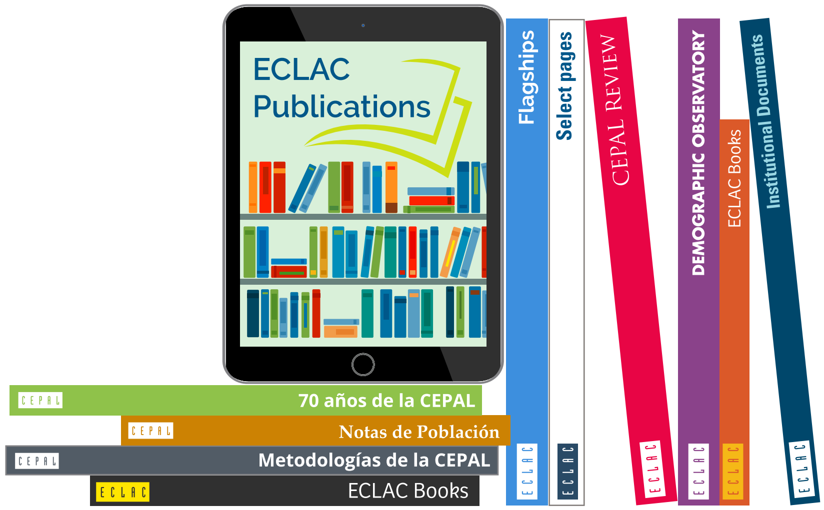

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This document was prepared by Alberto Arenas de Mesa (Regional Advisor, Economic Commission for Latin America and the Caribbean, and Edgardo Mosqueira (Coordinator, Public Sector Management Cluster, Innovation in Citizen Services Division, Institutions for Development Sector, Inter-American Development Bank within the framework of the "MEF Ecuador Project – IDB-ECLAC Letter of Agreement." Support for the preparation of this document was provided by Fidel Miranda (ECLAC consultant), Camila Mejía (Senior IDB Specialist), and Jorge Clemente de León Miranda (IDB Consultant).

The authors would like to thank Lea Giménez (IFD/ICS Division Chief, IDB) for her contributions and Philip Keefer (Principal Economic Advisor) for his comments and suggestions.

Comments were provided on the document at various stages of the preparation process by Juan Manuel Badilla Espinoza and Elisa Araneda (ECLAC consultants); Jean-Baptiste Carpentier (Research Assistant, Fiscal Affairs Unit, Economic Development Division, ECLAC); Carola Pessino (Principal Specialist, IDB); Carmen Zuleta (former Vice Minister of Accounts, Ministry of Economy and Public Finance, Plurinational State of Bolivia); Francisco Gaetani (former Executive Secretary, Ministry of Planning, Budget, and Management, Brazil); David Jaramillo (former Advisor, Vice Ministry of Finance, Ministry of Economy and Finance, Ecuador); Teodora Recalde (Director-General for the Budget, Ministry of Finance, Paraguay); and Gustavo Canales and Mónica Cerritos (IDB consultants).

The authors are grateful for the comments and suggestions provided by the following peer reviewers for the study: Santiago Peña (former Minister of Finance, Paraguay); Milton Von Hess (former Minister of Housing, Construction, and Sanitation and former Minister of Agriculture and Irrigation, Peru); Florencia Castro-Leal (Chief Economist, Central American Bank for Economic Integration); and Fernando Rojas (former Lead Public Sector Management Specialist, World Bank). Nancy Rivas was responsible for administrative and logistical support.

This publication is a translation of the Spanish-language original "La transformación y el fortalecimiento institucional de los Ministerios de Hacienda en América Latina: del control al uso estratégico de los recursos públicos para el desarrollo". The opinions expressed in this publication, which has not undergone formal editorial review, are those of the authors and do not necessarily reflect the views of the Economic Commission for Latin America and the Caribbean or the Inter-American Development Bank, its Board of Directors, or the countries they represent.

United Nations publication
LC/TS.2021/23
Distribution: L

Printed at United Nations, Santiago
S.23-00351

This publication should be cited as: A. Arenas de Mesa and E. Mosqueira, "Institutional transformation and strengthening of Latin America's ministries of finance: From control to the strategic use of public resources for development," *Project Documents* (LC/TS.2021/23), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC)/Inter-American Development Bank (IDB), 2022.

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Introduction

Ministries of finance have the core responsibility of determining macroeconomic policy (together with central banks, which manage monetary policy).[1] They also participate (alongside ministries of the presidency and/or planning agencies) in the design of national development policies, and lead fiscal policy, public financial management, and government financial policy.

Notwithstanding these general definitions, which are applicable to all ministries of finance in Latin America, it is important to note that the functions assigned to these institutions can differ in terms of their levels of development. These differences can relate to a variety of factors, but for the purposes of this study we propose two categories of functions: one that we refer to as "traditional" and another that we refer to as "modern."[2]

With respect to the former, "traditional" ministries have a series of functions that focus primarily on the administration and control of public funds. Although this allows them to exercise tight control over the fiscal resources in the short term, ministries in this category also have little capacity to prepare multiyear projections of the potential performance of public finances.

The functions of ministries classified as "modern" provide a stronger foundation for public finance planning and projections, while also supporting a more strategic management and better quality of public expenditure, thus strengthening fiscal responsibility and sustainability. Achieving such an outcome requires an evolving process of institutional transformation. Together with ministries of a political nature, ministries of finance play a crosscutting function within public administrations. This means that—in financial terms at least—they participate in the work of all (or almost all) public bodies, acquainting themselves to a greater or lesser extent with the policies and programs that require financing for their operations. In some countries, the crosscutting nature of many of their functions—relating essentially to fiscal and financial management—has facilitated the participation

1 In this study, "ministries of finance" refers to ministries or departments with the following titles: finance, finance and public credit, economy and finance, public finance, or economy and public finance.

2 The proposed categories and their names do not reflect any judgment as to their merits, and the choice of name is based largely on chronological criteria. Traditional functions have been in place for far longer than modern ones.

of ministries of finance in the design and evaluation of sector policies and programs. The initial aim of these evaluations was to assess a program's fiscal costs, but there has been subsequent development toward functions that focus on expenditure strategic management.[3] An important characteristic of "modern" ministries of finance is that the strengthening of their institutional framework and the development of new instruments allows them to participate actively in the design not only of macroeconomic and fiscal policies, but also public policies in general, as part of efforts to control the quality of public spending.

These modern functions allow ministries of finance to develop capabilities to ensure sufficient financing is available for the State's commitments to its citizens (public goods and services) in the medium and long term, independent of economic cycles. In addition, these ministries of finance have developed the concept of fiscal transparency by regularly and systematically disclosing increasing amounts of information on their work to both the legislative branch and wider society. Far from being perceived simply as an instrument for monitoring the work of these ministries, fiscal transparency in fact represents a tool for providing information and feedback on the performance of public finances. This contributes to managing the political economy, facilitating citizen control, and improving citizens' confidence in fiscal policy and institutions.

Developing capabilities for the strategic management of public resources in ministries of finance requires not only the allocation of new functions through regulatory changes, but also the transformation of ministries' organizational structures; incorporation of sufficient human resources or adequate training of existing staff; restructuring of budgets and the approach to using financial resources; and adoption of the information technologies needed to effectively consolidate the new functions. An advanced level of performance cannot be achieved without intense development of these dimensions. Reform experiences also show that the effective adoption of more modern functions is not a linear process; rather it is subject to developments and setbacks that reflect different political economy factors. New organizational structures should support a single institutional vision that fosters collaboration between all parts of an institution in order to achieve common objectives.

The institutional development of ministries of finance in Latin America is a phenomenon that has been barely researched or documented by academia and international organizations. The analysis performed in this publication may, therefore, be of relevance to countries with ministries of finance that are either traditional or in transition, and that wish to achieve a more advanced or modern state by incorporating lessons learned and best practices that offer a sound basis for development within a limited period.

In the current context of regional and global economic crises as a result of the COVID-19 pandemic, the institutional development and strengthening of ministries of finance is of particular importance given the decisive role that these entities play in managing the crisis and the economic recovery process. Ministries of finance with robust capabilities in terms of both traditional and modern functions are better placed to ensure effective management of the acute COVID-19 crisis, and this will be decisive in shortening time frames for recovery. Recovery may otherwise be particularly slow, inflicting serious economic and social costs on countries in the region. Such ministries will also have greater access to international development funding, with budget support during crises often contingent on demonstrating results in policies of global interest, such as the environment or gender equality.[4]

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[3] A study by the Inter-American Development Bank (IDB, 2018) describes some of the main tools that public administrations should develop to improve public resources management. Some of these are reflected in the modern functions described in this study.

[4] See, for example, the way that "Finance & Development" (a regular publication of the International Monetary Fund) links financing for fiscal crises, created or aggravated by the pandemic, to environmental policy and program targets that can only be organized by ministries of finance with quality expenditure units and robust results-based budgeting (Volz, 2020).

This work examines regulatory framework from two perspectives. In methodological terms, it analyzes the current state of the functions assigned through regulations to ministries of finance in the region, by reviewing their legal and regulatory frameworks. On the analytical front, it proposes two functional models (one based on traditional functions and the other on modern ones) and uses them to catalog the regulatory development of these ministries and suggest the gaps that must be addressed to move from a traditional management model to a modern one. The study seeks to develop a regulatory classification of functional frameworks for ministries of finance, without attempting to analyze the level of development/implementation of these functions or the factors that have driven or facilitated such changes. Accordingly, it is important to note that this study does not describe the characteristics or factors that drive these ministries to shift from a traditional management model to a modern one. In other words, political economy factors (opportunity, crisis, facilitators, incentives, actors) are not analyzed and should be the subject of a new study.

In addition to this introduction, the study consists of three sections:

Section I, “The Institutional Transformation of Ministries of Finance in Latin America,” focuses on the institutional development process in the region’s ministries of finance and provides an analytical framework for this transformation process. It also highlights the importance of these ministries in the context of the COVID-19 pandemic and reviews their institutional framework and studies of their organizational structure.

Section II, “The Development State of Ministries of Finance in Latin America: Traditional, In Transition, and Modern,” provides a comparative analysis of the functions performed by ministries of finance in the region, and **it** attempts to classify the different countries based on the level of progress and modernization of their functions.

Section III, “Institutional Reforms in the Region’s Ministries of Finance: 2010–2020,” includes a chronological overview of the main regulatory transformations experienced by ministries of finance over the last decade, highlighting the countries that have been most active in this area and the traditional and modern functions that have undergone the most extensive regulatory modifications. It also provides information on regulatory changes to functions that are beyond the core functions of finance ministries, relating to other spheres of State action. Section IV, “Conclusions and Challenges in the Institutional Sphere,” lays out the main conclusions of the analysis of institutional development processes in the region’s ministries of finance.

In addition to the aforementioned sections, the study includes four annexes. Annex 1 lists the official websites consulted and the specific sources of information on the regulations governing ministries of finance. Annex 2 describes the functions of ministries of finance in Latin America. Annex 3 provides the organizational charts of ministries of finance in Latin America, and Annex 4, lastly, describes in detail the regulatory changes identified for the 2010–2020 period that relate to the traditional and modern functions of finance ministries.

I. The Institutional Transformation of Ministries of Finance in Latin America

A. Development and Strengthening of the Institutional Framework of Ministries of Finance

The core mission of finance ministries is to support sustainable economic growth by managing fiscal policy and determining (or participating in the determination of) macroeconomic policy. To that end, they perform the functions of determining and managing policies related to expenditure, revenue, debt, treasury, and fiscal risks. They may also perform tasks affecting key inputs of public expenditure (human resources management, wage policy, supply chain, and public infrastructure).

The functions of ministries of finance are of great importance given that central government expenditure averaged an estimated 25.4 percent of GDP in 2020 (Economic Commission for Latin America and the Caribbean -ECLAC, 2020b).[5] It is therefore essential to understand the institutional capabilities that allow ministries of finance to ensure that spending is allocated and executed both efficiently and strategically, so as to address the highest priority needs of countries and foster sustainable development with steady, inclusive, and equitable economic growth. Such institutional capabilities must allow ministries of finance to oversee how governments determine and direct public expenditure, take on debt, and create the conditions for the private sector to generate wealth, with a consequent impact on tax revenue.

This section describes the way in which the organizational and functional design of ministries of finance has been transformed in a group of countries in the region over the last three decades.

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[5] According to the broadest measure of public expenditure—the nonfinancial public sector—government spending in 24 Latin America and Caribbean countries averaged 31.8 percent of regional GDP in 2018 (Organisation for Economic Co-operation and Development/Inter-American Development Bank, 2020).

It proposes an analytical framework for assessing the level of organizational and functional development of ministries of finance. Lastly, it describes the importance of accelerating this transformation with a view to addressing the economic recovery needs that have arisen as a result of the COVID-19 pandemic.

As will be seen in the following sections, this study proposes to classify the region's ministries of finance according to two functional models that have different core objectives and functions. The first functional model, which we characterize as "traditional," focuses on the objective of controlling public spending so as to support macroeconomic stability. To this end, it encompasses functions relating to the formalization, routinization, and control of the budget process. The second functional model—characterized as "modern"—has two core objectives: first, expanding the capacities to supervise expenditure and macroeconomic stability in an inter-temporal dimension, and second, helping to improve the definition, coordination, and analysis of public policies and programs and their results. This progression demonstrates a transformation in expenditure management from a control-based process to a strategic one.

The two suggested functional models do not exist in their pure form in all the countries. In fact, individual countries tend to be closer to one model or the other and their transition is not a linear process: instead, the process of developing the functions that make up each management model is characterized by both improvements and setbacks.

1. The Institutional Transformation of Ministries of Finance in the 1990s: Strengthening Expenditure Control Management

At the beginning of the 1990s, the region was considering the financial and fiscal experiences of developed countries. The public financial management reforms that had been implemented since the 1980s in the countries of the Organisation for Economic Cooperation and Development (OECD) were aimed at controlling the growth in public expenditure and improving the efficiency and effectiveness of that expenditure. These reforms involved an expansion in budget-related functions, with a strengthening of the traditional process-based budget function (involving the allocation, modification, authorization, and accountability of expenditure) by linking it with other processes, such as planning, program operational management, and results measurement (Pollit and Bouckaert, 2011).

Within this scenario, Latin American ministries of finance initiated profound changes to development strategies in the 1990s, including numerous fiscal reforms. Some of the major benchmarks in this process were highlighted in the 1997 Latin America report published by the Inter-American Development Bank (IDB), which analyzed reforms implemented in the preceding decade. These included a deepening of functions and tools aimed at consolidating: (i) fiscal stability, (ii) the role of the institutional framework in achieving that stability, and (iii) the minimum institutional arrangements required to achieve a fiscal performance consistent with growth in a new economic and social context in the region (IDB, 1997).

In the same year, the World Bank proposed a new, second generation of forms focused on investing in human capital (strengthening access to education and health opportunities), strengthening financial markets, improving legal and regulatory frameworks, and raising the quality of public sector and governance. It also recognized as essential the task of strengthening the institutions responsible for fiscal stability, allowing conditions of fiscal prudence and flexibility to serve as a foundation for macroeconomic stability while also helping to maintain reasonable domestic savings rates and encourage investment in human capital and infrastructure. These fiscal reforms included proposals for (i) improvements in the institutions responsible for government budgeting, (ii) measures to ensure fiscal stability at the subnational government level, (iii) adequate budgeting and financing for other fiscal contingencies, and (iv) the strengthening of tax collection (World Bank, 1997).

The following year, ECLAC proposed a new fiscal pact for the region with the aim of reaching agreement on a medium-term vision for the level and composition of public expenditure and taxation and future trends in those variables. This included, among other topics: (i) the productivity (efficiency and quality) of public spending; (ii) fiscal transparency and accountability, aimed at protecting the development of fiscal policy; (iii) fiscal decentralization and local fiscal policy in particular, consistent with institutional arrangements in the largest economies in the region (Argentina, Brazil, and Mexico); (iv) the redistributive effects of fiscal policy in light of efforts to promote equity; and (v) the strengthening of fiscal institutions, which were crucial to the democratic processes that were underway across the entire region (ECLAC, 1998).

By the end of the 1990s, the debate in the region was focused on the idea of implementing results-based management tools, particularly through the development of institutions for results-based budgeting (IDB, 2010, 2012, and 2015). This discussion was inspired by some of the reforms implemented by a number of OECD countries starting at the end of the 1980s, which aimed to bring a results-based approach into public management.[6] Progress on these reforms was mixed, however. The varying levels of development achieved by different countries in the region with respect to results-based budgeting cannot be explained by their level of economic development alone, but rather by the existence of three enabling factors: sufficient motivation (e.g., fiscal crisis), institutional capacity, and legislative support. Institutional capacity relates to the existence of sound financial and budget management systems with broad coverage of the budget, human resources with the required skills, and the ability to quantify physical targets (IDB, 2012). This analysis coincides with the importance that experts in OECD countries place on these factors (financial management systems, trained human resources, and sound budget management) as precursors to results-based management, as they help to generate the information required to evaluate the performance of budget decisions (Blöndal, 2003; OECD, 2005 and 2007; Schick, 2007; Robinson and Duncan, 2009; IDB, 2010).

When debate and interest in results-based management tools emerged toward the end of the 1990s, the region had already made significant progress toward implementing financial management systems (a process that began in the late 1980s), though the motivation for this implementation had been the need to strengthen control over budget execution. While in most countries of the region the development of these systems was unrelated to results-based management policies, it nonetheless facilitated production of the data and information needed to initiate results-based budgeting reforms.

In summary, in what can be seen as a first stage in the institutional transformation of finance ministries (encompassing the period from the end of the 1980s through the 1990s), the need to ensure macroeconomic stability led to the strengthening of budget management through the introduction of an increasingly high level of formality. While budget management mandates and functions were defined through regulatory frameworks, its cycle (formulation, approval, execution, and evaluation) was executed through macro processes, procedures, and routines. The formalization of budget management processes was reinforced by the introduction of information and communication technologies (integrated or non-integrated financial management systems) that helped to standardize budget procedures. This, in turn, encouraged the recruitment, training, and specialization of human resources with the aim of acquiring the human talent needed to manage the budget, and it

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[6] Over the last 30 years, performance-based management has been transformed from a more or less independent or marginal branch of public administration into its predominant conceptual pillar, with its own epistemological and conceptual foundations, specific techniques and instruments, and coverage of the entire public management cycle, from policy formulation to results monitoring and accountability (Talbot, 2010). For just a few descriptions of how this modernization process unfolded in the OECD countries, see Cabinet Office (2000); Davis et al. (1999); and Manning, Mukherjee, and Gokcekus (2000).

also fostered the development of new organizational structures adapted to the increasing sophistication in budget processes.

2. The Institutional Transformation of Ministries of Finance Over the Last 20 years: Strengthening Expenditure-Strategic Management

During what can be seen as a second stage in the institutional transformation of ministries of finance (beginning at the end of the 1990s), these entities adopted new functions that not only supported their objectives of fiscal and macroeconomic sustainability but also aimed to ensure the strategic use of public resources. This new objective encouraged the implementation of a new set of functions (ones that we refer to as modern) to improve both expenditure control and the allocation and outcomes of public spending. These new objectives and functions were among a number of factors that increased the ability of finance ministries to influence public policies and required them to introduce reforms to their organization and operations (Arenas de Mesa, 2016).

The new functions led ministries of finance to expand the scope of budget management beyond its traditional objective of processing expenditure (organizing, financing, transferring, and monitoring) by introducing the new objective of optimizing the relationship between spending and results. The new, "modern" functions introduced tools to improve the allocation, availability, and monitoring of fiscal resources, but also instruments to facilitate multiyear expenditure programming, the use of accrual- instead of cash-basis accounting, results-based budgeting, and evaluation of the quality of spending, among other things, all with the objective of strengthening the relationship between spending and results.

Consistent with the new objective of linking expenditure and results, in order to strengthen control over the allocation and use of fiscal resources, and foster orderly growth in spending, a new reform introduced the system of fiscal rules and fiscal responsibility laws that are currently in force in 14 Latin American countries, with ministries of finance responsible for their enforcement (ECLAC, 2019). These rules were even extended to subnational governments[7] with the aim of remedying the lack of controls that created serious fiscal crises toward the end of the 1980s and in the 1990s (an experience that also led to a strengthening of the functions and control capabilities of finance ministries [World Bank, 2013]). The new function spurred the creation of new units responsible for monitoring compliance with fiscal rules.[8]

In 2005, definitive momentum was given to the concept of fiscal sustainability, based on the pioneering works of Buiter (1985) and Blanchard (1990), which provided methodologies for assessing debt sustainability. The concept of fiscal sustainability presented a new intertemporal approach to the public finances, and the research included in the World Bank's fiscal sustainability manual (Burnside, 2005) and in the pioneering work on fiscal space by the International Monetary Fund (IMF) (Heller, 2005) was critical in this respect. Both publications marked significant progress toward a new frame of reference for fiscal policy. This new approach gave rise to substantial new requirements for ministries of finance in the region, including the strengthening and development of fiscal institutions (Arenas de Mesa, 2016). As a result of this new intertemporal approach to the public finances, finance ministries assumed new functions involving the preparation and management of Medium-Term Fiscal Frameworks -MTFFs (a fiscal management tool promoted by the IMF) and in some cases also established fiscal oversight institutions (independent or autonomous fiscal councils), as in the cases of Chile, Colombia, Peru, and Uruguay. MTFFs were expected to strengthen the institutional framework for budgeting by supporting fiscal responsibility in the countries (thereby boosting macroeconomic stability), introducing intertemporal consistency into budget design, and

[7] Mainly in Argentina, Brazil, Colombia, and Mexico.
[8] This occurred in Colombia and Peru.

ensuring greater transparency in the use of public resources. Meanwhile, fiscal oversight institutions would help to improve fiscal discipline and promote greater budget transparency and accountability (Barreix and Corrales, 2019).

To further the new objective of safeguarding the relationship between spending and results, ministries of finance were required to create new tools for horizontal and vertical coordination. An emblematic case has been the implementation of results-based budgeting, which has required the creation of routines (that subsequently became processes) to establish targets, indicators, and monitoring arrangements in collaboration with sector ministries and agencies. The introduction of the new tools was facilitated by the crosscutting nature of the budget process and its rules (with mandatory enforcement by the entire public sector). However, it also required finance ministries to adapt or expand their organizational and operational arrangements and human talent, as well as to create mechanisms for coordination and collaboration both horizontally (with sector ministries and autonomous bodies) and vertically (with other levels of government). These coordination and cooperation mechanisms strengthened the ministries' relationships with all public entities and created the institutional space needed to introduce a new and powerful set of reforms, this time aimed at allocating to ministries of finance the function of evaluating the quality of public program management and spending. Blöndal (2003) describes this new focus on results as a shift in the accountability function (away from the sectors and towards ministries of finance), in which the traditional approach of forcing the sectors to comply with rules and procedures is relaxed in exchange for a focus on supervising the results achieved through public programs. The efforts of some ministries of finance to implement results-based budgeting is one example of the progress made with this objective in mind.

An important effect of the new, modern functions has been to strengthen the role of finance ministries within centers of government, including their influence over government policy decisions. Together with traditional budget management instruments, tools to improve the quality of expenditure have become a powerful mechanism for ministries of finance to participate in the sector policy dialogue and help **to** ensure that public programs are aligned with government priorities. In practice, the ministries of finance, through **its** their financial function, play a coordinating role in the public sector with the objective of ensuring that the financial commitments assumed by the State are met. This is achieved through a comprehensive overview of institutions, policies, plans, and programs, which allows the ministries of finance to promote the fact that execution contributes to achieving fiscal sustainability targets. This coordinating function has also influenced the creation of coordination mechanisms, routines, and reporting arrangements in ministries of finance.

3. Toward an Analytical Framework for the Institutional Transformation of Ministries of Finance in the Region

The greater degree of complexity in the production functions of ministries of finance, as described in the section above, heightens the importance of studying their institutional development from an organizational development perspective. Although there has been significant progress in expanding the functions of finance ministries in Latin America, there is no analytical framework that would facilitate a comprehensive, standardized, and comparative examination into how these functions have affected the organizational and operational arrangements of these ministries and, in general, their management models or the development of their internal capabilities.

If the new functions allocated to ministries of finance are to be effective, it will be essential to implement processes to transform their management models. These processes have four dimensions. The first relates to the fact that these processes must be formalized through institutional regulations so that their existence is not dependent on short-term priorities or political will. They should also be reflected in new processes, routines, reports, and coordination mechanisms (both horizontal and vertical, given that other public entities may share responsibility for certain functions—e.g., Congress in the case of the budget process). The second dimension reflects the need to strengthen human resources, given that the new functions require new skills and abilities and varying levels of specialization. The third relates to the adoption of information communication technologies, particularly with respect to the development of integrated financial management systems. Lastly, the fourth dimension, which concerns the financial resources needed to implement these functions, should be highlighted. Institutional strengthening processes require special lines of financing to be included in the budgets of the institutions concerned.

A framework for the analysis of management models in ministries of finance would yield the following benefits:

- Availability of a tool for measuring the institutional development level, through evaluation of: (i) the existence of regulations needed to implement traditional or modern functions; (ii) the scope and quality of processes and procedures designed to fulfill these functions; and (iii) the scope and quality of assigned human resources. This study aims to analyze the first of the evaluable factors—in other words, to perform an analysis of the regulatory framework governing traditional and modern functions. Subsequent studies should address the other two dimensions.
- Identification of gaps in management models, facilitating the development of roadmaps for the organizational, operational, and human talent transformations required to respond effectively to the introduction of new functions. This study analyzes gaps in the regulatory sphere.
- Identification of best practices in developing management models.
- Comparison of different levels of development in management models.
- Availability of an additional input for evaluating both State transformation processes and the ability to comply with fiscal and economic policy.

This study represents a starting point in the process of building and implementing a framework for the analysis of management models in ministries of finance, and additional efforts will be required for all of these benefits to materialize. Accordingly, this document proposes an analytical framework for functional models in ministries of finance, the purpose of which will be to analyze functional development from a regulatory perspective, while also contributing to future analysis of management models in finance ministries.

The proposed analytical framework is as follows:

- Identify the functions assigned through regulation to ministries of finance in Latin America, based on a review of their regulatory frameworks (as typically included in their institutional statutes). The following essential or traditional functions can be observed in ministries of finance in the region: (i) the study, analysis, and coordination of macroeconomic and economic policies; (ii) design and execution of policies relating to the fiscal accounts, budget, and public expenditure and revenue; (iii) tax and customs administration; (iv) public treasury management; (v) regulation of banking, securities, and insurance (superintendencies); (vi) public debt management (domestic and external); (vii) management of public assets and state-owned companies; (viii) accounting; and (ix) the relationship with the Central Bank. The main functions associated with the modernization and expansion of finance ministry capacities are as follows: (i) coordinating, designing, and instigating public policy; (ii) fiscal rules and fiscal risk management; (iii) quality and efficiency of expenditure; (iv) public procurement; (v) human resources (civil service and personnel management); (vi) fiscal transparency actions (e.g., the development of public finance statistics); and (viii) development of information technologies applied to public finances (government integrated financial management systems).

- Develop a classification of finance ministries that reflects: (i) the type of functions assigned through regulation, and (ii) organizational development for implementing these functions (the internal allocation of roles and competencies). This classification is based on a review of the respective regulatory instruments.
- Perform a comparative analysis of finance ministries. A central part of this comparison will be to observe the best practices that have been developed in specific cases, as well the importance of the transition to an intertemporal horizon.

B. The Importance of Ministries of Finance in the Context of the COVID-19 Pandemic

Over the last decade, the world economy has been characterized by high levels of volatility that have **exposed** fiscal and macroeconomic policies to **higher** levels of uncertainty. Countries are facing global challenges such as the gender pay gap and the need to effectively integrate women into the economy on an equal footing, as well as the transformative impact of technological advances on production processes, environmental emergencies such as the effects of climate change and natural disasters, and pandemics. The growing complexity of the global context demands more intense coordination and participation of the State.

In this context, it is imperative that ministries of finance have the capacities to take actions to ensure its operations are supportive of fiscal sustainability, thereby providing greater certainty for the economy. This would also help the State be prepared for successfully withstanding shocks of different natures—natural disasters, pandemics, domestic social crises, and geopolitical tensions—so that it can overcome short-term challenges without losing sight of the goals of inclusive growth and sustainable development in the region.

The health, social, and economic crises unleashed by COVID-19 have created an unprecedented challenge for the countries of Latin America and the Caribbean. The characteristics of the pandemic, with the rapid spread of infection across populations, have led to swift economic and social effects across the entire world, including contractions in both supply and demand, and with a deeply negative impact on the economy in the short term (ECLAC, 2020a and 2002b).

Governments have designed measures to contain the spread of the virus, and ministries of finance have played a key role in this process, as their institutional frameworks allow them to prioritize needs and coordinate activities throughout all areas of the public administration. The immediate availability of resources, fiscal space, and the development of management capabilities are all critical factors.

This has required short-term reallocations of budget funds, but also the redefinition of strategic investment priorities, policy development, the streamlining of public expenditure, and increased government debt, with the latter taking on additional significance given the lower lending capacity of international development institutions.

The effects of the international slowdown are expected to reduce the value of exports by 23 percent in 2020 (with an 11 percent fall in prices and a 12 percent drop in volumes), due mainly to the deepening contraction in world demand. In addition, manufacturing production will be affected by disruptions in global value chains. Against this backdrop, GDP in the region is projected to contract by 7.7 percent in 2020 (ECLAC, 2020a and 2020f). In the face of this global and regional economic contraction, finance ministers must make additional efforts to sustain activity and minimize negative effects.

The measures implemented by the countries of the region can be broken down as follows: (i) monetary and financial measures; (ii) fiscal measures; (iii) measures to protect and preserve production capacity; and (iv) measures to expand social protection systems. Within the emergency plans implemented, the most important measures included: (i) strengthening of the health sector through budget increases; (ii) income and employment protection for both formal and informal workers; (iii) support for the consumption of essential goods such as food and basic services; and (iv) protection of production capacity and creation of the conditions for a recovery of economic activity based on tax benefits and access to government-guaranteed loans (ECLAC, 2020b).

The efficiency, effectiveness, and impact with which public funds are allocated and executed, as well as the quality with which they are managed, will allow countries to respond in a timely manner to the health, social, and economic risks of the COVID-19 pandemic. This crisis has highlighted the urgency of addressing the current challenges of ensuring inclusive growth, strengthening social protection networks, and reducing inequality, thus improving the well-being of the entire population. Table 1 provides details of the magnitude of the measures included in fiscal plans up to 30 November 2020, which averaged 4.3 percent of GDP in Latin America.

Table 1
Latin America (17 countries): COVID-19 Emergency Fiscal Plans
(in percent of GDP)

	Fiscal plans[a]
Latin America	**4.3**
Argentina	5.5
Bolivia (Plurinational State of)	4.9
Brazil	8.5
Chile	5.7
Colombia	3.7
Costa Rica	0.9
Ecuador	3.5
El Salvador	11.1
Guatemala	2.5
Haiti	4.0
Honduras	4.3
Mexico	1.1
Panama	3.7
Paraguay	4.5
Peru	6.0
Dominican Republic	0.7
Uruguay	1.6

Source: ECLAC (2020a and 2020b).
[a] The estimated amount of funding mobilized through the fiscal plans includes lower public revenue, higher public expenditure, changes in below-the-line financing, and budget reallocations that do not entail additional public spending. It does not include funding allocated to government loan guarantees and plans with longer time horizons.

Given the anticipated gradual withdrawal of lockdown measures, some countries have announced that they are designing additional plans for the economic recovery phase. In Chile, the creation of a COVID-19 fund, totaling US$12 billion (4.8 percent of GDP), was agreed to be executed over a 24-month period. This fund is expected to finance investment projects, as well as measures to strengthen instruments to protect household income and expand government-backed liquidity support to the private sector (government guarantees and hiring subsidies, among other things). In Paraguay, a new economic reactivation plan has been announced that will mobilize around 6.7 percent of GDP over an 18-month period. The plan includes measures to expand subsidies and transfers to self-employed workers, restructure the State, execute investment projects on public works totaling 3.6 percent of GDP, and extend productive sector financing instruments, all by the end of 2020. Similarly, a plan of 0.9 percent of GDP was approved in Peru with the aim of reactivating the economy and serving the population through public investment (ECLAC, 2020a and 2020b).

The ability of governments in the region to generate the fiscal space necessary for economic recovery will require the enabling factor of improved institutional capacities and, in some cases, expansion of the functions of finance ministries. Ministries of finance will need to strengthen their capacity to monitor compliance with fiscal rules, as this will both reduce and soften the impact of fluctuations in economic cycles in relation to trend estimates of GDP (countercyclical or at least neutral). These ministries will also need to establish or strengthen functions that improve the allocation and impact of fiscal resources, including greater capabilities for the monitoring and evaluation of public program management and the quality of expenditure. Another example of these institutional improvement measures will be the need to strengthen the ministries' expenditure-strategic management functions, including improvements in infrastructure planning, human resources allocation, and policies governing the provision of goods. These functions should be consolidated through timely decisions based on the data contained in the ministries' IT systems (mainly integrated financial management systems), which create swift, proactive, and efficient management capacities.

For all of these reasons, the institutional capacity of ministries of finance will have a decisive impact on public management outcomes. As explained by Blöndal (2002), there is evidence that those OECD countries that have achieved the most fiscal surpluses have also been the ones that have adopted the new functions described above, transforming their organizational structures and modernizing functions relating to program management and public expenditure. The evidence shows that fiscal sustainability and economic growth commitments yield positive results only where they are accompanied by reforms that include these new institutions in the context of a transformation of administrative structures.

Studying this institutional transformation is therefore key to determining the level of institutional capacity in ministries of finance with respect to the implementation of fiscal and economic policies, as well as the existence of the institutional arrangements necessary to improve the management of public programs, their expected results, and efficiency in the use of public resources.

The impact of developing and strengthening the institutional framework of ministries of finance transcends countries' fiscal sustainability objectives. Sound capabilities in these institutions will ensure that they are prepared to deal with the different types of crises that buffet their societies, allowing them to move swiftly to minimize risks and preserve economic and social balance with a view to achieving sustainable, inclusive development and stability in the region.

C. The State of Literature on the Institutional Transformation of Ministries of Finance in Latin America

To date, no comprehensive comparative studies of the institutional development of finance ministries in the region have been carried out.[9] This **impedes** sharing regional experiences that might

[9] Among the few studies focusing on the region are Alessina et al. (1996) and Stein et al. (1998), although these are limited to the role of budget functions.

support the design of institutional transformation processes. Although various reforms have been implemented in Latin American ministries of finance in recent years, some of these changes have been uncoordinated and have lacked a strategic and systemic organizational perspective.

In contrast, there are a number of relevant studies from other regions in this area. Krause et al. (2016) provide an analysis of the capacities of ministries of finance to execute their administrative and policy functions. This analysis focuses on how the resources required to perform these functions are organized and interact in a formal/informal and bureaucratic institutional policy context, as well as their impact on the institutions' functional effectiveness (Andrews et al., 2012). It is important to note the conceptual difference between execution capacity and installed capacity, as this can be critical when assessing the organizational features of institutional frameworks. The second term, installed capacity, refers to the resource endowments of ministries, such as human resources, employee skills and experience, and the effectiveness and complexity of their tools (Hadley and Welham, 2016).

A key piece of research is Allen et al. (2015), which analyzes the roles, functions, and organizational arrangements of finance ministries (primarily in high-income countries) and proposes a set of principles for organizational design and the allocation of functions. In keeping with the proposals in this document, Allen describes the transition of ministries away from traditional models and toward a new, emerging model characterized by greater openness, transparency, and management flexibility, as well as a broader focus on strategic public policy issues.

Studies with similar objectives to this proposal have been prepared in OECD countries. In New Zealand, Schick (1996) carried out an important study on the impact of New Public Management reforms, describing the impact of functions and management tools that aimed to strengthen the government's strategic capacity by linking the fiscal objectives of the Fiscal Responsibility Act, with planning and budgeting processes across all government departments. More recent studies, such as Blöndal (2002), underline the important role of capabilities for public management results evaluation as a prerequisite for looser controls over inputs: functions involving the evaluation of program results replace those focused on controlling compliance with budget processes. Meanwhile, Sterck and Scheers (2006) describe the implementation process for results-based budgeting functions, highlighting the way these reforms have strengthened functional and accountability relationships between the sectors and ministries of finance, as well as the need for leadership of this transformation to be centralized in ministries of finance or national budget offices. Lastly, a study by Dunleavy (2005) shows that specialization in public agencies, which led to the division of functions across smaller, more specialized units, has had negative effects. Accordingly, countries such as the United Kingdom have merged and assimilated agencies into cohesive departments with structures based more on cooperation than on competition—a model known as Joined-Up Governance.

Other studies conclude that the size and structure of ministries of finance vary according to the level of institutional maturity, the complexity of their work, and the style of internal decentralization and coordination (Krause et al., 2016). By analyzing the challenges faced by these institutions and the risks associated with their reorganization in developing countries, Allen et al. (2015) identified a trend toward dispersion and fragmentation as the level of specialization rises, conflicting with the need to maintain or create a limited number of departments. This organizational segmentation complicates functional integration and the balance of interests, leading to slower, more complex processes and increased inefficiencies and operating costs. Hadley and Welham (2016) state that the analysis of organizational structures provides an understanding of who will be exercising the objective in ministries of finance (based on the range of responsibilities included in their institutional mandate) and what they will need to deliver it more effectively.

A recent effort to review the role of financial management systems, led by an international working group in New York University's School of Public Service,[10] supports the need to make public financial administration an open system that interacts efficiently with public policies and their results, influencing government decisions on policy options, actions, and results development (International Working Group, 2020; Schick, 2019).

With respect to the literature on Latin America, Arenas de Mesa (2016) indicates that the fiscal institutional framework can restrict and shape the quality and depth of fiscal policy, and consists of three areas: (i) fiscal responsibility, including the modernization of public financial administration laws and the creation of fiscal rules, stabilization funds, and new fiscal regulations; (ii) fiscal transparency, including public finance statistics, the study and analysis of indicators for detecting fiscal risks, information initiatives, and participation in accountability mechanisms; and (iii) fiscal management, which includes budget, tax, and debt management and fiscal advisory bodies.

Several Latin American countries have made changes to the organizational structure of their ministries of finance. In some cases, these changes have reflected political processes aimed at reducing the size of government institutions so as to reduce public spending levels. Other processes, however, have involved consolidation within finance ministries and their dependent bodies with the aim of modernizing them and adapting their institutional arrangements based on international best practices. Ecuador's Ministry of the Economy and Finance is a potential case study in which existing ministries (the Ministry of Finance and the Coordinating Ministry for Economic Policy) were merged in order to modernize public finances management. Another case, this time concerning public bodies attached to a Ministry of Finance, involved the merging in June 2019 of Chile's Banking and Financial Institutions Superintendency and its Securities and Insurance Superintendency to create the new Financial Market Commission. As part of the process of merging these institutions and increasing their level of independence, a thorough discussion was held regarding the regulatory functions and mission of both institutions (Lambeth and Morales, 2017; Morales, 2018).

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[10] This working group comprised well-known experts in the area of public and financial management and was led by Prof. Paul Smoke.

II. Levels of Institutional Development in Latin American Ministries of Finance: Traditional, in Transition, and Modern

A. Background and Analytical Methodology

The lack of comparative analysis of situations within ministries of finance in Latin America and beyond gave rise to this study, which represents one of the first attempts to build a rigorous, methodological analysis based on secondary information sources. It is hoped that this will provide a foundation for an initial comparative analysis of institutional development in the region's ministries of finance.

This section provides an analysis of the functions assigned to ministries of finance in the region through their regulatory frameworks. The analytical methodology is used to review these regulatory frameworks, which consist mainly of the ministries' founding laws and the regulations governing their organization and functions. Based on this approach, the analysis aims to set out the provisions contained in the formal regulations, although—as will be seen below—there may be some inconsistencies in these regulations and in the functional organizational charts approved and/or published in the official documents of these ministries. At the same time, it is important to acknowledge that this study is limited to the comparative analysis of functions assigned through regulation. It does not seek to present a functional analysis or review requiring the study of management models in each country or establishing how each of the proposed functions operate.

A variety of sources have been drawn upon for this task. First, the functions of ministries of finance were compiled as established in legal or administrative regulations. The most frequent source for this information were the websites of each of the ministries in the region. In addition, in some countries—Argentina, Brazil, Chile, Colombia, Costa Rica, El Salvador, Mexico, Peru, and Uruguay—further consultations were needed to obtain greater detail on the functions of the ministries. All the information gathered is provided in Annexes 1 and 2.

A second source of information consists of the organizational charts of the different ministries, which were developed using information on the ministries' official websites. These show that in addition to the administrative units described in the regulatory frameworks, other administrative units exist that are not necessarily provided for in those frameworks. This means that, in some cases, the ministries of finance have created administrative units that are not provided for in their regulatory frameworks. However, their creation, consistent with principles of administrative law, ought to be supported by a specific mandate that authorizes the creation of administrative units additional to those expressly provided for in the regulatory framework. In the case of Uruguay, additional information was required, while for Nicaragua, no secondary information could be obtained via the internet.

To facilitate a better understanding and comparative analysis of organizational structures, efforts were made to standardize the organizational charts, as presented in Annex 3. Additionally, a variety of secondary sources, starting with the websites of the ministries themselves and other government and academic websites in each country, were used to gain more in/depth information. It should be noted that this study does not aim to provide a comparative analysis of the way the organizational structures of ministries of finance operate. This would have required identifying the macro processes for each function, analyzing their value chains, and assessing the influence that other sectors might have on the way the function is performed, in order to understand the prevailing management model in each country. The proposed standardized organizational chart involves only a normative analysis—in other words, it evaluates whether the powers assigned to each function have the same objectives as those of each of the specific functions that make up the traditional or modern models proposed in this study.

A third source of information relates to specialized publications (bibliography) that cover some of the functions of ministries of finance. This type of source was used in five specific cases: (i) fiscal rules and fiscal risks control, (ii) public procurement, (iii) preparation of public finance statistics, (iv) public sector human resource management, and (v) information technologies applied to public finances.

Lastly, the above sources were supplemented in some cases by information from experts and former senior officials from ministries of finance of the region (ministers, vice ministers, and advisors).

The 18 countries covered in this analysis are the following:[11] Argentina, Bolivia (Plurinational State of), Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, the Dominican Republic, and Uruguay.

This section is made up of two subsections, with three linked annexes. The first subsection provides a description of ministry of finance functions, broken down into two categories: traditional functions (control management) and modern ones (strategic management). These offer an in-depth view of the evolution of the ministries of finance's responsibilities in Latin America in recent decades, from traditional public finance control management functions to modern strategic management functions. The latter are aimed at influencing public finances' intertemporal behavior, the design, analysis of the management of public policies and programs, and the quality of their expenditure.

The second subsection contains a comparative analysis of all the ministries of finance studied, focusing on the degree of regulatory progress toward the adoption of modern functions. It provides a classification of ministries of finance, identifying those focused on traditional functions, those in a process of transition, and others that have made progress toward incorporating modern functions. In addition, it presents a synthesis of the levels of progress in ministries of finance and proposes future tasks for their development.

[11] In the cases of Cuba and Venezuela (Bolivarian Republic of), no information on the institutional arrangements of their ministries of finance could be found using secondary sources.

B. Classification of the Functions of Ministries of Finance in the Region

The traditional functions of public finances control management are the basic building blocks for the oversight of fiscal activity: they allow ministries to ensure that allocated public spending is executed as planned over the course of the budget cycle. Over time, other fiscal, financial, and economic functions have been added to strengthen the ability of ministries of finance to safeguard fiscal sustainability. By evolving toward modern functions of public finances strategic management, ministries of finance initiate a process of transformation in the organizational culture in which the control management function is complemented by strategic management functions. The latter are aimed at strengthening fiscal sustainability with tools for inter-temporal planning of public finances, as well as tools for improving the design, implementation, and evaluation of management and spending on policies and programs. Thus, a new organizational culture emerges, going beyond budget control, and focusing on its outcomes.

The model of traditional functions of ministries of finance proposed in this document, includes the following:

- Macroeconomic and economic study and analysis.
- Design and execution of fiscal, budget, public expenditure and revenue policy.
- Public treasury management.
- Public debt management (domestic and external debt).
- Tax administration.
- Accounting.
- Relationship with the Central Bank.
- Customs administration.
- Management of state-owned enterprises.
- Regulation of banks, securities, insurance (superintendencies).
- Public asset management.
- International economic negotiations and relationship with international economic organizations.
- Prices and rates within the ministerial competence (regulated sectors).
- Social security (particularly pension systems).

The model of modern functions proposed in this document, includes deeper analysis of these functions, and distinguishes between different levels of progress: basic, intermediate, and advanced. The functions included are the following:

- Fiscal rules and fiscal risk management.
- Evaluation and control of budget management and the results achieved (quality and efficiency of programs and public expenditure).
- Public sector human resources management.
- Public procurement management.
- Public finances statistics.
- Information technologies applied to the public finances.
- Coordination, design, and promotion of public policies.

Based on the functions identified (traditional and modern), a comparative analysis of the functional frameworks of ministries of finance in the region is presented. It should be noted that development of these functions is not linear, and entirely depends on the conditions and characteristics of the institutional development in each country. In addition, in several countries these modern functions are split across different government departments, such as Planning, Economy, Industry and Trade Production, among others. For example, Colombia's National Planning Department (DNP) and Uruguay's Office of Planning and Budget (OPP) are responsible for several such functions.

C. Comparative Analysis of the Functional Structures of Ministries of Finance

1. The Traditional Functions of Ministries of Finance

To visualize the comparative situation of the 18 Latin American countries analyzed, the functions executed by their ministries (as listed above) were identified based on their regulations, organizational charts and additional information, specific literature, and details provided by key interviewees. It should be noted that the inclusion of a particular function in the regulations does not necessarily mean that it is enforced or executed effectively. This study reflects only the existence of that function in the regulations, but not its level of effective implementation. In addition, information provided by key interviewees always reflects their opinion regarding the existence/inexistence of a particular function. The information regarding the traditional functions of ministries of finance in the region is presented below (see Table 2).

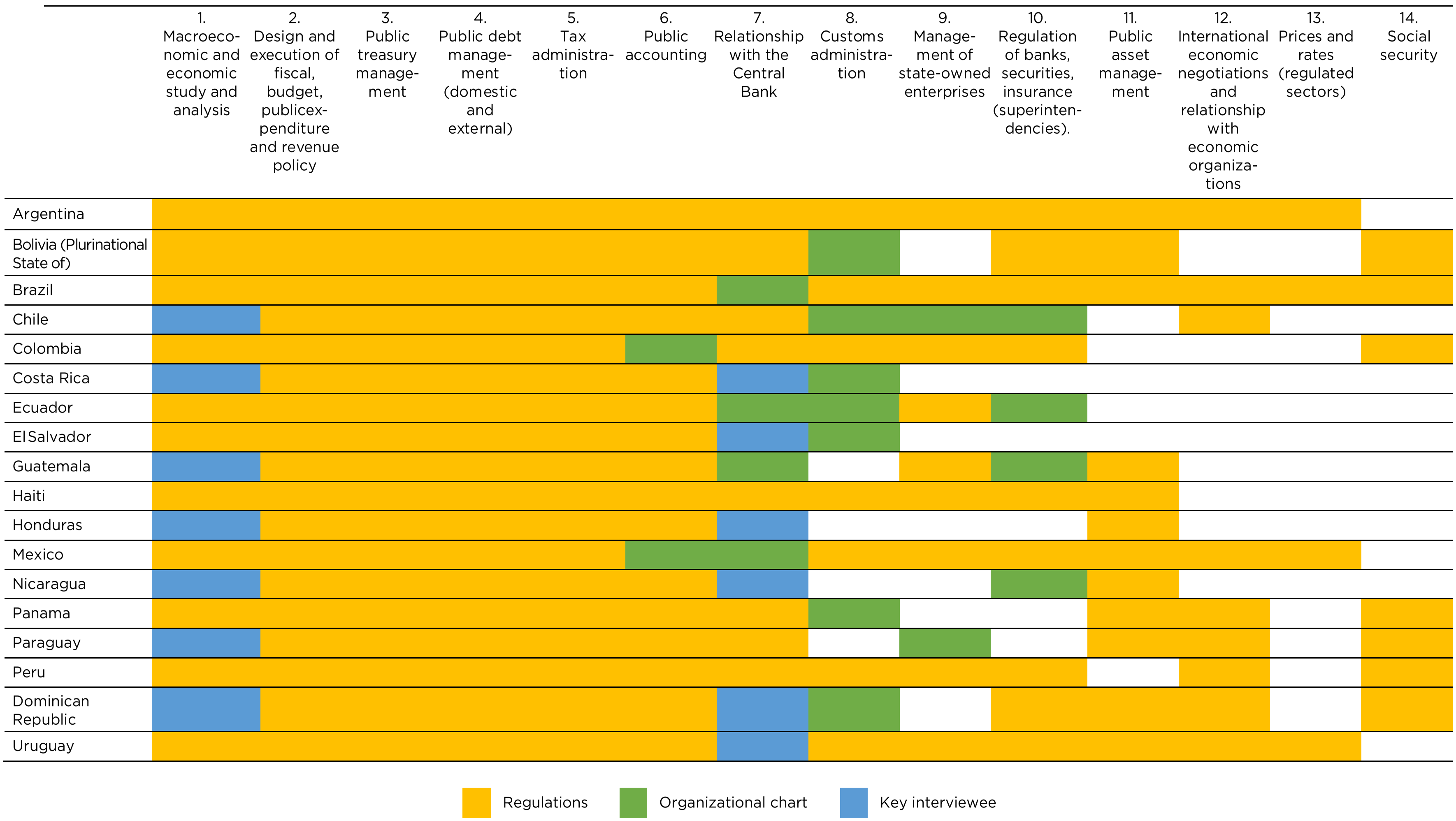
Based on the information in Table 2, several observations can be made regarding the traditional functions of ministries of finance in Latin America. There are seven traditional functions that clearly lie at the heart of the most recurring tasks carried out by these ministries, given that they are performed by all 18 institutions analyzed in the region. These functions are the following:

- Macroeconomic and economic study and analysis.
- Design and execution of fiscal, budget, public expenditure and revenue policy.
- Tax administration.
- Public treasury management.
- Public debt management (domestic and external debt).
- Accounting.
- Relationship with the Central Bank.

Within the traditional functions, there are five that are declared by at least half the total number of ministries. Although not universal or common to all ministries, these may be considered a high-recurrence group which will likely be maintained as permanent tasks for a significant number of these ministries:

- Customs administration (14 ministries).
- Regulation of banks, securities, insurance (superintendencies) (13 ministries).
- Management of state-owned enterprises (10 ministries).
- Public asset management (12 ministries).
- International economic negotiations and relationship with international economic organizations (9 ministries).

Table 2
Latin America (18 countries): Traditional Functions of Ministries of Finance



Source: Prepared by the author.

Lastly, within the traditional functions there are two which are normally delegated to other government entities and are, therefore, declared by a minority of ministries of finance:

- Social security (particularly pension systems) (7 ministries).
- Prices and rates within the ministerial competence (regulated sectors) (4 ministries).

In the case of functions relating to social security and pension systems, these are frequently transferred to the ministries of labor and health. The prices and rates' function, meanwhile, is usually assigned to ministries of industry and trade. These are probably functions that may be of a residual nature, which ministries of finance have relinquished by delegating them to other departments. The case of Brazil stands in contrast to this, as it recently merged a group of departments, absorbing these functions.

2. The Modern Functions of Ministries of Finance

In analyzing the modern functions, additional efforts were made to explore different sources and draw more significant distinctions in terms of the degree of development of each function. The need to explore different sources reflects the emerging nature of these functions. Their introduction has been experimental in many cases and has not been explicitly established in the regulations. For this reason, it was essential to review other sources (organizational charts, bibliography and key interviewees) to obtain the necessary information.

In terms of drawing greater distinctions regarding each function, seven of the functions were disaggregated by level of development, identifying the degree of development achieved by each ministry of finance.[12] They are the following: (i) fiscal rules and fiscal risk management; (ii) the evaluation and control of budget management (quality and efficiency of programs and public expenditure); (iii) public sector human resources management; (iv) public procurement; (v) public finances statistics; (vi) information technologies applied to the public finances; and (vii) the coordination, design, and promotion of public policies. The results of the disaggregation of these functions are presented below.

Fiscal Rules and Fiscal Risk Management

This is a central function in terms of strengthening the capacity of ministries of finance to ensure public finances sustainability, contributing to the inter-temporal control of fiscal expenditure and revenue. Over the last decade, various countries in the region have made progress in creating and implementing fiscal rules, by way of fiscal accountability laws, and the creation, in some cases, of fiscal councils (collaborative entities for the discussion, analysis, and issuance of recommendations regarding fiscal rules). As well, sovereign funds have been established, pursuant to the provisions of fiscal rules. The most advanced countries in the region have also included fiscal risk management and the analysis of contingent liabilities (Barreix and Corrales, 2019).

The information gathered regarding the status of this function in each country is presented below (see Table 3).

Advanced fiscal rules are those which allow or facilitate countercyclical public finances management based on rules that govern the income and expense balance management, accompanied by exit or escape clauses that allow public spending to rise beyond the regulated limit under special conditions (e.g., the current COVID-19 pandemic). Table 3 shows that 13 countries in Latin America

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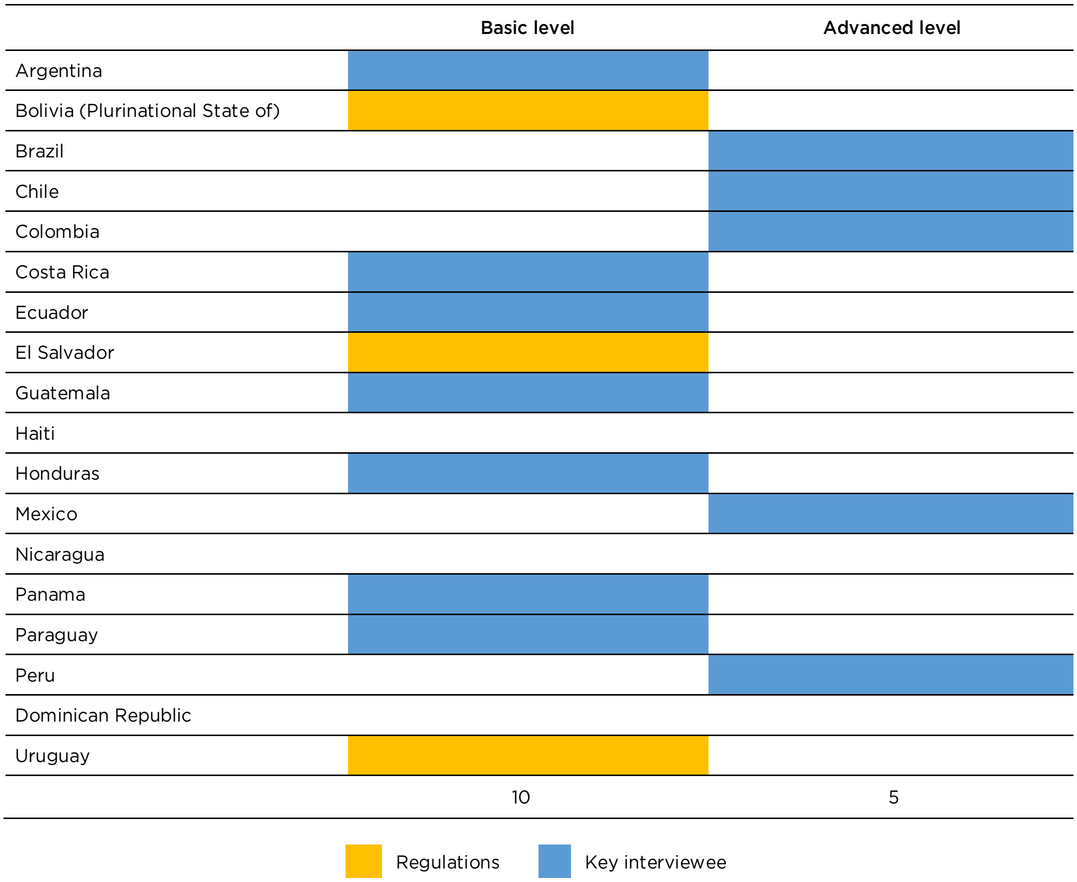
12 The analysis of the levels of development of these functions is based primarily on the status of their regulatory development, the existence of organizational arrangements, and their contribution to the inter-temporal management of public finances. It does not imply any value judgment on the effectiveness or efficiency of these functions.

Table 3
Latin America (18 countries): Fiscal Rules and Fiscal Risk Management



Source: Prepared by the author.

have established fiscal rules,[13] but only 5 of these (Brazil, Chile, Colombia, Mexico, and Peru) meet the conditions of having both an advanced rule and an institutional mechanism for fiscal risk management (see Box 1).

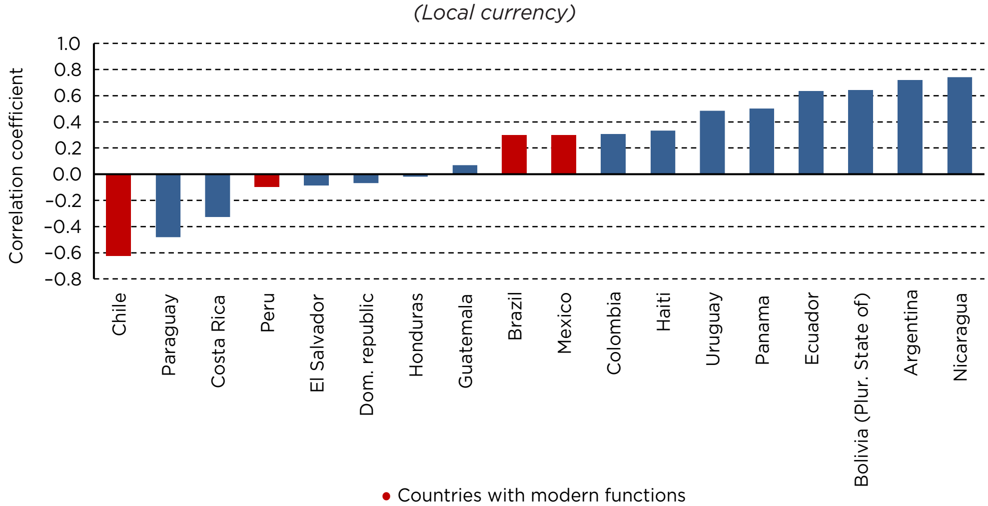
Some countries—including Brazil, Colombia, Ecuador, Mexico, and Peru—have also further developed fiscal responsibility regulations and insolvency management arrangements for subnational governments. These regulatory frameworks have created a relationship of accountability of subnational governments to the ministries of finance, to ensure compliance with the rules. They have also generated the need to strengthen the supervision and compliance control functions of ministries of finance (World Bank, 2013). The cases of Brazil, Colombia, and Mexico and the results achieved from implementing subnational rules are analyzed in Canuto and Liu (2013). Paraguay has made progress with the adoption of a medium-term fiscal framework established in its fiscal responsibility law (2013). Uruguay has recently created a fiscal rule (April 2020) that is advanced in design. However, its recent introduction along with the lack of any institutional arrangements for fiscal risk management in the Ministry of Economy and Finance have meant that the function is classified as at a basic level. Lastly, Bolivia (the Plurinational State of) and Guatemala lack fiscal rules but have

13 Of the countries studied, the following lack fiscal rules: Bolivia (Plurinational State of), Guatemala, Haiti, Nicaragua, and the Dominican Republic.

Box 1
Fiscal Policy and the Economic Cycle

According to the literature, countercyclical fiscal policy is optimal. But despite the benefits of countercyclical fiscal policy, most developing countries continue to pursue procyclical fiscal policies, which hinders fiscal sustainability, particularly during periods of economic contraction (Izquierdo, Pessino, and Vuletin, 2018; ECLAC, 2020c). The methodological framework developed by Frankel, Vegh, and Vuletin (2011) aims to determine whether fiscal policy in a country is procyclical or countercyclical by examining the nature of fiscal policy in relation to the economic cycle. If the correlation between the cyclical component of real total spending and the cyclical component of real GDP (a proxy for the economic cycle) is positive (negative), a country's fiscal policy is procyclical (countercyclical). For the purposes of this exercise, the GDP deflator is used to estimate real total spending and real GDP, while the Hodrick-Prescott filter is used to estimate the cyclical components of real spending and real GDP. Figure 1 shows the results of this exercise for the 18 countries analyzed in this document, for the 2000–2017 period. Two of the countries with modern functions in their ministries of finance exhibited countercyclical fiscal policy during this period—Chile and Peru—while Chile was the best-performing country in Latin America in terms of fiscal policy in relation to the economic cycle (see Table 8).

Figure 1
Latin America (18 countries): Correlation between the Cyclical Component of Real Spending[a] and Real GDP,[b] 2000–2017
(Local currency)



Source: Authors' calculations based on Frankel, Vegh, and Vuletin (2011) and IMF (2019).
[a] The cyclical components of real total spending and real GDP were calculated using the Hodrick-Prescott filter with a parameter of 6.25. A positive (negative) correlation coefficient indicates that fiscal policy is procyclical (countercyclical).
[b] Real total real spending was calculated using the total spending indicator prepared by the IMF (2019), which was updated using the GDP deflator.

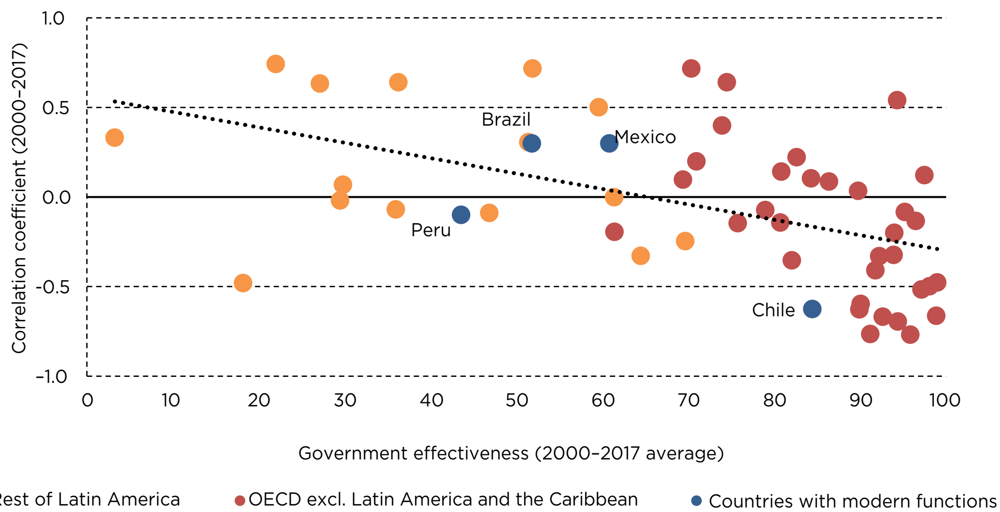
Frankel, Vegh, and Vuletin (2011) show the causal relationship between the quality of institutions and countercyclical fiscal policy: in other words, the stronger a country's institutions, the greater the capacity (magnitude) of its countercyclical fiscal policy. Accordingly, a second exercise was carried out within the sample of countries with modern functions in their ministries of finance. The correlation coefficient estimated in Figure 1 was used, along with the government effectiveness indicator provided by the Worldwide Governance Indicators (Kaufmann and Kraay, 2020). In the case of both the Latin American countries and those belonging to the OECD, Figure 2 shows a statistically significant negative correlation between institutional effectiveness and the magnitude of cyclicality or countercyclicality in fiscal policy. In other words, the higher a country's score on the institutional effectiveness variable, the greater the negative correlation between

(continued on next page)

Box 1 *(continued)*
Fiscal Policy and the Economic Cycle

real spending and real GDP. Figure 2 shows that levels of countercyclical fiscal policy and government effectiveness are high for the great majority of OECD countries and, at a very comparable level, also for Chile. The quality of institutions in Chile and, to a lesser degree, Peru is one of the factors thought to have played a role in the design of optimal fiscal policy in both countries. Countercyclical policy is key for mitigating the negative effects of economic recession and improving fiscal sustainability.

Figure 2
Correlation Coefficient (Cyclical Components of Real Spending and Real GDP)[a] and Government Effectiveness, 2000–2017
(Correlation coefficient and average percentile ranking)



Source: Authors' calculations based on Frankel, Vegh, and Vuletin (2011) and Kaufmann and Kraay (2020).
[a] The correlation coefficient is calculated based on the correlation of the cyclical components of total real spending and real GDP. The cyclical components were calculated using the Hodrick-Prescott filter with a parameter of 6.25. A positive (negative) correlation indicates that fiscal policy is procyclical (countercyclical). Real total spending was calculated using the CEPALSTAT total spending indicator adjusted by the GDP deflator. The government effectiveness indicator captures perceptions of the quality of public services, the quality of the civil service and its degree of independence from political pressures, the quality of policy design and implementation, and the credibility of the government's commitment to these policies.

Source: Prepared by the authors based on Frankel, Vegh, and Vuletin (2011); Izquierdo, Pessino, and Vuletin (2018); Kaufmann and Kraay (2018) http://info.worldbank.org/governance/wgi/; and ECLAC (2020c).

fiscal risk units in their respective ministries of finance; therefore, they are both classified as having a basic level of this function.

Evaluation and Control of Budget Management (Quality and Efficiency of Programs and Public Expenditure)

This function has been developing in the region over the last couple of decades, with implementation accelerating to improve the efficiency of spending allocations (ECLAC, 2018; IDB, 2018; OECD, 2018). It has four main objectives: (i) expenditure prioritization – aligning the selection and management of public programs with expenditures allocated to the government's priority objectives; (ii) results-based budgeting – linking public programs and expenditure objectives to specific results; (iii) analytical monitoring and results evaluation – evaluating the cost of programs and scope of results by means of analytical tools, data and technology; and (iv) improvement of cost-benefit ratio by identifying potential improvements in program selection, expenditure allocation (allocative efficiency), and expenditure execution (productive efficiency). To achieve these objectives, ministries of finance assume functions that, in conjunction with the roles of other ministries, help to (i) identify priority programs; (ii) determine expected results, with indicators and metrics; and (iii) establish and produce tools for evaluating these results. This greater involvement of ministries of finance in sector programs has created some tension, but it continues to expand due to greater institutional capacity of these ministries and the need to coordinate public programs that are increasingly multisector in nature (López-Acevedo et al., 2012).

Three levels of development have been identified within this function: basic, intermediate, and advanced.

Table 4 shows the level of each ministry of finance based on this classification.

Table 4
Latin America (18 countries): Evaluation and Control of Budget Management

	Basic level	Intermediate level	Advanced level
Argentina		■	
Bolivia (Plurinational State of)	■		
Brazil			■
Chile			■
Colombia	■		
Costa Rica		■	
Ecuador	■		
El Salvador	■		
Guatemala	■		
Haiti			
Honduras			
Mexico			■
Nicaragua			
Panama	■		
Paraguay		■	
Peru			■
Dominican Republic	■		
Uruguay	■		
	8	3	4

■ Key interviewee

Source: Prepared by the author.

The basic level of this function reflects the use of performance indicators in public programs. The intermediate level reflects the widespread use of performance indicators in the public sector and the existence of at least one other program evaluation tool (e.g., rapid evaluations of design and results). The advanced level includes the widespread use of a set of evaluation tools in addition to those mentioned above (e.g., impact evaluations and comprehensive management balances), as well as the use of other management tool instruments such as incentives for performance-based remuneration. In addition to the use of tools, however, the advanced function is characterized by an ability to make decisions within the budget cycle, reorienting public policies and budget programs.

Of the 15 ministries of finance in the region that have introduced the budget management evaluation and control function, only 4 have attained an advanced level: Chile, Brazil, Mexico, and Peru. There are two countries in the region in which this type of function is performed outside the Ministry of Finance. In the case of Colombia, this function is assigned to the DNP, and has reached an advanced level. In Uruguay, the OPP performs budget monitoring and evaluation activities, which, together with the activities carried out by the Ministry of Economy and Finance, justifies the country's intermediate classification.

Public Sector Human Resources Management

Ministries of finance have budget management roles in relation to current expenditure that affect human resource management. Through their functions related to the budget cycle, ministries of finance are authorized to regulate current expenditure, by limiting its growth and altering human talent management incentives in the public sector. These functions include fiscal rules, which impose limits on growth in current expenditure (as analyzed above), as well as rules that authorize the approval of personnel assignment tables and salary scales. One noteworthy case is the Department for Fiscal Management of Human Resources in Peru's Ministry of Economy and Finance, which performs the technical and financial analysis of policies governing the incorporation of human resources into the public sector. Spending on human resources represents a very significant share of the budget in all countries in the region.

In addition to this fiscal impact, human resource management involves the planning, selection, career development, training, and separation of human resources. In most countries in the region, these tasks are the responsibility of specific agencies outside of the ministries of finance. In the cases of Chile and Brazil, however, the ministries of finance are responsible for the function of human resource management itself, in addition to the traditional fiscal functions that affect human resource management.

The Inter-American Development Bank prepares a Civil Service Development Index for Latin America and the Caribbean. This index shows that in Brazil and Chile—countries in which the civil service is managed by the ministries of finance—the level of development of human resource management can be considered among the highest in Latin America.

Procurement Management

The regional public procurement of goods, services, and capital goods accounted for approximately US$450 billion in 2016. These acquisitions were equivalent to 29.8 percent of regional public spending and 8.6 percent of regional GDP. As described in Izquierdo, Pessino, and Vuletin (2018), procurement systems in the region faces challenges to reach levels of efficiency, effectiveness, and economy that would ensure an optimal quality-price ratio or value for money.

As ministries of finance have moved to implement functions to ensure the quality of expenditure and fiscal transparency, their roles and relationships with regard to public procurement systems have expanded. With public procurement accounting for close to one third of total public sector spending, ministries of finance increasingly believe that fiscal efficiency and sustainability can be facilitated by more strategic procurement management (e.g., electronic product catalogs and framework agreements, have helped to increase competition and improve the efficiency of purchases). New purchasing routines and procurement planning processes can serve as inputs for budget and treasury programming, thus helping to improve budget credibility. They can also be an important input for the design of a Medium-term Fiscal Framework.

At the same time, the demand for greater fiscal transparency has encouraged ministries of finance to promote technological tools and mechanisms for public information access that allow transparency in procurement management. (For example, through the use of open government tools and electronic procurement system, integrated financial management systems have contributed to facilitate access to information on public procurement procedures and outcomes.)

This expansion of roles and functions has not been homogenous in the region. In some countries, the regulation of procurement policies has been assigned to units in the ministries of finance (Brazil, Colombia, Costa Rica, El Salvador, Paraguay, and Peru). In other countries, regulation has been allocated to independent units or units attached to other ministries.

The execution of public procurement is usually the responsibility of an entity within the institutional framework of a ministry of finance or other ministries. This may be either a dependent unit within a ministry or an autonomous body attached to it (public service).

Information regarding the ministries of finance that are institutionally responsible for procurement execution—either through a dependent unit or an autonomous body attached to the ministry—is provided below (see Table 5).

Table 5
Latin America (18 countries): Public Procurement Management, Purchase Execution

	Basic level	Advanced level
Argentina		
Bolivia (Plurinational State of)		
Brazil		
Chile		
Colombia		
Costa Rica		
Ecuador		
El Salvador		
Guatemala		
Haiti		
Honduras		
Mexico		
Nicaragua		
Panama		
Paraguay		
Peru		
Dominican Republic		
Uruguay		
	7	3

Regulations Organizational chart Bibliography

Source: Prepared by the author.

Regarding procurement execution, two levels have been distinguished: basic and advanced. The OECD's Methodology for Assessing Country Procurement Systems (MAPS) is a broadly accepted benchmark for assessing public procurement. It essentially measures a country's procurement process against best practice models in other countries. Based on this methodology, within the countries analyzed, only the ministries of finance in Brazil, Chile, and Peru can be considered as having an advanced level of institutional arrangements for public procurement.

Public Finance Statistics.

Public finance statistics are central to both fiscal policy management and public finances transparency, as they allow stakeholders to access fiscal information in a timely and standardized manner with the aim of making efficient decisions and generating valuable information for the identification of fiscal risks. They are a tool that allows academia, international organizations, market participants, and citizens to visualize fiscal policy while also improving its credibility and reliability. The generation of public finance statistics fulfills two objectives. The first is to strengthen the collection and analysis of transactional data, usually obtained from financial management systems, for fiscal decision-making. The second involves generating data from non-transactional sources (e.g., program coverage, the results of expenditure studies, etc.), which also enhance the quality of fiscal statistics.

The Code of Good Practices on Fiscal Transparency (IMF, 2007), the Fiscal Transparency Code (IMF, 2014), and the Budgeting Practices and Procedures in OECD Countries (OECD, 2014) set the standards that should be embedded in national regulatory frameworks to ensure good fiscal transparency practices. In Latin America, progress in this sphere has been uneven; however, there has been a tendency to increasingly value the role of fiscal transparency, an element that is critical for fiscal policy management and accountability. A key area in terms of fiscal transparency is the production of fiscal statistics. The IMF currently manages four tools for the dissemination of public finance statistics: (i) the General Data Dissemination System (GDDS), which is the most basic; (ii) the General Data Dissemination System (GDDS) with a National Summary Data Page (NSDP); (iii) the Special Data Dissemination Standard (SDDS); and (iv) the Special Data Dissemination Standard Plus, which is the most advanced (IMF, 2020a).

Table 6 presents a classification of the public finance statistics function for ministries of finance in the region, based on IMF information (2020a).

Table 6
Latin America (18 countries): Public Finance Statistics

	GDDS	GDDS with NSDP	SDDS	SDDS Plus
Argentina			■	
Bolivia (Plurinational State of)	■			
Brazil				■
Chile				■
Colombia			■	
Costa Rica			■	
Ecuador			■	
El Salvador			■	
Guatemala	■			
Haiti	■			
Honduras		■		
Mexico			■	
Nicaragua	■			
Panama		■		
Paraguay		■		
Peru			■	
Dominican Republic		■		
Uruguay			■	
	4	4	8	2

■ Bibliography

Source: Prepared by the authors based on IMF (2020a).

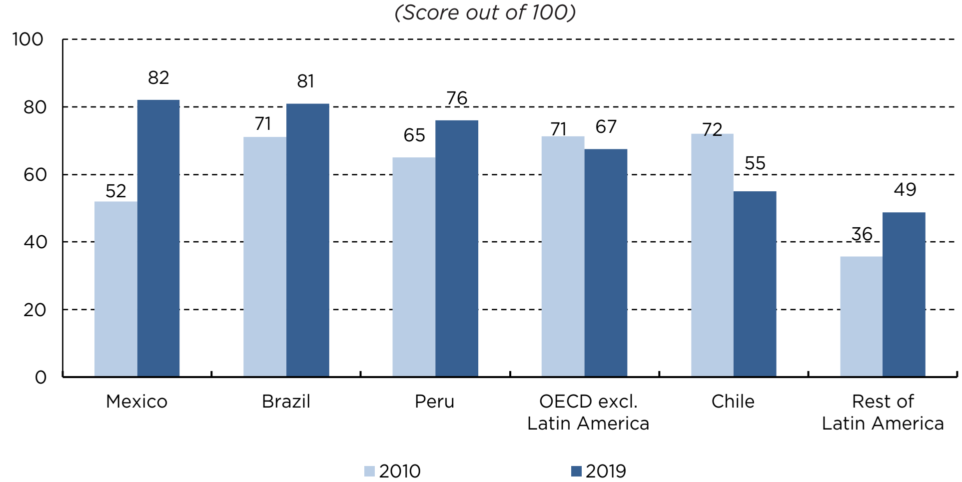
Table 6 (prepared based on analyses carried out by the IMF) shows the significant efforts made by all the countries analyzed to make improvements in public finance statistics. Eight countries belong to the two most basic categories (GDDS and GDDS with NSDP): Bolivia (Plurinational State of), Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, and the Dominican Republic. A further eight have achieved an intermediate level (SDDS): Argentina, Colombia, Costa Rica, El Salvador, Ecuador, Mexico, Peru, and Uruguay. Only two countries have reached an advanced level: Brazil and Chile. This shows that despite progress in this area, the region continues to face significant fiscal challenges in consolidating institutional frameworks for fiscal transparency, an area that is of vital importance for the credibility of public financial management and for improving fiscal sustainability in the region (see Box 2).

Box 2
Fiscal Transparency and Public Revenue

One of the critical elements in fiscal management is fiscal transparency, which can help countries achieve financial and economic stability. Fiscal transparency can allow countries to respond in a timely and effective manner to changing economic conditions, thus reducing the negative effects of economic crises. Fiscal transparency is also a critical ingredient for improving trust in public financial management and public service provision, and for creating new opportunities that fuel investment and development (IMF, 2018; IDB, 2020; ECLAC, 2020c).

Based on information from the International Budget Partnership (2020), Figure 3 shows that the countries with modern functions in their ministries of finance (Mexico, Brazil, Peru, and Chile; see Table 8) have some of the highest Open Budget scores in the region. In the cases of Mexico, Brazil, and Peru, these countries have made efforts to improve their Open Budget scores in the 2010–2019 period. In addition, these three countries had Open Budget scores above the average for the OECD countries in 2019.

Figure 3
Fiscal Transparency: Open Budget Scores[a]
(Score out of 100)



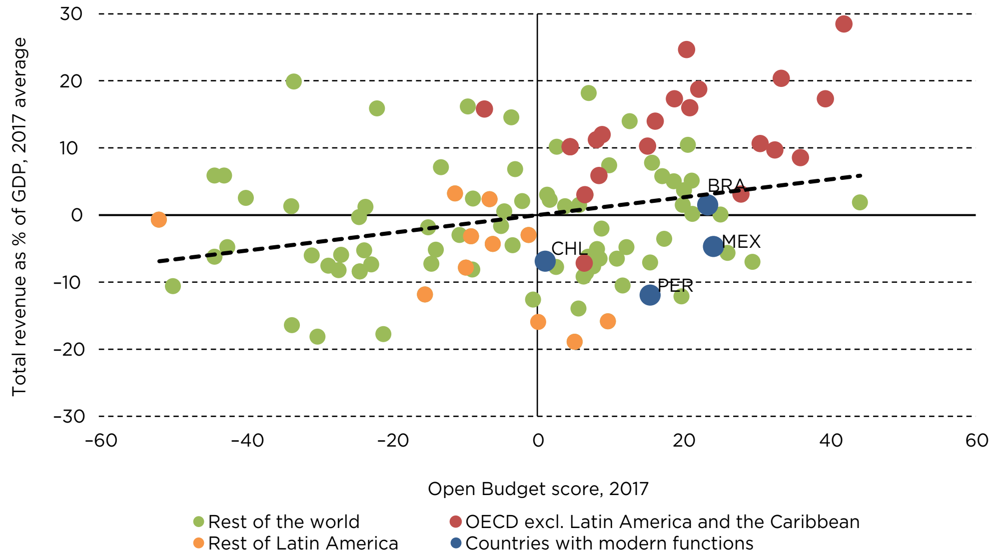
Source: Authors' calculations based on the International Budget Survey conducted by the International Budget Partnership.
[a] The rest of Latin America includes Argentina, Bolivia, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, and Nicaragua. A simple average is used for the rest of Latin America and for the OECD excluding Latin America and the Caribbean.

Greater fiscal transparency can build trust among citizens and generate support for efforts to increase fiscal revenue, for example. Figure 4 shows a statistically significant positive correlation between a higher Open Budget Index and countries' total revenue levels as a percentage of GDP (controlling for countries'

(continued on next page)

Box 2 *(continued)*
Fiscal Transparency and Public Revenue

Figure 4
Relationship between Total Revenue and Open Budget Index, 2017
(Score; % of GDP)



Source: Authors' calculations based on International Budget Partnership (2020) and IMF (2019).
[a] The values for total revenue and the Open Budget Index represent the deviation with respect to predicted values based on 2017 income levels. Income levels correspond to the natural log of per capita GDP in current international dollars adjusted for purchasing power parity.

level of economic development). For this exercise, the deviation of the value of total income was estimated as a percentage of GDP. The Open Budget Index, on the other hand, was estimated from its predicted value based on 2017 income levels. The natural log of 2017 per capita GDP in current international dollars adjusted for purchasing power parity was used as a proxy variable for a country's level of economic development.

Figure 4 shows that Brazil, Chile, Mexico, and Peru are among the few countries in Latin America with levels of open budget development that are far above predicted values based on economic development levels. Brazil's total revenues collection is also above their predicted values based on the country's level of economic development. The level of fiscal transparency has implications for the level of total accrued revenue, and this, among other factors, has a direct impact on a country's fiscal sustainability. This is particularly the case given the negative effects of economic and financial crises such as the one currently experienced by countries in the region due to the coronavirus pandemic.

Source: Prepared by the authors based on Inter-American Development Bank (2020), Transparency and Integrity Sector Framework Document, Washington D.C., Innovation for Citizen Services Division; ECLAC (2020c); International Budget Partnership (2020), Open Budget Survey 2019, Washington D.C.; IMF (2018, 2019).

Information Technologies applied to Public Finances.

Efficient public finances management not only requires robust, appropriate fiscal policy architecture and the management of a sustainable debt path, but also: (i) the ability to organize spending and revenue cycles through processes that link and organize the different spending and revenue stages in order to ensure predictability in the budget cycle; (ii) the capacity of these processes to produce reliable information that supports decisions regarding public spending and revenue cycles and makes them transparent; and, (iii) the ability to integrate these processes into other public finance functions (e.g., human resource management, procurement, or public debt) to ensure that spending and revenue cycles are fully comprehensive. These capabilities, though reflected in the implementation of integrated financial management systems, imply that ministries of finance assume new functions relating to the use of information and communication technologies, allowing data generated at the different stages of the spending and revenue cycles to be used for decision-making in fiscal and other public policies.

Table 7
Latin America (18 countries): Information Technologies applied to Public Finances

	Basic level	Advanced level
Argentina		Key interviewee
Bolivia (Plurinational State of)	Regulations	
Brazil		Key interviewee
Chile		Key interviewee
Colombia	Regulations	
Costa Rica	Regulations	
Ecuador	Regulations	
El Salvador	Regulations	
Guatemala	Organizational chart	
Haiti	Bibliography	
Honduras	Bibliography	
Mexico	Bibliography	
Nicaragua	Regulations	
Panama	Organizational chart	
Paraguay	Organizational chart	
Peru	Regulations	
Dominican Republic	Regulations	
Uruguay	Bibliography	
	15	3

Regulations Organizational chart Key interviewee Bibliography

Source: Prepared by the author.

Table 7 provides data on the information technologies used for the public finances in each ministry of finance in the region. Key interviewees were used as the source for this information.

With respect to this function, it can again be observed that all the countries have made efforts to improve the design and use of integrated financial management systems. Indeed, the region stands out in widespread use of these systems as compared with other regions. Even in the case of the industrialized economies, few of these countries have single, standardized systems such as those in Latin America. (For example, Germany, the United States, and the United Kingdom all lack a single system covering the entire public sector).

All the ministries of finance analyzed have integrated financial management systems, although only three of these have attained an advanced level: Argentina, Brazil, and Chile. This result was obtained primarily based on the IMF's evaluation of levels of timeliness and reliability of the information produced by these systems. This is a critical issue when it comes to using this information in fiscal policy decisions and decision-making during the budget cycle (Uña and Pimenta, 2016).

Nonetheless, in many cases, significant efforts have been made to develop different functions, including budget formulation, execution, and evaluation; budget, accounting, treasury, public debt, and public investment modules; and the inclusion of different levels of government (national, state—provincial or regional—and local). Data was gathered regarding the usefulness of the information for decision-making in these areas, which reflect heterogeneous levels of development and high value in each ministry of finance.

Coordination, Articulation, Design, and Promotion of Public Policies.

The transformation of ministries of finance from traditional functions to modern ones not only involves improvements in public finances and macroeconomic policies management, but also enhances ministry capabilities for public policy intervention, coordination, and design, particularly in relation to those policies with a high fiscal impact.

Generally speaking, ministries of finance have always been involved in the design and implementation of public policies that impact public finances and medium-term fiscal commitments. These mechanisms have been perfected over time, conferring on ministries of finance a greater role in sector functions relating to policy definition—particularly those sector policies with a potentially high level of impact on economic and fiscal policy objectives. This function of public policy coordination, articulation, design, and stimulus takes a variety of forms, but all of these have the common objective of giving ministries of finance roles in the "center of government" function of coordinating the production of public policies. This function involves coordination roles with the legislative branch for the discussion and approval of public policies, and with sector ministries during the process of designing and implementing public policies.

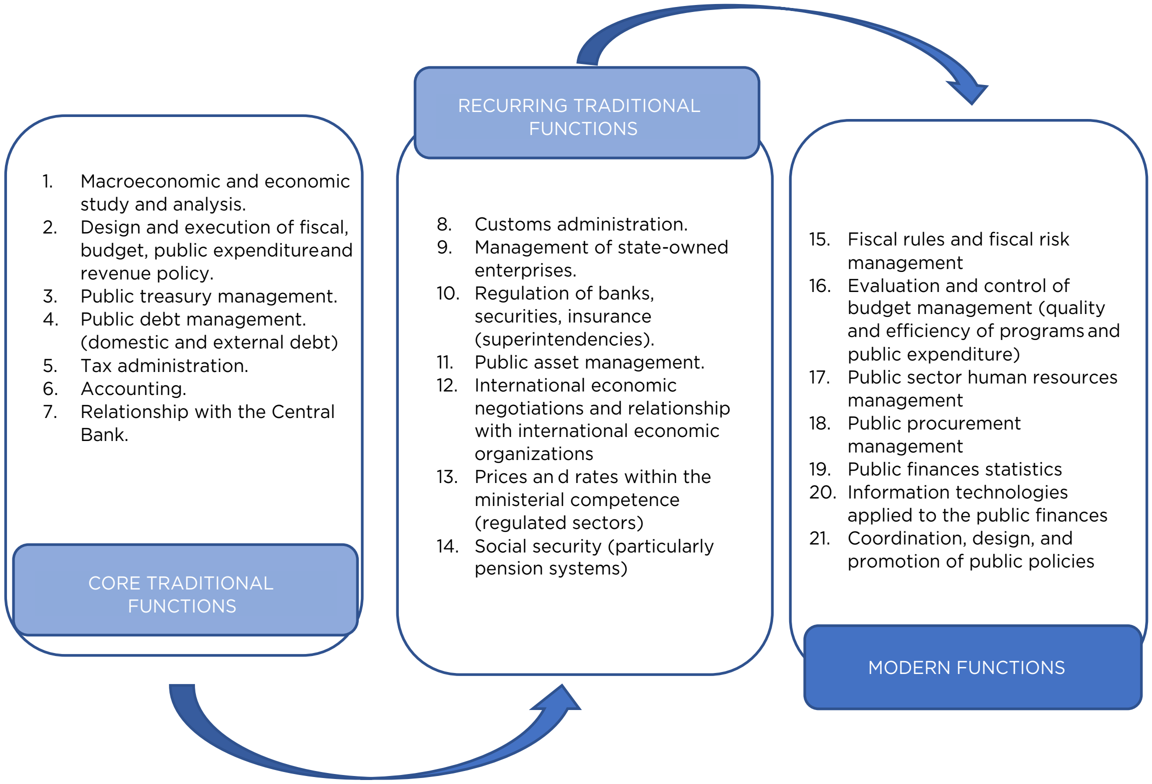
A review and analysis of the regulations and organizational structures of ministries of finance in the region show that three ministries include this modern function in their regulations and/or institutional frameworks: Chile, Mexico, and Peru. As part of the current process of implementing institutional reform and transformation in Ecuador's Ministry of Economy and Finance, provision has been made for the creation of a National Legislative and Public Policy Coordination Department in the Vice Ministry of Finance. This would make Ecuador the fourth country in the region to adopt such an initiative.

3. Comparative Levels of Institutional Development in Ministries of Finance and Future Requirements

Based on the information reviewed in sections II.C.1 and II.C.2, Diagram 1 shows the 21 ministries of finances' functions analyzed in this study, consistent with the proposed classification into traditional and modern functions.

Based on this analysis and the information gathered for the rest of the advanced functions, the status of the different ministries of finance and their modern functions was established (see Table 8).

Diagram 1
Traditional and Modern functions of Ministries of Finance



Source: Prepared by the author.

The following observations can be made based on the information in Table 8. First, in addition to the fact that ministries of finance in the region have made progress in terms of incorporating these modern functions, only a minority of countries have achieved an advanced, consolidated level of development in this respect. Only in the area of public finance statistics (including the intermediate level of development), were 10 ministries identified as implementing this function. Regarding the other functions, advanced levels of development are limited to 3 or 4 ministries.

Of the 18 ministries studied, modernization processes are more advanced in 4. These are, by level of development:

- Chile (7 functions).
- Brazil (6 functions).
- Peru (5 functions).
- Mexico (4 functions).

In these countries, only Chile, Mexico, and Peru declare the existence of the "coordination, design, and promotion of public policies" function, which, as mentioned above, is one of the most advanced functions within ministry of finance modernization processes.

In two countries, ministries of finance can be classified as being in transition toward the consolidation of modern functions. Ministries of finance are considered to be in transition when they have two of the modern functions:

Table 8
Latin America (18 countries): Modern functions of Ministries of Finance

	1. Fiscal rules, advanced	2. Evaluation and control of budget management, advanced	3. Public procurement management advanced	4. Public sector human resources management, advanced	5. Public finance statistics, intermediate and advanced	6. Information technologies applied to the public finances, advanced	7. Coordination, design, and promotion of public policies
Argentina					Organizational chart	Bibliography	
Bolivia (Plurinational State of)							
Brazil	Key interviewee	Key interviewee	Key interviewee	Key interviewee	Organizational chart	Bibliography	
Chile	Key interviewee	Key interviewee	Key interviewee	Regulations	Organizational chart	Bibliography	Regulations
Colombia	Key interviewee				Organizational chart		
Costa Rica					Organizational chart		
Ecuador					Organizational chart		
El Salvador					Organizational chart		
Guatemala							
Haiti							
Honduras							
Mexico	Key interviewee	Key interviewee			Organizational chart		Regulations
Nicaragua							
Panama							
Paraguay							
Peru	Key interviewee	Key interviewee	Key interviewee		Organizational chart		Regulations
Dominican Republic							
Uruguay					Organizational chart		

Regulations Organizational chart Key interviewee Bibliography

Source: Prepared by the author.

- Argentina (2 functions).
- Colombia (2 functions).

Colombia belongs to this group because it has a different institutional model and also because of the number of modern functions that are carried out by entities other than the Ministry of Finance and Public Credit (MHCP). No other country included in this analysis has an entity like the DNP, which is a technical advisory body of the Colombian presidency. Planning departments or ministries were created in many countries in the region in the 1960s, but their participation has declined and in several cases their functions have been delegated to other entities—frequently to ministries of finance. In the case of Colombia, however, the DNP is well-established within the public institutional framework, and it plays a coordinating role with close links to the different sectors, including the MHCP. Although the MHCP has only two of the functions characterized as modern, the country can nonetheless be considered to belong to the advanced group once the functions carried out by the DNP are included (evaluation and control of budget management and the coordination, design, and promotion of public policies). In addition, other autonomous government bodies perform the functions of public procurement and public sector human resource management in Colombia.

It should be noted that there are (modern) functions in the countries analyzed that are currently performed by other public entities, as previously established. This issue should be considered when classifying the level of development of ministries of finance, and certainly in relation to future institutional strengthening actions.

Lastly, 12 countries were identified in which modernization processes in the respective ministries of finance are at an early stage:

- Bolivia (Plurinational State of) (no functions).
- Costa Rica (1 function).
- Ecuador (1 function).
- El Salvador (1 function).
- Guatemala (no functions).
- Haiti (no functions).
- Honduras (no functions).
- Nicaragua (no functions).
- Panama (no functions).
- Paraguay (no functions).
- Dominican Republic (no functions).
- Uruguay (1 function).

As already established, there are functions in these countries that are currently performed by other public entities. Table 9 summarizes the situation of the ministries of finance in the 18 countries analyzed in terms of the level of development of their functions.

There is significant heterogeneity regarding the development levels of ministries of finance in the region. A small group of advanced countries can be classified as having modern functions, while another small group of countries has ministries in transition. Meanwhile, a much larger group of countries is strongly focused on traditional functions related to processes and budget control operations.

This situation underlines the substantial challenge faced by ministries of finance in most countries in the region and the amount of work that must still be done to develop the institutional capabilities needed to create sustainability in public finances and in State commitments to citizens. Accordingly, this is an important factor for economic and social development.

The existing heterogenous performance highlights two further issues. First, the emergence, two decades ago, of modernization processes in most of the countries, has made significant progress in different areas such as the application of fiscal rules, public procurement, public finances statistics, and information technologies applied to the public finances. Although important progress has been made, human and organizational resources should be further developed and strengthened in each country.

Second, the existence of advanced ministries of finance makes it possible to observe and transfer good practices in the development of modern functions. The countries of the region are linked culturally, linguistically, and technically, therefore, professional cooperation between them could be key for developing these ministries.

Of particular importance for the process of adopting best practices is the role of multilateral and international organizations as well as the role of academia. These sectors play a key role by

Table 9
Latin America (18 countries): Classification based on Traditional, Transitional, or Modern Functions

Countries consolidating modern functions	Brazil
	Chile
	Mexico
	Peru
Countries in transition to modern functions	Argentina
	Colombia
Countries focused on traditional functions	Bolivia
	Costa Rica
	Ecuador
	El Salvador
	Guatemala
	Haiti
	Honduras
	Nicaragua
	Panama
	Paraguay
	Dominican Republic
	Uruguay

Source: Prepared by the author.

carrying out in-depth analyses of the situation in each country, compiling good practices, supporting knowledge transfer, and ensuring that analysis of the institutional development status of each Ministry of Finance in the region is kept up to date.

III. Institutional Reforms and Changes in the Region's Ministries of Finance, 2010–2020

A. Background

In Latin America there have been numerous reforms and changes to the ministries of finance functions and scope of action. This section takes stock of these regulatory reforms and changes experienced by the region's ministries of finance between 2010 and the first half of 2020, most of which have been legal in nature and include the change from traditional to modern functions, both identified in Section III.

Secondary sources were used in this endeavor, consisting mainly of the website for each ministry and the regulatory summaries available on legislative branch websites in each country. In the cases of Costa Rica, El Salvador, Ecuador, Haiti, and Uruguay, information was also sought from key interviewees, ECLAC and IDB experts, or professionals linked to the ministries of finance in each of these countries. In the case of Nicaragua, secondary sources did not provide any information on institutional reforms or changes to the country's Ministry of Finance.

As mentioned in the earlier sections, the analysis contained in this study is exclusively regulatory, concerning the evolution of ministries of finance functions. Its objective, in other words, is to describe the degree of regulatory development that has taken place in the functions exercised by the region's ministries of finance. The main information sources reviewed were the legal rules approved by the legislative branch assigning functions to these ministries, as well as executive branch regulations that develop these functions (usually ministerial decrees and regulatory resolutions) and the opinion of local technical experts. The review of executive branch regulations also included organizational and functional manuals, which usually contain organizational charts describing the structure of these ministries.

Four features of the methodology of analysis should be noted:

- One characteristic of the study is that it covers the period from 2010 to 2020: in other words, it describes the functions that existed in the ministries of finance in 2010 and those subsequently incorporated from that year up to 2020. Accordingly, this section does not analyze any development of these functions that may have taken place in the decades prior to 2010. Nonetheless, the study does acknowledge several important trends in the evolution of some functions that have for the most part been accepted in the literature, such as the development of financial management systems or the creation of fiscal transparency and sustainability rules.
- The study focuses on regulatory analysis due to the importance of regulations within Latin America's positive legal system. In the area of administrative law, this establishes the need for administrative competence and functions to be assigned through regulations. Thus, the effective introduction and exercise of many of these functions requires that they be expressly recognized in the regulations. For this reason, the functions need to be legally approved for them to be subsequently implemented.
- The study does not propose or make any value judgments regarding the evolution or degree of development of any of the functions analyzed. Accordingly, it does not include any analysis of the operation, effectiveness, or efficiency of each function. It is therefore important to note that many of the functions may be contained in countries' regulations, but this does not necessarily indicate that they are at an advanced stage of development or implementation.
- Further research or an additional study is required to describe the development of the functions and their effective degree of implementation. This kind of analysis should focus on: (i) analyzing management models of ministries of finance, (ii) studying the operational features of these functions, and (iii) examining the impact of these functions on the policy objectives that they seek to achieve.

The severe health, economic, and social crisis experienced by countries in the region and elsewhere in the world, exacerbated by the recent pandemic, calls for (in particular) ministries of finance which have the institutional, technical, and financial capacity to tackle it and—once it has been overcome - manage the economic recovery and transformation phase. Ministries of finance that have not yet developed modern functions (as described in this document) may face weaknesses in ensuring a more efficient use of public resources, evaluating the management quality of public programs and spending, and expanding fiscal space to fund social protection or investment (infrastructure) programs that may be crucial for the region's economic recovery. Governments and multilateral/international organizations have the opportunity to engage in new efforts to implement the institutional reforms needed for the ministries of finance to fulfill their role of coordinating economic policy and promoting social policy. This will ensure the sustainability of public finances and the fulfillment of government promises to citizens across different countries of the region.

As various analyses confirm (Giménez and Mosqueira, 2020; ECLAC, 2020a), the pandemic has revealed substantial inequities in access to public services, as manifested in the difficulties experienced by governments in tackling the health crisis and implementing efficient alternatives to ensure continuity in remote public education. The pandemic therefore provides an opportunity to propose a new social and fiscal contract (pact) that places people at the heart of public policy. Such a pact should, on one hand, ensure that the State produces and delivers services incorporating equity criteria. On the other hand, it should reinforce the ability of public administrations to manage public spending based on criteria of allocative and productive efficiency; and promote a renewed tax policy aligned with the improvement of service delivery. This will require a transformation of public administrations thereby strengthening their ability to produce better-quality public policies and services. The role of ministries of finance is crucial, as the effective and efficient exercise of their functions can provide (for example) important inputs for the more strategic use of public resources, thus improving the quality of expenditure and the management of government programs.

This section covers three topics. First, it identifies the countries that have designed and implemented the most significant transformations over the last decade, including the main areas or functions that have been reformed. Second, it specifies the functions that have been changed and modernized most frequently over the last decade in the group of countries analyzed. Third, it describes the regulatory changes that have occurred, regarding the scope, in the ministries of finance. Annex 4 summarizes the information that was gathered on regulatory transformation and reform.

B. Key Transformations in the Region's Ministries of Finance, 2010–2020

Through research together with a regulatory review it was possible to identify the group of countries that experienced the greatest number of regulatory changes over the 2010–2020 period. These changes involved a significant number of traditional and modern functions. The countries that experienced the most significant transformations were Chile, Colombia, Ecuador, El Salvador, Guatemala, Mexico, and Peru. Ecuador has been included in light of its institutional reform project, development and implementation of which is currently underway.

Chile

Together with Mexico's Department of Finance and Public Credit and the Ministry of Economy and Finance in Peru, the Chilean and Brazilian cases also involve ministries that are in the process of consolidating several modern functions. Brazil's Ministry of the Economy and the Chilean Ministry of Finance both implemented their most significant regulatory and institutional changes in the decades prior to the period covered in this analysis.

In Chile, through the 2010–2020 period, actions sought to further refine institutional arrangements in various areas.

Traditional Functions:

- Regulation of banks, securities, and insurance: (i) in 2019, Law No. 21,000 created the Financial Market Commission by merging the Banking and Financial Institutions Superintendency and Securities, and the Securities and Insurance Superintendency. The Commission is a decentralized, technical, collegiate public service institution with independent legal status and its own assets. It relates to the executive branch through the Ministry of Finance, an entity responsible for ensuring the proper operation, development, and stability of the financial market as a whole; and (ii) in 2014, Law No. 20,789 created the Financial Stability Council as a consultative body comprising the Ministry of Finance, the Banking and Financial Institutions Superintendency, the Securities and Insurance Superintendency, and the Pensions Superintendency. The Council's function is to facilitate technical coordination and the exchange of information on the prevention and management of situations of risk for the financial system.
- Tax administration: (i) the 2014 structural tax reform led to the approval of Law No. 20,853 in 2015, which authorized an increase in the number of Internal Tax Service officials (144) to allow the Service to meet its new responsibilities; and (ii) in 2014 Law No. 20,752 modified the Tax and Customs Tribunal Organic Law, strengthening the tax and customs tribunals by increasing the number of civil servants (staff).

Modern Functions:

- Fiscal rules and fiscal risk management: in 2019, Law No. 21,148 created the Autonomous Fiscal Council (replacing the Fiscal Advisory Council, which was a Ministry of Finance commission). The Council is an autonomous, technical, consultative body with independent legal status and its own assets. Its objective is to support the responsible management of central government fiscal policy.
- Public sector human resource management: in 2016, Law No. 20,955 enhanced the Public Sector Upper Management System and the National Civil Service Department, giving them additional powers and strengthening their institutional structure.

Colombia

Colombia's Ministry of Finance and Public Credit is one of the economic institutions that had already made significant progress in the decades prior to those covered in this analysis. Improvements were also made in the National Planning Department (DNP) and other executive branch entities, as discussed in the section above. Nonetheless, in the 2010–2020 period a significant number of institutional changes also took place.

Traditional Functions:

- Design and execution of fiscal, budget, public expenditure ad revenue policies: (i) in 2016, Law No. 1,891 created the Study of Public Spending and Investment Commission in Colombia, which is made up of honorary experts and is responsible for the comprehensive study of public spending and investment; and (ii) in 2015, Law No. 1,753 created the Central Fiscal Transparency Portal.
- Regulation of banks, securities, and insurance: in 2011, Law No. 1,444 created the Unit of Regulatory Projection and Financial Regulation Studies to strengthen the supervision and regulation of the financial market.
- Tax administration: (i) in 2018 Law No. 1,943 created the Commission for the Study of the Regional Tax System. This Commission is steered by honorary experts and is responsible for studying the regime regarding taxes, rates, and contributions in the departments, districts, and municipalities; and (ii) in 2011, the Agency of the Inspector General for Tax, Revenue, and Contributions was created based on Law No. 1,444 (strengthening of the public revenue area).
- Social security (particularly pension systems): Progress was made with respect to pensions management between 2017 and 2018.

Modern Functions:

- Fiscal rules and fiscal risk management: in 2011, Law No. 1,473 of 2011 created (i) the fiscal rule, which establishes an annual ceiling on the country's structural expenditure as a proportion of structural revenue, and (ii) the Fiscal Rule Consultative Committee, which the government is obliged to consult and await its pronouncement. Improvements were made with respect to public asset management in 2017.
- Public finances statistics: Progress was made in 2017 regarding cross-sector coordination on fiscal information and statistics.
- Information technologies applied to the public finances: In 2017, the National Economic and Social Policy Council (CONPES) proposed conditions for developing a new financial management system (SIAF).

Ecuador

The case of Ecuador, the Ministry of Economy and Finance (MEF) has undergone significant regulatory and institutional transformation. Executive Decree No. 7 of May 2017 abolished the coordinating ministries created at the beginning of that decade. The Coordinating Ministry for Economic Policy merged with the Ministry of Finance, adopting the title "Ministry of Economy and Finance". The merging of these two ministries led to a process of reflection and decision-making regarding the organizational structure, functions, and outputs of the MEF, which then underwent a process of institutional modernization and consolidation. This process is still underway, thus some of the transformations highlighted below, although already approved by the authorities, have not yet been fully implemented.

Traditional Functions:

- Tax administration: creation of the Subsecretariat for State Revenue and Assets, with responsibilities that include the preparation of an annual report on fiscal revenue policy.
- Macroeconomic and economic study and analysis: creation of the Vice Ministry of Economy, with functions that include the programming of macroeconomic policy and microeconomic studies.

Modern Functions:

- Fiscal rules and fiscal risk management: creation of the National Fiscal Risks Department in the Subsecretariat for Fiscal Policy, in charge of preparing an annual report on fiscal risks (including analysis of the main contingent liabilities), among other outputs.
- Evaluation and control of budget management (quality and efficiency of programs and public expenditure): creation of the National Department for Quality of Public Expenditure in the Subsecretariat for Budget. The new Department will be responsible for preparing an annual report focused on the quality of public spending, among other outputs.
- Coordination, design, and promotion of public policies: creation of a National Department of Legislative and Public Policy Coordination with an advisory role, within the Vice Ministry of Finance.

El Salvador

Among the Central American countries, El Salvador's Ministry of Finance stands out for the depth of regulatory changes in both traditional and modern functions.

Traditional Functions:

- Design and execution of fiscal, budget, public expenditure and revenue policy: (i) in 2017, based on the Fiscal Responsibility Law (LRF), a set of fiscal transparency rules was established that included: (1) submission of the proposed General State Budget to the Legislative Assembly (following its approval by the Council of Ministers), accompanied by the Medium- and Long-Term Fiscal Framework, and (2) submission of an end-year evaluation of fiscal management and LRF compliance to the Council of Ministers and Legislative Assembly, accompanied by the State Financial Management Report, with an additional requirement that these reports be published on the ministry's Transparency Portal; and (ii) in 2018, legal changes were made to the LRF due to technical issues with the adoption of the new System of National Accounts (2008 base year). Legal changes facilitate the change of fiscal rules in the event of changes in the national accounts or GDP calculation methods. The 2018 reforms also included changes to enhance transparency and access to information on the financial management of the public treasury.

Modern Functions:

- Fiscal rules and fiscal risk management: (i) in 2017, based on the LRF, a fiscal rule was established that determines ceilings for the fiscal deficit and public borrowing and requires the Ministry of Finance to prepare a Medium- and Long-term Fiscal Framework (10 years); (ii) in 2012 a ministerial agreement led to the creation of the Fiscal Risk Unit in the Economic and Fiscal Policy Department (DPEF) of the Ministry of Finance, aimed at studying and analyzing contingent liabilities arising from public-private partnerships (PPPs) and disaster risks; and (iii) in 2014 the DPEF was restructured incorporating new functions to analyze and quantify the fiscal impact of risks arising from climate change, PPPs, the pension system, macrofiscal situation, municipal debt, state-owned enterprises, and lawsuits against the State.
- Public procurement: in 2011 the Public Procurement Law mandated the creation of: (i) the Public Procurement and Contracting Regulatory Unit, (ii) the Public Procurement and Contracting Integrated System, and (iii) the Public Procurement and Contracting National Register.

Guatemala

After El Salvador, Guatemala is the Central American country to have made the most significant changes to the regulatory framework governing its Ministry of Public Finances.

Traditional Functions:

- Design and execution of fiscal, budget, public expenditure and revenue policy: in 2018 a Government Agreement established the following provisions: (i) the creation of the Vice Ministry of Fiscal Transparency and Public Procurement, including a Fiscal Transparency Department; (ii) the requirement that the Ministry submit an annual report on its activities within the first 10 days of February each year, including budget execution; and (iii) inclusion of the function to develop mechanisms for the coordination of public policies, macroeconomic planning, and multiyear budgeting.
- Tax administration: in 2016 an executive decree created the Tax and Customs Administrative Tribunal.

Modern Functions:

- Public procurement: a 2018 Government Agreement created (i) the Vice Ministry for Fiscal Transparency and Public Procurement; (ii) the Public Procurement General Register (Guatecompras system); and (iii) the General Department of Public Procurement and the Department of State Procurement Training and Professional Development.
- Evaluation and control of budget management (quality and efficiency of programs and public expenditure): a 2018 Government Agreement created a function involving the review and ongoing update of budget and financial management methods, based on results-based management and criteria of efficiency, effectiveness, and equity in the use of public resources.

Mexico

Progress toward adopting those modern functions identified in Section II took place primarily in prior decades, through a process undertaken by Mexico's Secretariat of Finance and Public Credit (SHCP). Nonetheless, a set of actions have been implemented over the last 10 years to strengthen and enhance four of these functions, together with two of those characterized as traditional. The observed improvements are laid out below.

Traditional Functions:

- Regulation of banks, securities, and insurance: in 2016, the Federal Public Administration Law (LOAPF) created the Insurance and Finance National Commission as a deconcentrated body of the SHCP.
- Public asset management: (i) in 2017, the LOAPF, created the National Asset Administration and Valuation Institute as a decentralized unit of the SHCP; and (ii) in 2013, the LOAPF, assigned new functions to the SHCP to manage the federal public administration's real estate policy, and to regulate the procurement, rental, disposal, use, and encumbrance of federal public administration's properties.

Modern Functions:

- Fiscal rules and fiscal risk management: in 2016, the Law on Financial Discipline of the States and Municipalities was passed to introduce legislation ensuring fiscal and financial responsibility at the subnational level.
- Public procurement: in 2018, the LOAPF, assigned the following new functions to the SHCP: (i) to plan, establish and the exercise general policy governing public procurement contracts regulated by the Acquisitions, Leases and Services of the Public Sector Law and the Public Works and Related Services Law; and (ii) to participate in international trade negotiations concerned with public sector procurement, and to coordinate strategic public contracting processes that generate benefits for the country.
- Evaluation and control of budget management (quality and efficiency of programs and public expenditure): in 2012, an internal SHCP regulation decommissioned the Government Accounting and Public Management Report Unit to create a new Performance Evaluation Unit.
- Information technologies applied to the public finances: in 2012, an internal SHCP regulation transferred the following organizational units to the Subsecretariat of Expenditure: (i) the Information and Communication Technologies General Coordination; (ii) the General Department for Access to Information and Technical Support; and (iii) the Information Quality and Security General Coordination.

Peru

The Ministry that experienced by far the greatest number of transformations in traditional and modern functions over the period analyzed was the Peruvian Ministry of Economy and Finance. Improvements and changes were identified regarding three traditional functions and three modern ones, with the function of fiscal rules and fiscal risk management predominating in the latter category. The regulatory changes are summarized below.

Traditional Functions:

- Regulation of banks, securities, and insurance: in 2014, a regulation was issued replacing the Companies and Securities National Supervisory Commission with the Stock Market Superintendency. The new Superintendency was also given additional powers to fulfill its mandate.
- Design and execution of fiscal, budget, public expenditure and revenue policy: (i) in 2011, the Investment Policy General Department was created; and (ii) in 2014, regulation was issued establishing a Specialized Investment Monitoring Team as a collegiate body (commission).

- Social security (particularly pension systems): In 2011 a new responsibility was assigned to the MEF, allocating a social security function to the Department for Financial, Labor, and Private Social Security Affairs.

Modern Functions:

- Fiscal rules and fiscal risk management: (i) in 2019, the fiscal and financial risk control function was added to the Organization and Functions Regulation of the MEF; (ii) in 2016, three main actions were implemented through the Fiscal Responsibility and Transparency Framework Legislative Decree, among other measures: (1) the fiscal rule created in 2013 was refined (limits on debt, the fiscal deficit, expenditure growth, etc.), (2) incorporation of a multiyear macroeconomic framework, updated macrofiscal projections, and an evaluation of the tax system (estimates to be sent to Congress) as MEF functions, and (3) the creation of the Fund for Public Infrastructure and Public Services; and (iii) in 2013, through the Fiscal Responsibility and Increased Transparency Law, the Fiscal Council was created as an autonomous commission attached to the MEF, with a mandate to support independent technical analysis of macrofiscal policy. A Fiscal Stabilization Fund (sovereign fund) was also created.
- Public sector human resources management: in 2019, the Fiscal Management of Human Resources General Department was created through the MEF Organization and Functions Regulation.
- Public procurement: (i) in 2019, the Procurement General Department was created through the MEF Organization and Functions Regulation; (ii) in 2014, the State Procurement Law created the Central Public Procurement Body and the Perú Compras system.

In a separate institutional sphere, a ministerial resolution in 2011 assigned the functions of competition and productivity to the new General Department of International Economic Affairs, Competition, and Productivity in the MEF's Vice Ministry for the Economy.

C. Improvements and Changes in Ministry of Finance Functions, 2010–2020

There have been a variety of improvements in ministry of finance functions (new and modified) in the region. This section identifies the traditional and modern functions that have undergone the greatest number of changes over the last decade. Activity over the 2010–2020 period was focused on a limited number of functions, with a significant number of ministries of finance involved. This may be an indication that the development of economic institutions is being treated with increasing urgency and importance within State modernization processes in the region.

1. Traditional Functions

In terms of the traditional functions, regulatory changes were made in 7 of the 14 functions identified in Section II. These were as follows:

- Design and execution of fiscal, budget, public expenditure and revenue policy.
- Regulation of banks, securities, insurance.
- Tax administration.
- Customs administration.
- Public asset management.

- Management of state-owned enterprises.
- Social security (particularly pension systems).

Table 10 shows the regulatory changes experienced by ministries of finance during the process of designing and executing fiscal, budget, public expenditure and revenue policy. This was the traditional function subjected to the highest number of changes (16), involving 9 ministries of finance. Within this, actions linked to fiscal transparency and accountability predominated.

Table 11 shows that the tax administration function underwent the second-highest number of regulatory changes within the traditional functions. These changes (8) involved 6 ministries of finance in the region, with emphasis on the creation of units of studies and tax policy in the ministries.

Table 12 shows the status of the regulation of banks, securities, and insurance function, which was third in terms of the number of regulatory changes, involving 5 ministries of finance. As a long-standing area of development, the changes (6) were aimed at strengthening existing institutions, particularly in policy design and control activities (within ministries) and related superintendencies. Table 12 does not include regulations relating to the exercise of banking regulation functions.

Table 10
Latin America (17 countries): Regulatory Changes to the Function of Design and Execution of Fiscal, Budget, Public Expenditure and Revenue Policy, 2010–2020

Argentina	
Bolivia (Plurinational State of)	Development of tools for fiscal policy and multiyear budget programming based on economic cycles, with a view to adjusting the annual budget (2010)
	Analysis of potential scenarios in areas relevant to fiscal policy and multiyear budget programming, proposing guidelines for adjustment (2010)
Brazil	
Chile	
Colombia	Fiscal Transparency Portal created (2015)
	Commission for the Study of Public Spending and Investment created (2016)
Costa Rica	
Ecuador	Subsecretariat for Macroeconomic Analysis, Monitoring, and Consistency created (2020-2021)
El Salvador [a]	Submission of the proposed General State Budget to the Legislative Assembly (following its approval by the Council of Ministers), accompanied by the Medium- and Long-Term Fiscal Framework (2017)
	Submission to the Council of Ministers and Legislative Assembly of an evaluation of fiscal management and compliance with the Fiscal Responsibility Law (2017)
Guatemala	Submission of an annual report on the Ministry's activities, including details of budget execution (2018)
	Creation of the Vice Ministry for Fiscal Transparency and State Procurement, including a Fiscal Transparency Department (2018)
	Development of mechanisms for the coordination of public policies, macroeconomic planning, and multiyear budgeting (2018).
Haiti	Fiscal Single Account created (2017)
Honduras	Macrofiscal Policy General Department created (2015)
Mexico	
Panama	
	Department for the Public Investment System created (2011)
Paraguay	Public-Private Interagency Commission created for the study and analysis of public expenditure efficiency (2018)
	Gradual implementation of results-based budgeting mandated (2020)
	Investment Policy General Department created (2011)
Peru	Specialized Investment Monitoring Team created (2014)
	Invest System (Sistema Invierte) created. PE, Multiyear Investment System (2016)
Dominican Republic	
Uruguay	

Regulations Bibliography

Source: Prepared by the author.
[a] In the case of Ecuador's MEF, the implementation process has not yet been completed.

Table 11
Latin America (17 countries): Regulatory Changes to the Tax Administration Function, 2010–2020

Argentina	
Bolivia (Plurinational State of)	
Brazil	
Chile	Strengthening of the Internal Tax Service (strengthening of the public revenue area and control of avoidance and evasion) (2015)
	Strengthening of tax and customs tribunals through changes to their founding law, increasingthe number of civil servants (staff) (2014)
Colombia	Creation of the Agency for General Inspection of Tax, Revenue, and Contributions (strengthening of the public revenue area) (2011)
	Creation of the Commission for the Study of the Regional Tax System (2018)
Costa Rica	
Ecuador[a]	Creation of the Subsecretariat of State Revenue and Assets, with specific outputs that include an annual report on fiscal revenue policy (2020-2021)
El Salvador	
Guatemala	Tax and Customs Administrative Tribunal created (2016)
Haiti	
Honduras	Tax Policy General Department created (2015)
Mexico	
Panama	Revenue General Department created (transferred from the National Public Revenue Authority to the MEF) (2014)
Paraguay	Strengthening of the tax system through enactment of the Tax System Modernization and Simplification Law (2019)
Peru	Strengthening of the Customs and Tax Administration National Superintendency (2011)
Dominican Republic	
Uruguay	

Regulations   Bibliography

Source: Prepared by the author.
[a] In the case of Ecuador's MEF, the implementation process has not yet been completed.

Table 12
Latin America (17 countries): Regulatory Changes to the Banking, Securities, and Insurance Regulatory Function, 2010–2020

Argentina	Securities National Commission becomes an autonomous body (strengthening financial market supervision and regulation (UNIR) (2013)
Bolivia (Plurinational State of)	
Brazil	
Chile	Creation of the Financial Market Commission (strengthening financial market supervision and regulation) (2014)
	Creation of the Financial Stability Council (strengthening financial market supervision and regulation) (2014)
Colombia	
Costa Rica	
Ecuador	
El Salvador	
Guatemala	
Haiti	
Honduras	
Mexico	Creation of the Insurance and Finance National Commission as a decentralized unit (2016)
Panama	
Paraguay	
Peru	Stock Market Superintendency created, replacing the Companies and Securities Supervisory National Commission (2014)
Dominican Republic	
Uruguay	

Regulations

Source: Prepared by the author.

2. Modern Functions

The review of 17 countries in the region shows that regulatory changes occurred in all 7 of the functions characterized as modern. These functions are as follows:

- Fiscal rules and fiscal risk management.
- Evaluation and control of budget management (quality and efficiency of programs and public expenditure).
- Public procurement.
- Public sector human resource management.
- Public finance statistics.
- Information technologies applied to the public finances.
- Coordination, design, and implementation of public policies.

The changes to the functions with the greatest amount of regulatory activity are shown below. Table 13 shows the changes and improvements in the function subjected to the greatest number of modifications by far: fiscal rules and fiscal risk management. A total of 22 institutional changes were identified in 13 of the 17 countries analyzed. There were no significant changes in the ministries of finance in Argentina, Brazil, Guatemala, and the Dominican Republic. The changes consisted primarily of the enactment of fiscal responsibility laws or laws creating fiscal rules, which were recorded in Colombia, Costa Rica, El Salvador, Honduras, Paraguay, Peru, and Uruguay. These laws involved three main types of changes: (i) fiscal rules, with ceilings or norms for determining permitted growth in public expenditure; (ii) consultative or autonomous fiscal councils, as bodies with a degree of independence for evaluating the performance of fiscal rules and governments' macroeconomic policies; and (iii) medium-term fiscal frameworks, with revenue and expenditure projections.

Table 13
Latin America (17 countries): Regulatory Changes to the Fiscal Rules and Fiscal Risk Management Function, 2010–2020

Argentina	
Bolivia (Plurinational State of)	Inclusion of the formulation, development, and regulation of medium- and long-term multiyear fiscal and budget policy (2010)
Brazil	
Chile	Autonomous Fiscal Council created (fiscal consolidation, advisory support, control, and transparency) (2019)
Colombia	Fiscal rule created (2011)
	Fiscal Rule Consultative Committee created (2011)
Costa Rica	Fiscal rule created (2018)
	Fiscal Council created (2018)
Ecuador[a]	Fiscal Risks National Department created, with responsibility for preparing an annual report on contingent liabilities (2020-2021)
El Salvador	Fiscal rule created (2017)
	Medium- and Long-Term Fiscal Framework created (10 years) (2017)
Guatemala	
Haiti	MEF assigned responsibility for preparing multiyear fiscal projections (2017)
Honduras	Fiscal rule created (2016)
	Medium-Term Fiscal Framework created (2016)
Mexico	Law on Financial Discipline of the States and Municipalities enacted (2016)
Panama	Panamanian Fiscal Council created as an independent commission (2018)
Paraguay	Fiscal rule created (2013)
	Multiyear Fiscal Programming created (2013)
Peru	Creation (2013) and subsequent refinement (2016) of a fiscal rule
	Fiscal Stabilization Fund created (2013)
	Fund for Public Infrastructure and Public Services created (2016)
	Fiscal and financial risk control added as MEF's function (2019)
Dominican Republic	
Uruguay	Fiscal rule created (2020)
	Fiscal Advisory Council created (2020)

Regulations Bibliography

Source: Prepared by the author.
[a] In the case of Ecuador's MEF, the implementation process has not yet been completed.

Table 14 shows the regulatory changes that have occurred in the public procurement function, which have involved ministries of finance in five countries: Costa Rica, Ecuador, Guatemala, Mexico, and Peru. The most frequent regulatory action has been the enactment of public procurement laws creating new institutional frameworks for procurement, registers of suppliers, and procurement platforms based on information systems.

Table 14
Latin America (17 countries): Regulatory Changes to the Public Procurement Function, 2010–2020

Argentina	
Bolivia (Plurinational State of)	
Brazil	
Chile	
Colombia	
Costa Rica	Creation of a single electronic platform for recording publicprocurement activity (2016)
Ecuador	
El Salvador	Creation of the Public Procurement and Contracting Regulatory Unit, Public Procurement and Contracting Integrated System, and Public Procurement and Contracting National Register (2011)
Guatemala	Creation of the Vice Ministry for Fiscal Transparency and Public Procurement, along with the State Procurement General Register, State Procurement General Department, and the State Procurement Training and Professional Development Department (2016)
Haiti	
Honduras	
Mexico	Creation of the functionto plan, establish and conduct the general policy governing public procurement contracts regulated by the Acquisitions, Leases and Services of the Public Sector Law and the Public Works and Related Services Law (2018)
	Creation of the function to participate in international trade negotiations relating to public sector procurement and coordinating strategic public contracting processes that generate benefits for the country (2018)
Panama	
Paraguay	
Peru	Creation of the Central Public Procurement Body and the Perú Compras system (2011)
	Public Procurement Law (2014)
	Creation of the Procurement General Department (2019)
Dominican Republic	
Uruguay	

Regulations

Source: Prepared by the author.

Table 15 shows the main regulatory changes with respect to the function of evaluating and controlling budget management (quality and efficiency of programs and public expenditure), a task in which the ministries of finance of five countries have participated: Costa Rica, Ecuador, Guatemala, Haiti, and Mexico. The creation of units responsible for measuring public expenditure quality has been a frequent change, along with results-focused reforms to budget management.

Lastly, Table 16 shows the situation with respect to the public sector human resource management function. Significant regulatory changes were identified in the ministries of finance in three

Table 15
Latin America (17 countries): Regulatory Changes to the Evaluation and Control of Budget Management Function, 2010–2020

Argentina	
Bolivia (Plurinational State of)	
Brazil	
Chile	
Colombia	
Costa Rica	Design and implementation of results-based budgeting (2010-2012)
Ecuador[a]	Creation of the National Department for Public Expenditure Quality in the Subsecretariat for Budget, with responsibility for preparing an annual report focused on the quality of public spending (2020-2021).
El Salvador	
Guatemala	Creation of a function involving the review and ongoing update of budget and financial management methods, based on results-based management (2018).
Haiti	Development of results-based budget formulation, with the identification of budget programs in each public service, linked to performance indicators (2017)
Honduras	
Mexico	Creation of a Performance Evaluation Unit, separated from the Government Accounting and Public Management Report Unit (2012)
Panama	
Paraguay	Creation of the Public Expenditure Monitoring and Evaluation Coordination Unit and the Public Expenditure Evaluation Department in the Budget General Department (2010) Development of results-based budgeting, identifying and linking institutions and pilot programs to performance indicators and undertaking program evaluations (2011) Change of the results-based budget structure for all public institutions (2020)
Peru	
Dominican Republic	
Uruguay	

Regulations Bibliography

Source: Prepared by the author.
[a] In the case of Ecuador's MEF, the implementation process has not yet been completed.

countries: Chile, Paraguay, and Peru. In the latter two, the changes involved the creation of entities responsible for public sector human resource management, while in the case of Chile's Ministry of Finance, the entity responsible was reinforced a decade after it was created.

D. Regulatory Changes in Ministry of Finance Areas of Competence

In addition to reforms and changes in the traditional and modern functions of ministries of finance in the region, changes to the structure of these ministries were also reviewed in terms of their nature, scope, and areas of activity covered.

Three regulatory changes of this kind were identified as occurring over the last decade. The first involves the Ministry of Economy in Argentina which, in the past, was responsible for functions relating to public works, energy, productive development and external trade, mining, and transpor-

Table 16
Latin America (17 countries): Regulatory Changes to the Public Sector Human Resource Management Function, 2010–2020

Argentina	
Bolivia (Plurinational State of)	
Brazil	
Chile	Reinforcing of the Civil Service National Department (2016)
Colombia	
Costa Rica	
Ecuador	
El Salvador	
Guatemala	
Haiti	
Honduras	
Mexico	
Panama	
Paraguay	Creation of the General Department for the Administration of State Personal Services and Assets (2011)
Peru	Creation of the General Department for the Human Resources Fiscal Management (2019)
Dominican Republic	
Uruguay	

Regulations

tation, among other things. This situation has been changing over the last two decades, resulting in the Ministry's current focus on functions that relate specifically to public finances.

The Brazilian Ministry of Economy provides an opposite example to that of Argentina. Under the 2019 provisional measure, subsequently brought into law, the structures of three ministries—Finance, Planning, Development and Management; Industry, External Trade, and Services; and Labor—were amalgamated to form the Ministry of Economy. According to the authorities, this represented an effort to streamline the public administration. In addition, a Special Secretariat for Privatization, Divestment, and Markets was created with the regulatory mandate of selling federal government assets (state-owned companies and real property).

Lastly, as mentioned above, Ecuador's Ministry of Economy and Finance was created by merging the Coordinating Ministry for Economic Policy and the Ministry of Finance. In this case, the functions of productive development, industry, and trade were excluded, and only those functions considered to be part of the traditional competence of ministries of finance were transferred: studies, economic policy, and financial market oversight.

IV. Conclusions and Challenges in the Institutional Sphere

Based on the analysis of functions assigned in the regulations to ministries of finance in Latin America (18 countries), 21 categories of functions were identified. These were divided into two major groups that differ in terms of their objectives and tools. The study proposes the grouping of these functions into two functional models: a traditional model aimed at monitoring and ensuring compliance with fiscal and budget rules; and a modern one that seeks to ensure the strategic use of public resources in a context of fiscal sustainability. The traditional functional model comprises 14 functions with the common objective of controlling the public finances through various tools for supervising compliance with fiscal and budget provisions. The modern functional model comprises 7 functions aimed at ensuring the strategic use of public resources through tools for medium-term fiscal management, the optimization of public expenditure management, and evaluation of the quality of public management and expenditure.

The first group of functions focuses on compliance with fiscal and expenditure policies to safeguard macroeconomic stability, whereas the second places greater emphasis on the importance of producing results through these policies. Not all of these functions are fully assigned to ministries of finance, indeed, in some cases, they are assigned to planning ministries or agencies where these exist. In such cases, an issue that has not yet been studied is how these functions—assigned to other agencies—support the ministry of finance's objective of ensuring the strategic use of public resources.

The traditional functional model encompasses two groups of functions that are widely incorporated in ministries of finance in the region. A first group of 7 core control functions has been developed to a relatively advanced level in the 18 ministries studied; these represent a basic set of functions aimed at ensuring compliance with mainly budget-related rules that safeguard macroeconomic stability. They consist of tools for ensuring that public expenditure execution complies with the parameters and objectives laid out in budget frameworks.

A second group of 7 supplementary traditional control functions has been developed to different degrees in the various ministries. This second group encompasses functions involving the regulation of sectors with a potentially significant impact on economic stability, such as customs administration (14 ministries), state-owned enterprises (10 ministries), and public assets (12 ministries), as well as the functions of banking, insurance, and securities supervision (13 ministries) and the management of international negotiations (9 ministries). These functions are part of the mandates of two thirds of the ministries, on average.

Lastly, very few ministries have functions relating to pension management and the regulation of prices and rates. Many of the supplementary traditional functions have been adopted due to the need to respond to changes in markets functioning or the opportunity to adopt new methods and technologies. One example of this has been the strengthening of the tax administration function, which has been a result of the high number of tax reforms in the region (Arenas de Mesa, 2016).

The modern functional model includes functions that allow ministries of finance to introduce flexibility into the use of public resources through the application of medium-term fiscal management tools. This improves allocative and productive efficiency, breaking the inertia that is one of the characteristics of the budget cycles of countries in the region. The tools associated with these functions allow expenditure to be modified based on projections derived from data and empirical evidence, or in response to information obtained from performance evaluations for public programs, produced using reliable tools. This, in turn, improves the ability of ministries of finance to respond to different types of crises. Based on the review of the 18 ministries of finance, these functions were divided into three groups:

- Medium-term macroeconomic management functions (intertemporal), to enhance medium-term forecasting capabilities regards income and expenditure factors, trends in the business cycle, and any systemic risks and shocks that could potentially affect public finances. This includes roles relating to the management of fiscal rules and risks (in 14 of the 18 ministries), as well as fiscal statistics (18 ministries).
- Functions regarding the optimization of public expenditure management in order to strengthen the powers and roles that ministries of finance have to determine policy content governing the main crosscutting systems that generate public expenditure: human resource management (3 ministries), procurement (10 ministries), and mechanisms for incorporating relevant fiscal data using information and communication technologies (18 ministries).
- Functions regarding the evaluation of the quality of public management and expenditure, and creation of the necessary powers and rules for ministries of finance to evaluate quality of management, expenditure, and outcome of public programs. This includes functions of coordination and evaluation of the quality of management and expenditure under priority public programs (4 of the 18 ministries).

The study confirms a high heterogeneity in performance levels with respect to the adoption of modern functions. Only four countries (Brazil, Chile, Mexico, and Peru) have developed the necessary regulatory and organizational environment for these functions, although a further two (Argentina and Colombia) have made some progress in this respect. Moreover, the review shows that except for the fiscal rules and fiscal risk control functions (for which 13 of the 18 countries introduced changes), there were no regulatory or organizational reforms aimed at introducing new modern functions in the 2010–2020 period, in contrast with the previous decade. Only Mexico and Peru have continued to make progress in consolidating these functions.

The functions have been adopted through institutional reforms that have involved comprehensive or gradual regulatory changes. In most of the cases analyzed, functions and management models have been legally established either through ministry founding laws (approved by legislatures) or lower-level regulatory mandates such as decrees, regulations, and circulars (approved by the executive branch). The approval timeline shows that in some cases these legal reforms have been comprehensive, resulting in extensive changes to ministry structures, while in other cases gradual changes have been deemed more appropriate. This is clear evidence that there are trigger factors for institutional problems (e.g., fiscal crises), as well as environmental factors (e.g., the political economy) that influence the nature and scope of the new functions and management models pursued. These environmental factors and conditions should be the subject of an additional study.

The formal approval of functions is not always followed by the actions needed to ensure their implementation. The approval and regulatory development of functions is never a guarantee that these functions have been implemented. Although the approval of regulations is necessary from a legal standpoint, an additional set of institutional reforms is required for implementation: (i) definition of the targets expected from implementing the functions; (ii) design of macro processes for executing the functions; (iii) procedures and administrative acts that make up the macro processes; (iv) the parties responsible for execution; (v) allocation of the human talent required to execute the processes, as well as information technology systems and other resources to support the operation of these procedures; (vi) mechanisms for monitoring the use of the procedures, as well as production and provision of the data required to perform the functions. It would be useful in the future to analyze the characteristics of the implementation of functional frameworks and their impacts, as this would help to establish the conditions under which functional frameworks are most effective in meeting their objectives.

The institutional development of ministries of finance is a necessary condition for achieving fiscal sustainability and short- and medium-term financing for public programs and policies. At the same time, investment in sound institutions helps to strengthen the efficiency and quality of public expenditure. This is an issue of great importance, due not only to financial constraints experienced and the multiple demands and needs that must be satisfied, but also because public financial administration in the region's countries increasingly encounters populations with greater ability to demand transparency, high levels of quality in public goods and services, and the prudent use of resources, all as basic conditions for evaluating governments.

The rapid institutional transformation of ministries of finance—aimed at adopting modern functions—can help to address the challenges of economic recovery and reconstruction in a more efficient manner. The low level of development of functional and management frameworks that incorporate strategic public financial management functions, highlights the urgency of transforming ministries of finance. In the absence of these functions and their associated management tools, these ministries will need to tackle the challenges of economic recovery without tools to help them improve the allocation and use of public resources. For example, the absence of the functions and capabilities necessary for an intertemporal approach to a public financial management that considers fiscal sustainability, will make it difficult for ministries of finance to forecast fiscal space based on different economic cycle scenarios or other types of contingencies/risks.

Effective implementation of traditional and modern functions will help to strengthen the institutional capabilities of ministries of finance to manage public expenditure in a way that responds to new, urgent situations and priorities. One issue that will be important to observe and study is the response to the pandemic of countries in the region with fiscal rules classified as advanced.

Advanced fiscal rules are rules that, in terms of management of the balance of revenue and expenditure, reinforce countercyclical management of the public finances, and are accompanied by clear exit or escape clauses that allow expenditure to increase beyond the stipulated level under particular conditions (e.g., the current situation created by the COVID-19 pandemic). The adoption and effective operation of these rules can allow governments to introduce flexibility into their fiscal rules to address economic recovery priorities.

Modern functions that use digital tools to integrate public finance functions can help to improve the quality of data and information for decision-making, particularly during the budget cycle. At the same time, governments, more than ever, need to be able to control and monitor the implementation of the budget and emergency and economic recovery measures (in particular) as closely as possible to real time. This would enable early detection of problems and the timely identification of corrective or redesigned measures, all while properly safeguarding public resources. The implementation of information technologies applied to public finances—particularly integrated financial management systems—is the most appropriate instrument for this task. These technologies also facilitate control over the disbursement of public funds to citizens (transfers, subsidies, vouchers, etc.), in terms of both coverage and the proper allocation of public resources.

Modern functions that optimize expenditure management can also enhance efficiency in the use of public resources. Together with artificial intelligence tools, the use of data on human resource management, procurement, and public infrastructure investment can support the design of general policies to reduce the cost of key inputs for producing services, thereby freeing up funds or allowing an expansion in service coverage.

Modern functions for evaluating management and expenditure can provide management information that supports the process of allocating resources for addressing new strategic priorities. Governments will face numerous and intense demands for public funding across multiple areas in the post-pandemic period, even while they are limited by financial constraints. In this context, one of the most immediate ways of addressing this demand will be to maintain budget flexibility, allowing resources to be reallocated in response to a reprioritization of public policies. To make this process as efficient and low cost as possible, the functions of management and public expenditure evaluation need to be developed. The use of rapid evaluations, expenditure monitoring methods, and performance and budget indicators, among other things, will allow governments to identify potentially non-priority public spending. These resources can be reassigned to public programs considered fundamental for the post pandemic recovery period.

It is highly likely that the implementation of modern functions through the institutional transformation of ministries of finance will take more time than is available to any single administration. Continuity of the efforts necessary is therefore a key issue. Accordingly, achieving broad political agreements and the support of multilateral and international organizations for designing and implementing these efforts may become a condition of prime importance.

Once the timing and conditions are appropriate for introducing these reforms, at least four dimensions will need to be properly considered if the objectives of these institutional transformation and consolidating processes are to be achieved: (i) the development and incorporation of sufficient and suitable human resources, (ii) the adoption of information technologies, (iii) development of the necessary regulations, and (iv) sufficient financial resources to enable the foregoing. The adoption of new processes and outputs such as those described and analyzed in this document generally requires additional financial resources, and these should be properly included in ministry of finance budgets.

The economic and social situation created in the countries by the pandemic has highlighted deficits and weaknesses in the institutional capabilities required to tackle the crisis in the region. Investing in the institutional development of ministries of finance not only strengthens macroeconomic and fiscal policy, but also the broader institutional capacity and strength of the State. The institutional strengthening of ministries of finance generates significant positive externalities that permeate the full range of public services.

The institutional transformation of ministries of finance is a precondition for a government's ability to arrive at new fiscal pacts and social contracts in the post-pandemic period. The demands of citizens for better, more inclusive public services require ministries of finance with the ability to make decisions in an agile, proactive, and evidence-based manner. The inclusion and effective operation of modern functions will ensure that ministries of finance are able to use public resources more strategically, thereby helping to improve both the quality of public services and fiscal sustainability. The effective implementation of the functional frameworks described will increase the capacity of ministries of finance and public administrations to propose policies, programs, and services (social, economic, and fiscal) that will form the new, more inclusive social contract needed in the region. A pending challenge, therefore, is to continue conducting studies that help to understand the conditions under which the functional frameworks described in this study should be implemented.

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The institutional development of the ministries of finance determines their capacities to achieve fiscal policy objectives (sustainability) and contribute to economic policy objectives.

This study analyzes the institutional transformation of the ministries of finance in Latin America. Methodologically, it examines the functions assigned by law (legal-regulatory frameworks). Analytically, it proposes two categories of functional models (traditional focused on spending control and modern focused on strategic spending management).

In successful institutional strengthening processes, the process has at least four dimensions: development of regulations, processes, and methodologies; recruiting and training of human talent; the development and implementation of digital government tools; and financial resources to develop the above dimensions.

The COVID-19 pandemic has exposed the deficits institutions to face the economic and social challenges. To tackle challenges of macroeconomic-fiscal policy and quality and inclusion in public services, this study highlights the need to close gaps in the institutional development of the ministries of finance and move from a traditional functional model to a more modern one.

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