

## Latin America and Caribbean Region (LCR)

The Bank began its public sector and institutional reform operations in LCR in the early 1980s, primarily to support structural adjustment and economic liberalization. Most early operations focused on strengthening core government functions so that countries could cope with economic crises. By the late 1980s and early 1990s, public sector operations adopted a “modernization” approach, aimed at developing technical building blocks to improve the agility and effectiveness of public sector management.

A mixed reform record over the past two decades has made the particular challenges posed by LCR public sectors more apparent than they were originally. In light of a growing recognition of the complexities of public sector reform, LCSPP operations are beginning to tackle broader and deeper institutional issues. The institutional focus is reflected both in the Bank’s involvement in new lending areas (decentralization and subnational government reform, judicial reform, anti-corruption), and in new approaches to project design and implementation (“voice” and participation; “exit” and competition; change and better enforcement of internal rules and regulations) even in traditional

public sector reform areas. Work in these new areas with new approaches requires stronger, broader and deeper commitments for sustainable implementation and challenges the Bank to become more strategically selective. More preparatory analytic work will be crucial for gauging the likelihood of success in these more difficult areas.

### Salient characteristics of the Latin America and Caribbean Region

Following World War II in the region, activist governments led a push for economic development through industrialization. One of the most notable side effects of the predominant import substitution model of industrialization was the dramatic growth in the region’s public sectors. At the onset of the debt crisis in the early 1980s, inefficient public sectors with large numbers of public employees were closely involved in a broad range of economic activities.

The LCR stands out in the developing world because of its particularly strong reform history, driven

by democratization and the debt crisis. With the consolidation of democracy in the 1980s, civil society voiced strong demands for change, including more transparency, opportunities for participation, and less corruption among government leaders. At the same time, as poor performance by most governments led up to, and even exacerbated, the debt crisis of the early 1980s, political leaders were obliged to recognize the need for reform.

Initially, political leaders focused on macroeconomic (“first-generation”) reform, and in some countries such as Argentina, Bolivia, Mexico, and Peru, governments led or dominated by technocrats embraced and pushed market-oriented reforms. As governments made progress in implementing these reforms, however, attention shifted to structural and institutional (“second-generation”) reform issues.

The deep institutional reforms now on the agenda are much more difficult to implement than the economic policy reforms that have been successfully carried out to date by a number of LCR countries. These public sector reforms require much broader and firmer societal and political support, not just the endorsements of government technocrats. The region’s relatively well-developed and well-organized civil society and private sector are key to reforms, sustaining the commitment to reform, and playing more active partnership roles in strengthening public sector institutions.

## Experience to date in the Region

**Early-mid 1980s: Fiscal adjustment focus.** The Bank began its involvement in public sector and institutional work in LCR in the early 1980s to support fiscal adjustment and economic liberalization. During the 1980s, paired operations of structural adjustment and technical assistance took place in several countries.<sup>6</sup> These operations typically addressed improving “public sector efficiency” in economic management, and reforming

industrial and sectoral policies in such areas as agriculture and mining. Some TA loans were implemented without accompanying SALs.<sup>7</sup> These projects also concentrated on strengthening the core government functions in economic management (investment planning, budgeting, debt management, public enterprise management), and on supporting the government’s policy management capacities to promote economic liberalization. In limited instances, bold reform attempts were made, such as the (unsuccessful) introduction of a senior executive service (SES) in the 1982 Peru Public Sector Management Project or the introduction of a performance budgeting system in the 1984 Jamaica Public Administration Reform Project.

**Late 1980s—Early 1990s: Public sector modernization.** Once strong fiscal pressures subsided between the late 1980s and the early 1990s, many of the Region’s public sector operations began to adopt what may be called a “modernization” approach. The fundamental objective of modernization has been to improve the efficiency, effectiveness, and transparency of financial operations through the adoption of coherent procedures and norms supported by modern information technology. These projects invested heavily in improving the performance of existing bureaucratic institutions by modernizing the legal framework for government functions such as financial and personnel management, by updating management tools through new computer and information systems such as an integrated financial management system or a computerized taxpayer registry, and by developing more streamlined operational procedures. Training government personnel on the new tools and procedures was a central component of these projects. A series of public financial management operations in Bolivia, Colombia, and Guatemala, as well as some tax administration projects fall into this category.

**Mid-1990s—Today: New areas.** In the 1990s, representative governments consolidated, and economic stabilization programs enjoyed considerable success.

These advances led client governments to seek Bank support for changes in new areas. Since the mid-1990s, the Bank has begun to get involved in judicial reform, decentralization,<sup>8</sup> and anticorruption efforts.

Beginning with the Venezuela Judicial Infrastructure Project in 1992, the Bank has developed a judicial reform portfolio in LCR composed of six projects; four more are currently under preparation. Early projects, like the modernization projects discussed above, were focused on providing technical solutions that offered quick answers to the most pressing issues facing the courts, such as rationalization of internal procedures via automation and streamlined case management techniques to reduce delays. Today, attention is shifting to some of the underlying aspects of judicial performance, such as judicial culture, informal rules and procedures, incentive systems for judges, and connections between the judiciary and the surrounding political-economic environment.

The Bank has also responded to a marked increase in demand for support for several aspects of decentralization, and has begun to incorporate decentralization issues into CASs and PERs. The first operation, a 1990 Provincial Development Project in Argentina, focused on subnational government borrowing. Bank operations also support sectoral decentralization, usually in social service delivery and the provision of safety nets.<sup>9</sup> Another area of increasing importance is capacity building for subnational governments. For example, LCSPR is working with WBI to provide management training for Mexican mayors, while projects in Chile (1994, 1998) and Bolivia (1996)<sup>10</sup> support the preparation and implementation of municipal development plans. Finally, the Bank is providing advice to some countries (in country dialogues) on defining a legal and constitutional framework for decentralization.

One of the newest public sector institutional reform activities is support for client countries' anti-corruption agendas through specific components in some ongoing projects. For example, Judicial Reform

Projects in Guatemala and Venezuela support the fight against corruption by improving procedures for court supervision and discipline of judges; increasing transparency through publication and dissemination of Supreme Court jurisprudence; revising incentive systems for judges, and improving remuneration for judiciary personnel. The Public Financial Management Project in Colombia is financing a study of vulnerability to corruption in the country's Tax and Customs Administrations. LCSPR is also involved in new anti-corruption operations in Argentina (IDF), Ecuador (IDF) and Bolivia.

Regulatory reform is another area that is intimately linked with institutional issues. The Region's first experience with regulatory reform was as part of a privatization operation in Argentina in 1991. The project, which created a regulatory agency for the telecommunications sector, has been one of the Bank's less successful regulatory reform operations, largely because of political resistance to genuine reform. The telecommunications agency lacks independence, has typically been slow in making decisions and resolving conflicts, and has not been very transparent in its performance. A more successful example is the Bank/PHRD-supported Peruvian INDECOPI (Competition Agency) created in 1992. The broad range of areas (anti-trust, dumping, patents and trademarks, etc.) covered by this agency lends itself to effective coordination of competition policy. Another key to INDECOPI's relative success is that it created its own appeals court, bypassing the Peruvian judicial system and making conflict resolution much more flexible.

**New approaches.** Since the mid-1990s, the Bank has also begun to introduce more ambitious approaches to traditional areas of public sector reform. For example, in the area of revenue administration, some of the newer projects explicitly aim at improving the sector's governance structure by establishing autonomous or semi-autonomous revenue administration agencies.<sup>11</sup> In the area of administrative and civil service reform, some recent operations adopt New Public Management

approaches of inter-agency contracts and performance-based incentives to facilitate reform implementation and improve agency performance.<sup>12</sup>

Another set of relatively new operations has explicitly incorporated “competition” options in project design and supports private participation in public service provisions, particularly in the areas of public utilities and transport services.<sup>13</sup> The Public Sector Modernization Projects in El Salvador, Honduras, and Venezuela all include components that support private participation in public service delivery (“competition”). In education, Colombia is experimenting with voucher programs, and has also received substantial Bank support, both lending and nonlending, to further its decentralization in the education sector at the national, departmental, and municipal levels.

Finally, there have been new efforts to incorporate more participatory (“voice”) approaches. Such an approach has been particularly successful in El Salvador’s Bank-supported EDUCO program, which introduced community-managed schools in rural areas and is now being expanded to include marginal urban areas. Beneficiary surveys and other participatory approaches have also been adopted in some recent operations including some judicial reform projects.<sup>14</sup>

**The record and lessons of experience.** Despite relatively long operational experience, the Bank has not conducted systematic evaluations of public sector and institutional development operations across LCR. Although in many cases the projects are still too recent to evaluate for their sustainable impact, LCSPR has begun systematic evaluations of selected operational areas, including judicial reform and financial management projects, to draw the lessons that can be learned from our experiences to date. The limited evidence we have so far indicates that our record is likely to be mixed.

Many of the projects in the 1980s suffered from implementation difficulties and limited sustainable impact. When the Bank began supporting public sector institutional reforms in the region, most client countries, with the exception of Chile, were still grappling with the tasks of implementing “first-generation” reforms (macroeconomic stabilization, and market liberalization). Unstable macroeconomic conditions and relatively weak, incipient democratic regimes did not provide an environment conducive to implementing public sector institutional reforms in the region. This was especially true in some countries to which the Bank offered early support.<sup>15</sup>

The mixed record applies equally to what we call “modernization” approach operations. The series of financial management projects provides a useful illustration. Often eschewing the broader strategic goals of institutional reform of the budget system, the projects focused on developing the technical building blocks of financial management: creating properly functioning accounting, cash management, and budget sub-systems capable of recording and reporting government finances accurately and rapidly. In some cases, this “building-block” approach has borne fruit in the form of greater efficiency and transparency in financial management, as manifested in the very successful installation of well-functioning integrated financial management systems in Argentina and Guatemala. But in other cases, inadequate attention to political and bureaucratic constraints has frustrated implementation and limited project impact, as in Bolivia and Ecuador. Evidently, the apparent success of these projects owes much to the existence of a conducive environment, including sustained government commitment and limited bureaucratic resistance. The challenge for the Bank is to evaluate these diverging experiences more systematically and assess conditions under which a “building-block” approach tends to lead to more fundamental institutional reform.<sup>16</sup>

## The challenge ahead

As LCR countries move toward improving public sector institutional performance by way of either modern administrative framework and management tools, or the introduction of performance-oriented management practices, much remains to be done to redefine the role of the state and reshape its organizational structure, in the ongoing work on decentralization, in the restructuring of incentives, and in the introduction of competition and “voice.” These more complex reform efforts require strong underlying constituencies to succeed, and the Bank must learn to be more strategically selective. More strategic selectivity can be ensured by investing more in upfront analytic work.

**Deeper institutional reforms of core government functions.** Most of the Bank’s current lending activities in LCR support country efforts in “traditional” public sector management operations that concentrate on core government functions. The Bank is now moving toward addressing a deeper institutional reform agenda concerned with the rules and incentive structures that affect public sector performance. For example, in the area of public financial management, the Bank intends to go beyond a narrow technical focus on integrated financial management system operations and begin to address the need to reform budget institutions. This would require attention to linkages between policy-making and budgeting functions of the state, including the role of the legislature and executive policymaking bodies in the public expenditure management process.

In the area of personnel management, the greatest challenge is to develop merit-based bureaucracies in highly politicized administrative environments, and where conditions are ripe, to push for more performance-oriented public management. The Region is experimenting with performance-oriented management approaches in a few countries, including Bolivia, where an ambitious ten-year reform program support-

ed with an Adaptable Program Loan (APL) is being prepared. The main objective of this Institutional Reform Project is to professionalize pilot agencies by introducing merit-based personnel management practices, and by encouraging these agencies to move toward a more performance-oriented management culture. In Jamaica, the Bank is supporting the establishment of UK-style autonomous executive agencies on a pilot basis. The goal of creating executive agencies is to empower managers by granting them considerably enhanced autonomy in managerial, financial, personnel, and operational management, in exchange for strict accountability for predetermined performance targets.

**Emphasis on combining internal rules, “voice” and competition.** Given the relatively developed civil society and private sector in LCR, the Bank should be able to rely more on both participatory and competitive approaches. Already some of the new operations, such as the 1998 Guatemala Judicial Reform Project, and the 1998 Peru Urban Property Rights Project, utilize participatory approaches for project design and implementation involving NGOs and project beneficiaries (the indigenous population and urban slum dwellers). These approaches appear particularly suited to improving citizens’ access to public services.

Privatization and other means of introducing competitive pressure to the provision of public services are other ongoing agenda items in many countries. Our initial experiences in this area have so far been favorable as evidenced by the relative success of the 1996 Honduras Public Sector Modernization Project. While the bulk of the Bank operations in public enterprise reforms, privatization and regulatory reforms are now handled by the FPSI Sector Management Unit, it is important to ensure that reform efforts in these areas and reforms of core public sector functions mutually reinforce each other rather than introduce inconsistency and contradictions.

The Bank is also paying greater attention to the challenges and new questions raised by decentralization throughout the region. All elements of public sector reform will affect or be affected by the changing configurations and divisions of power generated by decentralization. As decentralization progresses, more service delivery functions are devolved to subnational levels. Therefore, any effort to improve public sector performance in a way that directly benefits the population would have to take into account the roles and capacities of subnational governments. Better coordination is needed between projects to support central government reforms and those that strengthen subnational government capacities. One way to mitigate this problem would be to design a project that links institutional reforms at the central and the subnational levels. Another approach would be to design projects based on a common analytic framework of broader institutional issues that affect both levels of government.

**Strategic selectivity.** These new lending areas are more politically sensitive and technically difficult, and therefore call for greater strategic selectivity. Strong, sustained political commitment and societal support are essential for these interventions to succeed. For example, as judicial reform has become more popular in the region, courts and political leaders are eager to finance buildings, computer equipment, new laws and training centers, but few envision, let alone support, the sorts of changes in behavior required to make judicial output more efficient, predictable, equitable, and subordinate to transparent rules. A judicial reform project in Peru designed in 1995-96 was postponed repeatedly because of lack of government compliance with effectiveness conditions. The Government cancelled the project in 1998, after it passed a new law that constrained the Judicial Council's freedom to discipline judges.

Similarly, the current attention to anticorruption induces a number of well-intentioned governments to request our support but presents us with the risk of

entering to provide assistance where understanding of the nature of the problem is limited, and true political commitment is absent or unsustainable. This is an area where there are few, if any known means to solve problems in the short term, but where countries have strong desires to see progress and may be particularly impatient. This can translate into undue pressure on the Bank to seek quick solutions, when a more appropriate approach may be a carefully designed multi-faceted institutional reform program that tackles the weaknesses of the public sector institutions in the long run.

When strong constituents of reform do not exist, we must either devote much of our initial effort to building effective demand for reform, or if that is not feasible, we should decline assistance until a better opportunity arises. Strategic selectivity can be ensured by investing more in upfront analytic work.

**Greater emphasis on analytic work and learning.** To date, the amount of sector work in the public sector and institutional development area has been limited, and the treatment of these issues in PERs has often been cursory and superficial. In both cases, analytic work has rarely had an impact on the choice or design of Bank reform projects and operations. Clearly, more needs to be done to increase and improve our analytic work on public sector institutional issues.

Given the technical difficulty of public sector institutional reforms, the Bank's future strategy emphasizes rigorous analytic work in order to learn more about the performance of Bank operation and the particular challenges of the region. Future analytic work should focus on three main areas: country-specific institutional assessments; operationally relevant research and analysis of institutional and public sector reform issues; and systematic evaluations of our past and ongoing operations to draw appropriate lessons of experiences.

To aid in country-specific institutional assessments, the Bank is developing and applying new diagnostic tools, such as the Institutional and Governance Review (IGR), recently piloted in Bolivia. In addition, the

Region is developing a framework for mini-IGRs to diagnose institutional problems in those countries where a full IGR cannot be implemented for whatever reason. These mini-IGRs could be offered as part of a menu of products in support of anticorruption activities. Both full IGRs and mini-IGRs will address fundamental institutional issues including rule compliance within the public sector, and the political economy factors that affect performance of government bureaucracies.

The Region will become more active in operationally relevant research programs dealing with institutional behavior and public sector reform in collaboration with DECRG and PRMPS. Such research will address issues such as the pervasive bureaucratic informality and weak rule of law within the public sector. Many Bank reform measures currently rely on new rules and organizational structures to change public sector behavior. Needless to say, weak rule compliance seriously undermines the efficacy of any rule-based solutions.

Finally, the Bank will need to do a better job of learning from experience. So far the Region has not been able to develop an effective system of self-learning and knowledge management. To address this issue, LCSPR has launched a knowledge management program, with a focus on distilling and disseminating lessons of experience from past and ongoing operations. While attempting innovative approaches to institutional reforms, the Bank should make better use of experimental instruments such as Learning and Innovation Loans to increase the likelihood that the proposed reform finds a “good fit” with the country’s political and institutional surroundings, and to ensure that the Bank can draw appropriate lessons in a timely manner to improve design of subsequent operations. To date, two Learning and Innovation Loans (LILs) for judicial reforms are underway in LCSPR (the 1997 Venezuela Supreme Court Modernization Project was the first LIL Bank-wide).

### Bolivia—From Patronage to Professional State: Institutional and Governance Review

**Type of Activity:** Analytic and Advisory Activity

**Timing:** Concept paper review: March 11, 1999

Decision draft review: February 29, 2000. Document in final stages of completion.

based on the country's own political and institutional realities, and propose several measures that are both realistic and yet critical for improving public management in Bolivia.

#### Summary of Contents

Institutional and Governance Reviews (IGRs) are a new type of analytic instrument being piloted Bank-wide in the Public Sector. IGRs are intended to be an in-depth analysis of a country's public sector institutions with explicit emphasis on political economy issues (wherever and to the extent it is feasible). The Bolivia IGR was designed to provide analytic input into refining the design of, and formulating an implementation strategy for, the Institutional Reform Project (IRP), which aims at introducing a merit-based civil service and performance-oriented public management in selected government agencies. The Bolivia IGR identifies several key political-institutional factors (particular constraints presented by the country's coalition politics) that influence public administration (personnel and financial management), reviews past institutional reform efforts in the country (successful efforts to build autonomous regulatory agencies), and offers operational recommendations (sequencing for gradual introduction of advanced public management techniques such as results-oriented budgeting). The recommendations emphasize the importance of political feasibility

#### Innovative / Risky Elements

The Bolivia IGR's innovative aspects include the explicit political analysis used and the conscious effort to avoid prescribing "international best practice" in favor of a "good fit" for the country's political and institutional realities.

The potential risk was a possible disconnect between the Review's recommendations and the design of the Institutional Reform Project (IRP), which was already at an advanced stage of preparation when the IGR work began. This potential risk has been mitigated through close coordination and communications between the IGR and the IRP teams. The politically sensitive nature of the topic continues to be a risk that needs to be recognized as we enter discussion with the Government and consider options for public dissemination.

#### Partnerships

The Bolivian counterpart was involved from the beginning as peer reviewer and potential consumer of the report, but there were no other institutional partners for this work.

### Guatemala: Financial Management Reform (1999 President's Award for Excellence)

**Type of Activity:** Technical Assistance Loan

**Timing:** Board Approval: May 1995, Closed: June 1999

**Loan Amount:** \$9.4 million

#### Summary of Contents

This project attempted fundamental reform of the government's budgeting, accounting, cash management, procurement, and auditing sub-systems, with ongoing reforms in debt management and public investment. The sub-systems are fully integrated through updated laws and regulations, coherent and consistent accounts classifications and administrative procedures, and a powerful single relational database information technology system providing on-line, real time information to managers and stakeholders.

The project, a model throughout Latin America, has had tangible impact on government transparency, efficiency, and effectiveness. Specific results include: (a) widespread reduction in prices paid for goods (medicines and school supplies); (b) significant improvements in social sector ministry performance; (c) elimination of government payment arrears; (d) replacement of government checks with electronic funds transfers; (e) reduction of average payment time to suppliers from 3 months to 72 hours; (f) sharp reduction in number of government bank accounts, permitting more sophisticated cash management; (g) presentation of proposed budget to the Congress on CD ROM including information on executed budget to within four days of budget submission; (h) availability of proposed and implemented budgets online to legislators, private citizens, and other stakeholders, with budget execution data

updated biweekly; (i) decentralization of budget formulation, execution, and payments to line ministries; (j) incorporation of physical and other performance indicators into the budget; and (k) provision of immediate, detailed information on all recorded financial transactions, through a unique relational database, providing an audit trail and reduced scope for corruption.

#### Innovative / Risky Elements

The project team insisted that the project be viewed as a complete and coherent system affecting and integrating all key sub-systems in terms of concepts as well as information technology, rather than piecemeal or based on information technology alone. It supported the government's decision to build a new graphics-based software system specifically designed in conjunction with the conceptual design of the various sub-systems. The project has involved working closely with national accounting trade associations and universities to promote understanding of the new system and to facilitate the training of new accountants on the new public sector financial management system. Finally, it has become the backbone of state modernization, closely involved in tax administration reform, improvements in human resource management, and municipal development (in a third loan under preparation).

#### Partnerships

Close cooperation with USAID in Guatemala City, and with UNDP, which has acted as procurement agent for the project.

### Guatemala: Judicial Reform Project

**Type of Activity:** Lending

**Timing:** Board Approval: October 22, 1998

**Effective:** April 22, 1999 **Closing:** June 30, 2004

**Loan Amount:** \$33 million

#### Summary of Contents

As part of Guatemala's peace process after 36 years of civil war, the Supreme Court of Justice and the Judiciary Branch, with contribution from the Judicial Sector Strengthening Commission and civil society, have initiated a judicial reform program to overcome the failings of the past and move toward improved administration of justice in the country. This Bank-supported program aims at creating a more *effective, accessible* and *credible* judicial system that would foster public trust and confidence and improve consistency and equity in the application of law. In order to meet its objectives, the project is implemented through the following four components: Strengthening Institutional Capacity of the Judiciary Branch, Providing Anticorruption Support, Strengthening Access to Justice, and Improving Social Communications.

#### Innovative / Risky Elements

The singularity of the program lies in the fact that the project has been developed using a collaborative, participatory assessment. In the project preparation phase, judges and justices of the peace, instead of disregarding the criticism from civil society, initiated a broad stakeholder consultation. Key players not only in the judiciary, but also in the indigenous community, the NGO sector and the media were heard in order to identify critical areas for reform and start a process to regain public confidence in the system. The program can be seen as a flagship case of a post-conflict judicial reform initiative that is implemented through extensive participation from wide-ranging constituents of the government as well as the civil society.

#### Partnerships

The Modernization Program was developed in 1997/98 with the participation and support of international organizations, such as the World Bank, IDB, UNDP, USAID, MINUGUA, the Governments of Sweden, Japan, Switzerland, Canada and others.

### Peru: Institutional Development of the Ombudsman's Office

**Type of Activity:** IDF Grant Activity

**Timing:** February 1999 - February 2001

**Loan Amount:** \$500,000

- carrying out a dissemination campaign about the Ombudsman's Office activities, including the preparation and distribution of materials and regional workshops.

#### Summary of Contents

The Grant has supported the following activities:

- provision of technical assistance and training (including advisory services, strategic workshops, and evaluation studies) for the institutional strengthening of the Ombudsman's Office, in the areas of: (a) institutional image and media relations; (b) internal organization and methods, and budget control; (c) assessment of local governments and pension plans; (d) supervision of the provision and regulation of public services; and (e) poverty and senior citizens issues;
- logistical support and strategic planning for the administrative modernization of the Ombudsman's Office aimed at promoting the decentralization of its services, in particular through the development of basic integrated management systems for the central and departmental offices;
- carrying out workshops, forums and training programs aimed at improving coordination between State authorities and civil society; and

#### Innovative / Risky Elements

The Grant has supported the independence of the Ombudsman's Office. The strengthening of the Office's role in the defense of citizens' rights is expected to have spillover effects in the entire state system. The activities selected for IDF support have assisted in building civil society capacity for demanding and monitoring access to the state apparatus through greater awareness about the rule of law and the role and functions of this new institution, an essential element of a better system of checks and balances provided by the 1993 Constitution.

#### Partnerships

Comisión Andina de Juristas (major NGO active on governance issues); Instituto de Defensa Legal (major NGO active on human rights); Instituto para Democracia y Buen Gobierno (new NGO active on governance issues).

### Peru: Urban Property Rights Project

**Type of Activity:** Technical Assistance

**Timing:** Board Approval: August 6, 1998

**Amount:** \$38 million

#### Summary of Contents

The main idea of this project is to help poor city dwellers by formalizing the property they own (getting the state to recognize on-the-ground realities of ownership). Formalization will allow the poor to enjoy the fruits of greater security of ownership. The project will thus encourage more investment in property, more real-estate sales, and more use of property as a security for borrowing—all this reflected in considerably higher property values. The formal rules, organizations, and processes of Peru's regime for real property rights have never worked for poor people. The project is supporting greater security of ownership through a radical and systematic approach to institutional reform which involves simultaneously tackling legal, administrative, and technical problems:

- *Legal reform:* a “bottom-up” reform (requiring a consultative approach which ends up in adapting laws to the reality on the ground).
- *Administrative reform:* new organizational arrangements (independent, but accountable agencies) to break the former stranglehold of corrupt and incompetent agencies and build sustainability into the reform process.
- *Technical reform:* the design and implementation of a low-cost, low-technology, and participation-intensive process that “mass-produces” formalized ownership through an area-based titling approach

and an “industrialization” of the formalization process.

The project also helps lay the groundwork for the development of instruments to support the use of real estate as security in financial transactions.

#### Innovative / Risky Elements

This operation is an application of a “second-generation” reform that originated in the early 1990s. The Bank was involved, through technical assistance, from 1992. The project provides an approach to the reform of service delivery and to the problem of informality and can serve as a model for other countries and sectors. This has been a controversial reform, in large part because of the legal changes and its quasi common law approach to formalizing property rights. The controversy has receded as a growing number of countries have sought to adopt similar reforms. The project has a high political profile because it provides tangible assets to poor people. In this sense, conferring property ownership is used as political currency. This has often been the case with this type of project, but unlike the past, this project will provide mechanisms that will lead to effective property formalization on the basis of technical criteria.

#### Partnerships

The project concept was developed a decade ago by a local NGO, the Instituto Libertad y Democracia. The Bank and the ILD worked closely together to pilot the concept.