



**OECD-FIESP Seminar – “Building a positive agenda for Brazil:  
lessons from international practices and experiences”**

## Words from the Secretary General of the OECD



The Brazilian economy is at a critical juncture. Now that the tailwinds from high commodity prices have dissipated, pursuing structural, social and institutional reforms is more important – and more urgent! – than ever. This is the over-arching message of the OECD Economic Survey of Brazil, launched in Brasília on 4 November 2015.

This OECD-FIESP seminar brings together participants from the Brazilian private sector, academia, government authorities, and international experts with one objective: *building a positive agenda for Brazil*. The aim is to help Brazil's leaders in government and business to draw on the lessons learned from international practices and experiences and to discuss how best to restore strong and sustainable economic growth and social development in Brazil.

All of the topics discussed here are key priorities for Brazil: increasing productivity by unleashing the potential of the industrial sector; improving the investment climate to launch a new investment cycle and reduce infrastructure bottlenecks; and, increasing the efficiency, transparency and openness of government spending.

Furthermore, these topics are part of the wider OECD-Brazil agenda of cooperation. Brazil and the OECD have been working together for more than 20 years. Recently, our co-operation has intensified thanks to a joint work programme, through which the OECD works closely with Brazil's government to tackle key policy challenges.

We are thankful to FIESP for co-organising this very high-level and relevant event and look forward to working together to design and implement “better policies for better lives” for all Brazilians.

### **Angel Gurría**

OECD Secretary-General since June 2006. Former Minister of Foreign Affairs (1994-1998) and Minister of Finance and Public Credit of Mexico (1998-2000).

## Palavra do Presidente do Fiesp



A Federação das Indústrias do Estado de São Paulo, Fiesp, o Centro das Indústrias do Estado de São Paulo, Ciesp e a Organização para a Cooperação e Desenvolvimento Econômico, OCDE, com apoio do Tribunal de Contas da União, TCU, apresentam o resumo propositivo do Seminário “Uma agenda positiva para o Brasil”, com o objetivo de auxiliar os tomadores de decisão e os formuladores de políticas públicas na consolidação de uma agenda positiva quanto aos temas que envolvam boas práticas de governança pública e a interação entre o setor público e os demais entes da sociedade.

Este documento aborda a produtividade industrial, a competitividade nacional, a consolidação de instituições éticas e resistentes à corrupção, a disciplina orçamentária e a elaboração de políticas que fortaleçam a governança pública, a transparência e a desburocratização, orientando os entes envolvidos a obter um resultado seguro e eficiente.

Com este documento, a Fiesp, o Ciesp e a OCDE têm como objetivo contribuir com a divulgação de importantes conceitos para a construção de um sistema de gestão pública moderno e inovador, além da difusão de boas práticas internacionais, implementadas com sucesso, principalmente nos países da Organização para a Cooperação e Desenvolvimento Econômico – OCDE.

### **Paulo Skaf**

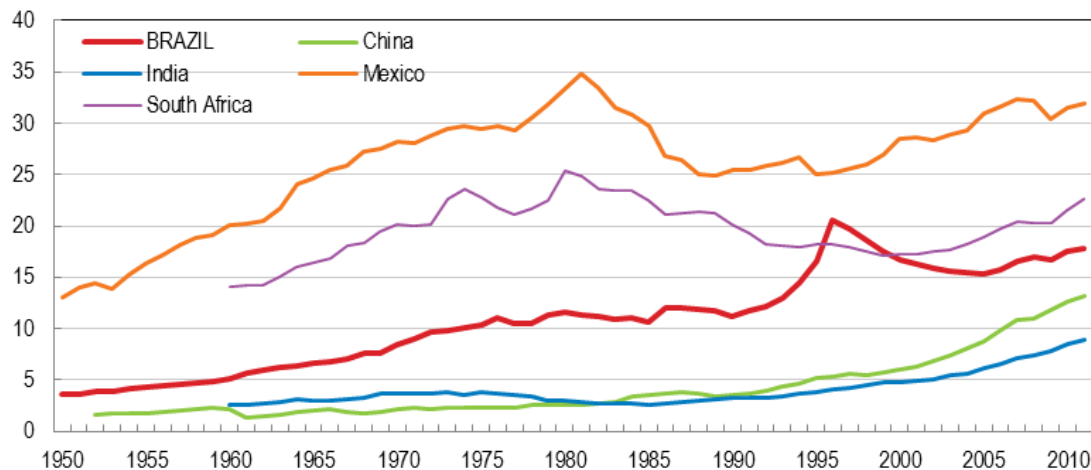
Presidente da Federação das Indústrias do Estado de São Paulo, Fiesp, do Centro das Indústrias do Estado de São Paulo, Ciesp, e do Serviço Brasileiro de Apoio às Micro e Pequenas Empresas do Estado de São Paulo, Sebrae-SP

## Session 1: Putting Brazil back on the path of strong and sustainable economic growth – Improving industrial productivity and competitiveness

Brazil's growth will have to come increasingly from productivity improvements. Large scope for achieving productivity gains lies in the industrial sector, where a few key structural reforms could unleash significant unused growth potential.

Unlike other emerging market economies where the industrial sector has been a key driver of aggregate GDP growth, real industrial output as a share of GDP in Brazil has been basically flat for two decades. Global trends that have shaped industrial production have largely bypassed Brazil's industry, including a growing fragmentation and optimisation of value chains and increasing integration into international trade. Aggregate productivity gains are also increasingly driven by a constant reallocation of resources towards firms with higher productivity levels, but in Brazil, the functioning of reallocation mechanisms appears weak. All in all, Brazil has not shared in the productivity gains from these global developments and has failed to become the major industrial power that it could be.

### Labour productivity calculated as real GDP at chained PPPs (in thousands of 2011 USD) divided by employment.



Source: Feenstra, Robert C., Robert Inklaar and Marcel P. Timmer (2013), "The Next Generation of the Penn World Table" available for download at [www.ggdcc.net/pwt](http://www.ggdcc.net/pwt).

The high costs of Brazil's industry as a result of weak policy settings are often referred to as the "Brazil cost". First among these is a fragmented and inefficient indirect tax system, which makes Brazil stand out for its high tax compliance costs. Infrastructure bottlenecks give rise to high transport and logistics costs for industrial companies, in particular with respect to exports. Skill shortages also affect particularly the industrial sector.

Incentives that drive the behaviour of industrial companies are significantly shaped by economic policies. A key challenge for improving incentives in the industrial sector is to

strengthen competition, both domestically and from international trade. Competition is what ultimately creates incentives to adopt the most efficient production technologies and reach global best practice, to introduce new innovative products and to orientate existing products better to customer needs.

The challenge of increasing productivity is not unique to Brazil. The main reason for Latin America's limited catch-up with respect to OECD economies, and its stagnation relative to the progress of other emerging markets, is its low productivity and insufficient productivity growth (notably Total Factor Productivity growth), as opposed to impediments to factor accumulation. This reflects structural obstacles such as the large size of the informal economy, the challenge firms in the region face to recruit staff with the necessary skills, the relatively weak innovation ecosystem, insufficient quantity and quality of infrastructure, and barriers to competition.

Increasing productivity is a pressing challenge for OECD countries as well. In the past decade, productivity growth has slowed in the majority of OECD countries. Recent OECD research shows that this is not due to a decline in innovation of firms at the global frontier, but rather by a rising gap between frontier firms and the rest. The challenge is therefore in the diffusion of global frontier technologies and knowledge and in the reallocation of scarce resources to the most productive firms and sectors.

The OECD has been at the frontier of productivity research and measurement for many years. Three policy areas appear to be of key importance to sustain productivity growth: i) foster innovation at the global frontier and facilitate the diffusion of new technologies to firms at the national frontier; ii) create a market environment where the most productive firms are allowed to thrive, thereby facilitating the more widespread penetration of available technologies; and iii) reduce resource misallocation, particularly skill mismatches.

**Proposed questions for discussion:**

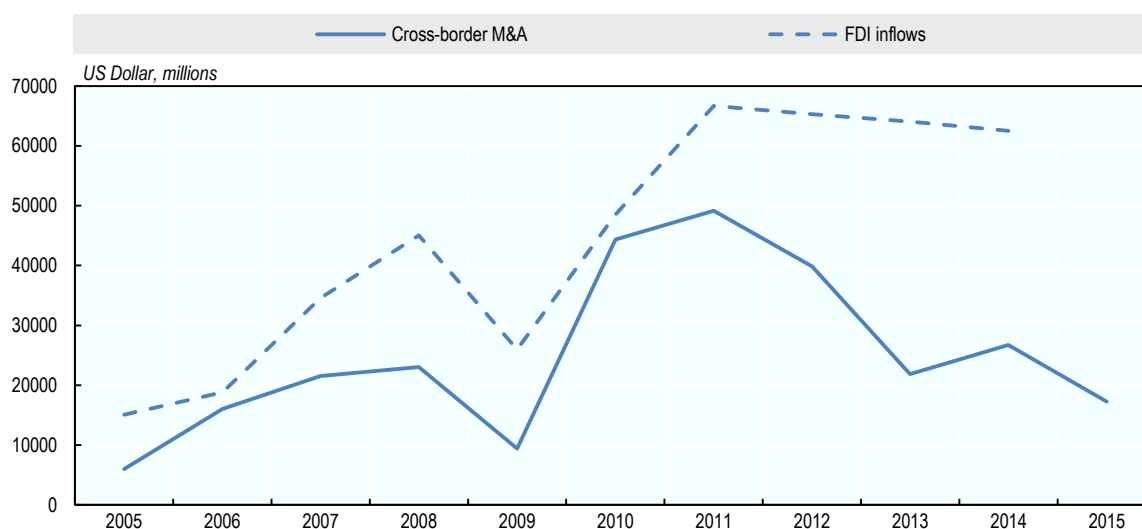
1. What kind of structural reforms could boost Brazilian industrial productivity? What are the policies needed to restore the economy's competitiveness?
2. How can the "Brazil cost" be reduced?
3. How can Brazil strengthen competitiveness, both domestically and internationally, to better integrate itself better into Global Value Chains?

## Session 2: Improving the climate for investment

One of the major drivers of growth is the accumulation of capital, and Brazil is investing too little of its current income for future growth. While Brazil's investment rate has traditionally been lower than in other emerging market economies, including in Latin America, it has fallen even further in recent years. Improving Brazil's investment climate and strengthening investor confidence is therefore a key priority.

There are signs that trend which supported FDI inflows growth between 2007 and 2014 is reversing (Figure 1). Cross-border mergers and acquisitions, a major component of FDI in Brazil, started declining in 2012 and are now 50% below the record level reached in 2011. And project finance in Brazil, an important measure of investment in infrastructure, tumbled 44% in the first half of 2015<sup>1</sup>.

**Cross-border M&A and FDI Inflows in Brazil, 2005-2015<sup>1</sup>**



Source: OECD International Investment Statistics database; Dealogic M&A Analytics database. Obs.: (1)<sup>1</sup> Data for 2015 as of 19 October 2015.

In face of the challenging global business environment, domestic policy reforms aimed at improving the investment climate become all the more important, and in the case of Brazil there is significant scope for improvement. Reforms reducing the so-called “Brazil Cost” could help improve competitiveness, while tackling corruption and raising public and corporate governance would be essential to restore investor confidence. Several aspects important to businesses, such as starting or closing a business, paying taxes, enforcing contracts or trading across borders, are more cumbersome in Brazil than in OECD countries according to the World Bank’s Doing Business. Paying taxes in Brazil, for instance, is almost 15 times more time-consuming than in OECD.

<sup>1</sup> According to Dealogic’s Global Project Finance Review of July 2015.

An effective investment policy is grounded in strong institutions and effective public governance. The key pre-requisites for investment policy include respect for the rule of law, quality regulation, transparency and openness and integrity. Effective action across these dimensions will encourage investment and reduce the costs of doing business. Strong institutions help to maintain a predictable and transparent environment for investors.

On the contrary, all forms of corruption risks threaten the public investment cycle. The costs of fraud and corruption in public investment are not only economic but also safety and environment-related, institutional and political, with serious implications for the ability of government institutions to function effectively.

High levels of trust can facilitate compliance with laws and regulations, strengthen investor confidence and reduce risk aversion. Underlying trust is the expectation that public officials and private sector investors respect high standards of integrity; in particular that issues of conflict of interest are addressed rigorously, that lobbying guidelines are respected and that corruption and fraud in high-risk areas such as public procurement are effectively addressed.

Improving the climate for investment involves a coordinated effort across different policy areas, with active dialogue and involvement of different stakeholders. The private sector is an indispensable partner in these efforts. The OECD Policy Framework for Investment, updated in 2015, provides a tool for governments to design an agenda on investment with the participation of business and civil society stakeholders. The Framework discusses the key policy areas contributing to a healthy investment climate that meets the needs of both investors and of society more broadly. Each set of policy influences investors' decisions and the social and economic returns through several channels, increasing the need for a whole-of-government approach.

**Proposed questions for discussion:**

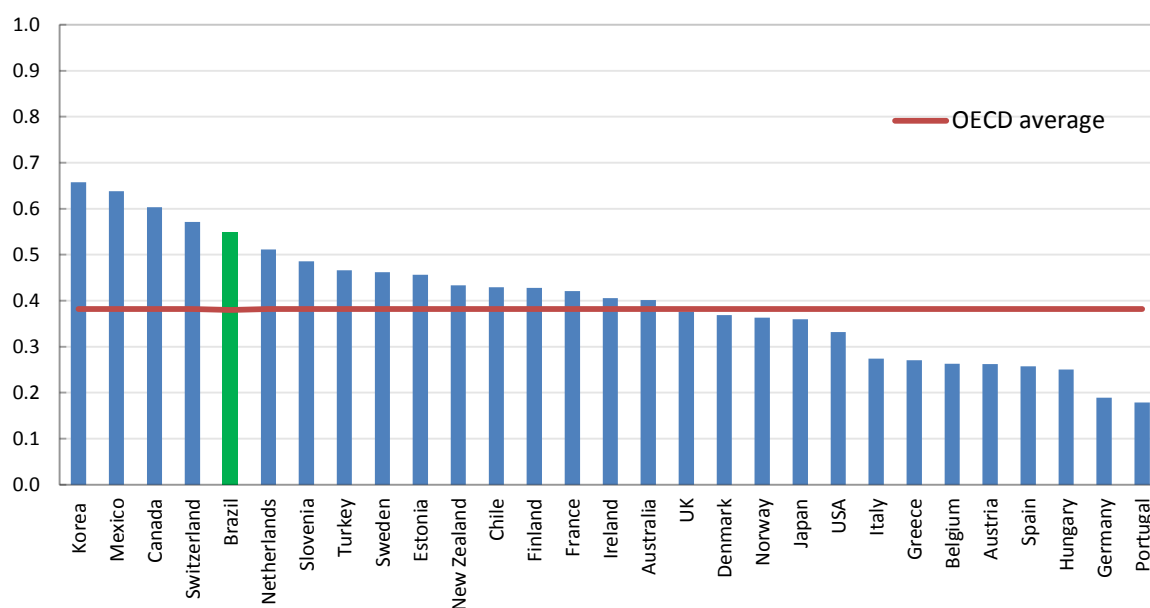
1. What role do macroeconomic and structural policies play in restoring investor confidence?
2. How can Brazil harness private sector support to increase infrastructure investment?
3. How could Brazil increase investor confidence through the promotion of integrity of public and private sector?

**Session 3: Budgeting for results: international good practices**

Budgeting for results highlights questions around budgetary systems' flexibility, their ability to withstand fiscal shocks, and linkages to organisational performance and results. Brazil already makes significant use of performance information as part of its budgeting process at the central government level, and performance indicators and programme evaluations are used throughout its budget planning process.

Brazil scores highly in comparison with and the OECD average in terms of its use of performance budgeting as measured by the OECD composite index of a country's use of performance budgeting practices (see figure below). This index includes variables regarding the availability and type of performance information, processes for monitoring and reporting on results, and whether (and how) performance information is used in budget negotiations and decision making. To date, performance measurement in Brazil has been linked to an extensive set of indicators hierarchically linked to outcome objectives. Like other OECD member countries, however, Brazil is now seeking to consolidate performance information to improve accessibility and usability.

***Index of performance budgeting practices at the central level of government, Brazil and select OECD countries (2011)***



Source: OECD 2011 Survey on Performance Budgeting.

The OECD's principles on budgetary governance and independent fiscal institutions are the result of discussion and experience sharing across its member countries. The OECD's Recommendation on Principles for Independent Fiscal Institutions provides guidance for the creation of independent fiscal institutions which can help to enhance fiscal discipline, and promote greater fiscal transparency and accountability. The OECD's Principles of Budgetary



Governance set out ten principles to provide practical guidance on designing, implementing, and improving budget systems to achieve a positive impact on citizens' lives.

Considering achieving budgeting for results more specifically, performance-based budgeting should link fiscal processes with public sector results, and the OECD has identified a number of keys to implementing a clearer focus on "budgeting for results". For example, a performance budgeting system must be integrated into the budgeting system, as opposed to added on, and must be anchored in a larger vision of the governments' goals, so as to better ensure that the links between budgeting and outcomes are clear.

Moving forward, as Brazil seeks to further enhance its performance budgeting system it might usefully look to other regional examples, including Chile. The Chilean government uses performance budgeting tools, such as spending reviews and evaluations, to support the achievement of fiscal goals and has incorporated systematic evaluation to an exceptional degree by contemporary standards. In the future, Brazil might also consider how performance information can be more fully exploited, so that it is more fully linked to decisions around budget allocation.

**Proposed questions for discussion:**

1. How can we best identify whether budget allocations have delivered the intended results, and measure whether these results improve lives and wellbeing?
2. How does Brazil compare to other countries in ensuring a proper budget design, implementation, efficient spending and monitoring of results?
3. How can we link the budget process to other essential components of public service provision, including leadership and coordination by the centre of government, human resource management and accountability, and citizen and civil service engagement?

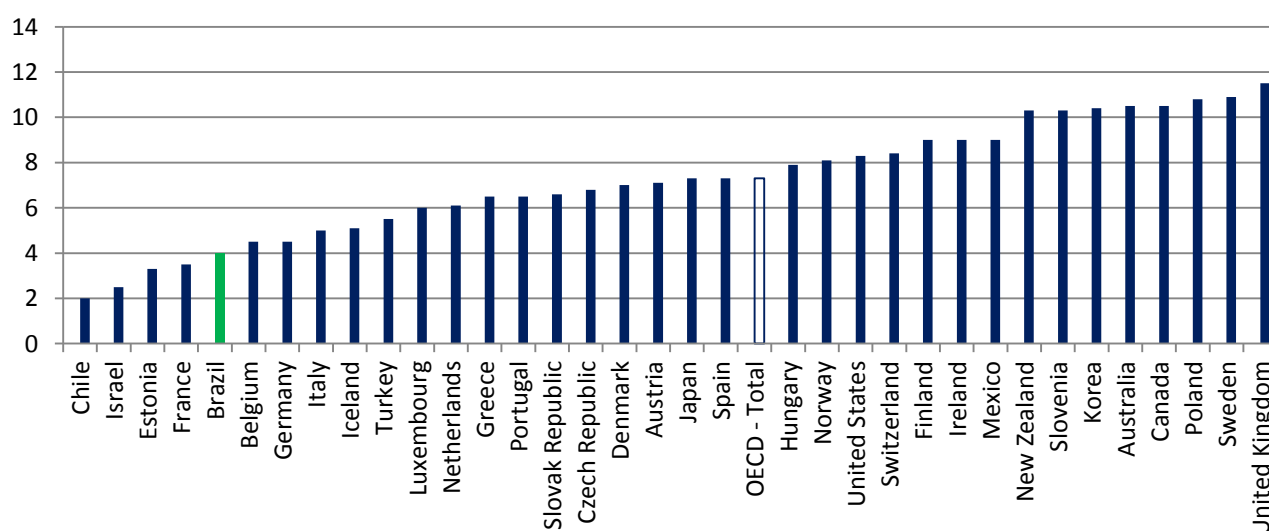
## Session 4: Building innovative, transparent and open governments

Governments play a fundamental role in shaping social outcomes, creating market opportunities and supporting economic performance. In what are often changing and challenging environments, furthermore, governments are required to identify new, more efficient ways of delivering services, and citizens and civil society will need to be empowered to take on greater responsibility and form new partnerships with the public sector. Brazil, like other governments, must respond to the challenges posed by fiscal austerity, building public trust, and corruption through enhanced transparency, innovative approaches and greater openness.

Brazil has made important strides in this regard, and as a founding member of the Open Government Partnership (OGP), it has demonstrated its commitment to strengthening transparency, tackling corruption and involving citizens. Tangible results include creating an Open Data Portal and hosting Consocial, a nationwide conference on transparency that mobilized over 150.000 citizens. Building innovative government is not easy, and to help in this task, labs such as these provide a place where service users – both businesses and citizens – can become active participants in the policy making process.

Brazil's active citizens and thriving civil society sector are valuable assets for enhancing democracy and strengthening governance. Their involvement with the public sector, such as through online discussions with citizens and government, and meetings with over 80 civil society organisation during the shaping of Brazil's Second OGP Action Plan, should be continued across government levels and policy areas.

### OECD Better Life Index – Indicator on Consultation on Rule-Making



Source: OECD, *Indicators of regulatory management systems, 2009 report*

Despite this progress, Brazil ranks lower than the OECD average on the Consultation on Rule-Making indicator from the OECD's Better Life Index, as seen in the figure below. This indicator describes the extent to which citizens are involved in formal consultations that allow them to help design and monitor government regulation.

As it seeks to create more open, transparent and innovative government Brazil can learn from experiences in other OECD countries. Portugal's Agency for the Administrative Modernization is leading efforts to improve public services for citizens by improving interactions through 'Citizen Shops' where the public can access a range of different public and private services. It is also simplifying processes, such as the 'Zero licensing' initiative which simplifies procedures for business licensing to support economic activity.

To help service users become more active participants in the policy making process other countries are creating dedicated spaces – 'innovation labs' - where citizens and businesses work with the public administration to find innovation solutions for public services, such as GovLab in Chile and Laboratorio para la Ciudad in Mexico City.

Brazil needs to support mutually reinforcing relationships to move to a "citizen-driven" approach, where citizens and businesses formulate and determine their needs in partnership with governments. Strengthening democracy, enhancing good governance and demanding accountability are all preconditions to creating an economically prosperous, responsive, and socially responsible public sector. To this end, the OECD aims to identify good practices and facilitate policy dialogue between OECD members and non-members alike regarding good governance; open government; public sector innovation, digital governance and open data; and citizens' participation.

**Proposed questions for discussion:**

1. What examples of successful open public sector reforms could be relevant for Brazil?
2. What are international best practices in terms of providing incentives – or removing disincentives – to openness and transparency?
3. In a large, federal country as Brazil, how can open and innovative government successes at sub-national levels be replicated and expanded?

## **Relevant OECD Tools and Bibliography**

- OECD Economic Outlook (2015), Interim Economic Outlook (Sept, 2015)
- OECD Going for Growth (2015)
- OECD Latin American Economic Outlook: Education, Skills and Innovation for Development (2015)
- OECD Policy Framework for Investment (2015)
- OECD Investment Policy Reviews: Brazil (1998), Colombia (2012), Costa Rica (2013), Peru (2008), China (2008), Russia (2008), India (2009), Indonesia (2010)
- OECD Performance Budgeting in OECD Countries (2011).
- Updated OECD Survey of Performance Budgeting Practices (forthcoming).
- OECD Integrity Framework for Public Investment (forthcoming)
- Review of Brazil's Supreme Audit Institution.
- OECD Surveys on Budget Practices and Procedures.
- OECD Recommendation on Budgetary Governance.
- OECD Recommendation on Principles for Independent Fiscal Institutions
- OECD Latin America Government at a Glance (2014)
- The Observatory of Public Sector Innovation.
- Open Government Reviews: Latin America Regional Review (2014); Morocco (2015); Myanmar (2015); Tunisia (2015); and Indonesia (forthcoming).
- Public Governance Reviews with an Open Government Component: Colombia (2013); Lithuania (2015); Peru (forthcoming); Kazakhstan (forthcoming); and Costa Rica (forthcoming).
- The Call for Innovative and Open Government: An Overview of Country Initiatives (2011).
- The Innovation Imperative in the Public Sector (2015).

## **OECD Brazil reports:**

- OECD Economic Survey Brazil (2015)
- OECD Integrity Review of Brazil (2011)
- OECD Environmental Performance Review (2015)
- OECD Water Resource Governance in Brazil (2015)
- OECD Investing in Youth Brazil (2014)
- Brazil's Supreme Audit Institution: The Audit of the Consolidated Year-end Government Report (2013)
- OECD Reviews of Human Resource Management in Government: Brazil (2010)
- OECD Reviews of Regulatory Reform: Brazil (2008)