

Editorial

Regions around the world have diverse cultural roots which resulted in different histories of development and generated specific problems and challenges. GFA takes these regional differences into account. Our business areas are not only brought into line with thematic fields but also with regional clusters that constitute GFA's regional departments.

In Latin America, several decades of technical assistance have made national and local institutions strong. The latter mostly internalized the donor organizations' micro management approach close to target groups. Meanwhile, the role of donors has been gradually reduced to the macro level of policy advice and the control of financial support which is increasingly offered as general or sector budget support. In particular, efforts aimed at poverty reduction in less developed parts of the region have undergone considerable changes.

GFA responded to the challenge by leaving behind the traditional approach of providing micro and meso level consultancies only. Today, we offer a wide range of innovative services in the field of social policy and public financial management. This newsletter's first article points to new demands for technical assistance evolving in Latin America which pose new challenges to GFA's Latin America department. The second article presents an overview of how our teams of experts have put innovative approaches into practice in the new thematic fields developing in the region.



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Public Sector Management in Latin America

Despite economic success in various Latin American countries, social inequality in the region remains high in international comparison. Donors tackle this challenge with innovative approaches in public finance management, social cohesion policies and budget support.

For many years, a centerpiece of development aid in Latin America has been technical assistance to decentralization reforms. The guiding idea was to create citizen-oriented policies based on local administrative and fiscal structures. There was a consensus that the definition of development policy goals according to citizens' needs and the improved provision of social services would have a positive effect on social welfare.

However, many decentralization efforts did not go beyond transferring political and administrative responsibilities, and did not result in considerable success. In fact, financial decentralization failed in many cases. Thus, most local governments in Latin America still face two fundamental obstacles: a limited capacity to execute their budgets and limited revenues from direct tax collection. In many regions, current tax revenues do not exhaust local potentials. In general, capacities for tax collection and fiscal administration do not meet modern standards and lack effectiveness.

Some countries are using sworn declarations by tax payers as a transitional measure and many Latin American states still fail in redistributing public revenues through social sector policies and are not able to target the poor population effectively.

Public finance management

Consequently, a new trend can be observed on the donors' agenda regarding public finance management. In addition to increasing budget support, donors want to make sure that the financial input is transformed into social welfare output. These efforts take different forms:

Financial decentralization – Donors are supporting strategies to reinforce administrative and fiscal management at sub-national government levels and tax revenue collection. The objective is to expand the public sector's fiscal information coverage and to increase the generation of own revenue by the municipalities. New approaches in Latin America focus on increasing public expenditures managed in a decentralized approach, and raising the ratio of actual to potential tax revenue. Another key issue is the improvement of public financial systems and the tax base for effectively managing property tax at the local level.

Social cohesion requires providing public services for vulnerable groups



Public Sector Management in Latin America (continued from page 1)

Financial management information systems – Fiscal decentralization depends on financial management information systems which facilitate efficiency and effectiveness, and generate relevant, timely and reliable information for decision making. New, mostly IT-based tools enable interconnectivity between the financial administration systems and the internal and external control system, as well as interaction with the planning and public investment systems through operational and budgetary planning.

Fiscal reform – At the national level, there is an urgent need for tax reforms based on social criteria in order to redistribute wealth. In particular, technical assistance is required as related to tax reform, eliminating distortionary taxes, replacing corporate taxes with personal income taxes and establishing reliable tax revenue mechanisms. In addition, support is needed in implementing fiscal responsibility laws on modern budget procedures, independent revenue estimates as well as limitations on legislatures and line ministries to increase spending.

Budget support – In Latin America, large amounts of general and sector budget support are spent. The underlying premise is that budget support contributes to strengthening public finance management, promoting macro-economic stability and fiscal sustainability, and leads to a comprehensive and transparent budgetary allocation process. A credible program



Workshop with civil servants and regional governor in Chile

to improve public financial management forms an eligibility criterion for budget support. This presents a promising incentive for recipient countries to improve their public finance management. Sector budget support aims at stimulating government authorities to optimize sector policies and to improve targeting and reallocation towards the sectors since the disbursement of variable payments is linked to meeting selected outcome indicators of the respective sector.

Social cohesion

However, donors do not only regard public financial management as an end in

itself. The promotion of social cohesion is another crucial subject on the agenda in Latin America. Social cohesion is a multifaceted term related to trust, political legitimacy, equal access to public services, and the inclusion of marginalized groups. International assistance to the countries' efforts in promoting social cohesion comprises a variety of approaches. Fostering dialogue and cooperation among different sectors and improving the quality and equal access to social services is a major concern. Moreover, aid supports strengthening social security systems, and promoting equal opportunities and inclusion of deprived groups such as women, youth, and the elderly or indigenous people. Last but not least, the targeting of public spending towards social issues should be optimized as to guarantee social welfare for all.

Based on its long-standing experience, the Latin America and the Caribbean Department of GFA Consulting Group has been putting the innovative public sector management concepts and policies outlined above into practices at a large scale. Selected projects implemented in Latin America and related both to public finance management and social cohesion policies highlight these approaches, and are presented on the subsequent page.

Tax collection is a challenge in informal housing areas



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Putting Public Sector Management into Practice

Good Governance, Guatemala

The PROMUDEL program of GIZ promotes municipal policies that entail improvements in public service delivery based on residents' needs. Thirty-five municipalities are advised on increasing revenues and improving public services, particularly water supply. Local policies are developed in cooperation with other government levels for more tangible results. GFA's technical assistance to municipal management incorporates advice on municipal finance, knowledge and sustainability management, and needs-based public service delivery. The results achieved since 2009 are outstanding: Based on participatory planning, over 65% of the municipalities have established municipal investment budget regulations. Between 2009 and 2011, their revenue increased by 20% on average.

Municipal Management, Guatemala

As another part of PROMUDEL, GFA helped analyzing and ranking 333 Guatemalan municipalities in 2010 which contributed to a fiscal policies project of the Ministry of Finance (MINFIN). The ranking considered financial and management aspects such as municipal debt, investment share of transfer and own revenues, and the proportion of self-financing, and the results were compared with governance in 2009. Based on the results, GFA supported MINFIN in designing policies related to capacity building for better municipal management.

Decentralization Reform, Honduras

In the context of the EU-funded Program of Support to Decentralization in Honduras (PROADES), GFA assisted the promotion of general policies and legal reforms regarding decentralization, leveraging municipal capacities for implementing decentralized competences, and encouraging citizens' participation. The support at the national level focused on strengthening municipal information systems towards more accurate information and statistics, harmonizing legislation on municipal finance and municipal functions, and supporting the implementation of an integrated system for municipal financial administration. At the level of specific public services, GFA experts consulted targeted education and health policies as well as the mechanisms for citizens to audit such services. GFA helped formulate a national strategy for strengthening municipal financial management. PROADES was a pioneer program in Latin America as it was the first project to offer complementary technical assistance to budget support.

Public Finance Management, El Salvador

The EU-funded PARE-ES program contributes to fiscal policy reforms and to macro-economic stability with a particular focus on increasing El Salvador's fiscal space. As part of a 24.2 million Euro sector budget support, GFA offers technical assistance to the Ministry of Finance. GFA, cooperating with ICON-INSTITUTE, supports the



Latin American currencies

government in increasing tax revenue and social spending as well as a better targeting of the poor and a planning orientation in favor of a longer term perspective. GFA consultants also help introduce the internationally established methodology of Medium Term Expenditure Framework (MTEF). Another strategic focus is on optimizing the operating structure of the department for economic and fiscal policy, which should establish more consistency between political goals and budgetary allocations.

Social Cohesion, Mexico

GFA in collaboration with ACE and INAP Mexico are assisting the Social Cohesion Laboratory agreement between Mexico and the European Union. It focuses on institutional capacities, coordination strategies and the advancement of successful practices to foster social cohesion policies. The consortium advises public institutions on a wide range of issues such as social program decentralization, civil society participation, access to health systems, quality of services, social security, tax collection and financial administration. It also assists civil society organizations in capacity building for participating in the design and implementation of social policies related to gender justice, indigenous people's rights, transparency and anti-discrimination. The program's core elements are institutional development, and the promotion of dialogue and better cooperation in the social sector.

Municipal help desk in Nicaragua



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Trade Assistance in Colombia

GFA in a consortium with Equinoccio and PTB started supporting corporate social responsibility (CSR) activities within the framework of the EU-financed Trade-Related Technical Assistance for Colombia Project. This project aims at reducing technical obstacles to trade of Colombian enterprises with the EU. The project's experts will help formulate a public policy for promoting CSR in the public and the private sector. CSR, social and environmental standards are put into practice in selected export sectors. In May 2012, a delegation of decision makers in the Colombian private and public sector will visit Belgium, Spain and the Netherlands to study how trade-related issues are dealt with by countries and organizations in Europe. GFA is organizing the study tour's agenda on behalf of the EU delegation.

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OPTIMIST – An Annual Review

Since the end of 2010, GFA has been supporting the disbursement of microcredits through the Mikrokreditfonds Deutschland (German Microcredit Fund), an initiative supported by the German Ministry for Labor and Social Affairs in cooperation with the European Union and GLS Bank. Small and micro-enterprises, which are rated as 'not creditworthy' by their banks, are offered access to loans of up to 10,000 Euros (20,000 Euros for extension loans). GFA's microcredit program, called *OPTIMIST* (www.optimist-mikrokredit.de), has introduced internationally recognized microfinance methods to Hamburg and

its surrounds. *OPTIMIST* has been well-received in the market. Demand has been on the rise ever since the beginning of the project in 2010. Small enterprises require tailored approaches that allow for the accurate appraisal of their businesses. GFA has evolved into the leading microfinance provider in Hamburg, offering loans to those who are not adequately served by the banking sector. *OPTIMIST*'s portfolio has grown steadily. Currently, GFA has disbursed more than 110 loans averaging 6,300 Euros. GFA intends to continue this positive trend. In 2012, the company will be expanding marketing activities, participating in a nationwide marketing campaign entitled Mein Mikrokredit.

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GFA at Green Week in Berlin

Each year in January, the Green Week in Berlin turns into a highlight of Germany's calendar of events. For nine days, this most important fair for the food and agriculture sector attracts close to half a million visitors. The Global Forum for Food and Agriculture Global Forum for Food and Agriculture (GFFA) is the Green Week's political opening event where country delegations, international business experts, development cooperation professionals and scientists exchange about agriculture and food policies. Since 1994, GFA Consulting Group has been involved in co-preparing this event. The Forum's 2012 heading was "Food Security through Sustainable Growth – Farming with Limited Resources". GFA, together with the Committee on Eastern European Economic Relations of the Federation of

German Industries (BDI) and the Federal Ministry of Food, Agriculture and Consumer Protection (BMELV), organized a panel discussion on "Agricultural development through sustainable resource management". In a nutshell, the panelists highlighted that the responsible management of water, soil and food will become a matter of survival for mankind and will place great demands on politics, industry and society. What is needed throughout the world is sustainable land development, taking into account the limited nature of natural resources, suitable technologies for efficient and resource-conserving farming as well as infrastructure, and human resources which support these requirements.

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A Star is Born

The birth of an okapi is a truly rare occasion. Shortly before last year, a male okapi calf was born at the Epulu captive breeding centre, DR Congo. By now, mother and calf have settled into a comfortable routine at the Okapi Wildlife Reserve. Metaphorically, GFA has assisted midwifing through its involvement in the Biodiversity Conservation and Sustainable Forest Management Program in and around the wildlife reserve. The GFA team on location helps engage local communities in stewardship of their forest heritage and natural resources, including the okapi. The project, supported by KfW until 2015, aims at the conservation of a protected area and adjacent local villages.

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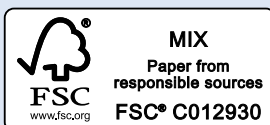
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GFA Consulting Group is a growing consulting organization active in economic development. The main sectors of the company comprise agriculture & rural development, natural resources & certification, public sector & fund management, private sector development, water & sanitation, health & HIV/AIDS, financial systems development, labor markets & human resources, climate change & energy, and forest investment fund. GFA Consulting Group presently works in more than 70 countries and collaborates with selected, specialized partner companies both nationally and internationally.

GFA vision – to be the partner of choice for clients in our core service areas.

GFA mission – to improve the livelihood of beneficiaries through our professional services.

GFA core values – to offer high performance in service delivery, technical excellence in our main sectors, innovative approaches and products, and credibility with our clients when putting projects into practice.