

**A CONFERENCE ORGANIZED BY
THE CENTER FOR INTERNATIONAL PRIVATE ENTERPRISE
(CIPE) AND
THE RONALD COASE INSTITUTE**

**PROMOTING INSTITUTIONAL REFORMS IN
LATIN AMERICA**

**Hugo Maul
CIEN, Guatemala**

**UNIVERSITY OF SAO PAULO
SAO PAULO, BRAZIL**

**Saturday, December 13, 2003
DAY TWO**

[TRANSCRIPT PREPARED FROM TAPE RECORDINGS.]

MR. ZEMKO: ...Hugo Maul, who is Director Agri-Economica [phonetic] of the CIEN of Guatemala. He has been involved in the project with CIPE on increasing competitiveness in Central America and has been working in a number of countries and has some very interesting observations about that process.

MR. MAUL: Buenos días.

I want to express my gratitude to the organizers of this conference for inviting us to share our experiences in Central America.

After listening to Mr. Concheso on Venezuela, you are not alone. In Guatemala, we have ourselves a little Chavez wannabe, but hopefully, we are getting rid of him the 28th of December, and after you visit Nicaragua and learn all the political struggle in Nicaragua, you'll see that we are in the business of economic reform, at least at CIEN, but our countries are in urgent need of institutional reform on a broad basis, from political parties to economic institutions to social practices. So it is a job we have to do all over the place.

There is also a bias when you think about institutional reform with economists. We tend to think that institutional reform is a kind of macro policy thing, something you can devise from the Ministerio de Hacienda. And after listening to the great exposition of the Ministerio de Hacienda yesterday, sometimes we tend to believe that the only requirement you have to have to make institutional reform is a good technocracy and get into the government. But that is not exactly true, because our problems are so ubiquitous; some of them are so deeply related with everyday life, that technocracy will not know how to handle them.

I want to remind some of the words of a great economist, Alfred Marshall [phonetic], who used to say the government could print a good edition of Shakespeare's work, but it could not get them to be right, because the genius is not in the technocracy or bureaucracy, the genius is in free enterprise. So we have to learn from the private sector, from entrepreneurs, what are the needs and how do they feel about the reforms, what is going on.

I'm going to show you some of the problems we have in Central America, but before showing you those problems, I have to advise you that we have had for at least 10 years several reforms going on in Central America.

We have the old competitiveness framework sponsored by Harvard and Professor Michael Porter. We have the cluster thing they tried to promote in specific sectors. So there is a lot of stuff going on, but all of that is always made from the top down, from the bureaucracy to the markets.

Just for you to get a taste, obstacles related to paperwork and requirements--in Honduras, Guatemala and Nicaragua, we have excessive and costly regulations in international trade, excessive discretion in cost and

regulations, too many permits and licenses. So we talk about the gains from trade. We talk about the Central American Free Trade Agreements, the ALCA [phonetic]. But we are not able, our governments are not able, to remove basic obstacles for doing everyday business, even though we have all these ideas for promoting international trade through the governments.

Some of our problems related to bureaucracy--the bureaucracy related to the export sector, the bureaucracy related to customs, the bureaucracy related to immigration--is a pain in the neck002E

So we want to integrate to the world markets, we want to participate with the rest of Latin America in a free trade zone, but we are not able to remove the basic obstacles to our business. So we were talking about transaction costs. Transaction costs are pervasive in Central America. So the basic question is how to do the reforms, and to do the reforms, we have to work together, private sector and public sector, on a discovery process to learn what are the needs of the private sector and together work on how to overcome those obstacles.

So the first question I want to ask is how to begin a reform agenda. Basically what you need on a reform agenda is to identify modern sectors. You have to have the advance mentality on your side. And in our case in Central America, this is the export business sector. They are the ones suffering from international competition. They are the ones suffering from the rigors of international trade. So they are the ones who have the best ideas, and they are the ones that are more prone to radical reforms.

Another characteristic is that they represent very well the whole structure of the economy. Also, it is important to have somebody inside the private sector capable of leading the changes, because those changes cannot be made from the outside. No matter if you are a think tank or you are a research institution or you are the government, you need the private sector to learn how to do the changes, but you need somebody to push those changes.

But don't get scared about this picture I am showing you. There is reform going on. The problem is that reform is going in one direction, and the private sector--in this case, specifically the exporting business--is requiring different things. For instance--

[TAPE MESA F-3, SIDE B]

MR. MAUL [continuing]: --is a negative correlation between the needs of the private sector and how the actual bureaucracy and governments are responding to that.

So this is the basic obstacle we have to overcome. We have to work together, but in order to work together, we have to devise dialogue mechanisms, communication mechanisms, in order to work in the same direction.

So this is the basic problem we have. We have spent lots of money, lots of time and lots of effort trying to make reforms, but the reforms are always pushed by the government, and the private sector is only a spectator in all of this.

Next, why is it so difficult to make reforms in Central America or in countries like Central America? First of all, because we don't have a long-term vision. And if you don't have a long-term vision, you will never have coherence in the policies you have. One day, you will go to the left, the other day, you will go to the right, the other day you will go up, and the other day, you will go down.

So first of all, we need coherence. If you don't have coherence, if you don't have a vision, it is very difficult to have steering capacity. If not, I invite you guys to see how are we dealing with the Central American Free Trade Agreement. Basically, every country in Central America is going in its own direction, and the United States is demanding for us to add as a group, as a block. So we don't have steering capacity, and we will sign a free trade agreement next week that probably will not respond to the needs that we have as a region because we were not capable of working together.

The other problem is that in very polarized and fragmented societies, you do not have democratic mechanisms to promote dialogue and to promote cooperation. Everything is the army, with the guns, or everything is the politician who believes that he is illuminated by God, and he will do whatever he wants. But we don't have this tradition of listening and working together.

So it is difficult in countries like ours, but it is possible to be done.

In order to show you how difficult it is to create communication, I'm going to show you another of our results. Here, we have "In order to improve Guatemala's competitiveness, how important is it"--we asked exporters, business association representatives, and public servants. And if you see what is the most important thing for exporters--access to markets. How important is that for business representatives? It is the sixth priority. And how important is it for the public servant? It is his third priority.

What is the most important thing for public servants? Export and investment promotion. The same as business association representation. But it is not the most important for export sector.

The only thing in which we have a common agreement is in the last row of that table--nobody cares about environmental protection--neither exporters, business associations, nor public servants.

The real challenge is how to put all these people together, pushing in the same direction, and the only way we know how to do this is by

listening and using democratic mechanisms in order to have a consensus around reform.

So, how to mobilize the community toward reform. First of all, as I was talking before, you need to reach minimum consensus, and you have to reach minimum consensus on broad objectives and also on the limits, because you have to have rules of the game, and the rules of the game have to be based on principles--and also by creating communication channels between the public and private sectors which are absent, but also within the private sector, because usually business associations only respond to the needs and to the political desires of the very powerful groups of business in the countries. But they have to listen to the regular business people.

So there is a communication problem, but we have the Chavez and private sector in Venezuela type of problem, but also we have the problem within the private sector, and we have to become more competitive inside our organizations.

Also, it is important to get a broader base for the reform. Somehow, you have to legitimize the reform, because if you don't have a true, broad support for the reform, the people on the other side of the political spectrum will always yell at you that you are just trying to pursue neo-liberal policies or you are just trying to make favors to the Confederación de Cámaras [phonetic]. So it is important to have lots of people behind the reforms.

So one of the things we have started doing at CIEN is to reach a consensus, and we try to reach a consensus on competitiveness, because competitiveness is something that everybody will agree on. But we define competitiveness as the way that we will be able to pursue democratic and free market reforms through this idea. So, after working for a year and a half or two years, these are our conclusions and our results in Central America.

Almost 90 percent of the private sector believes that competitiveness is the important tool to participate in global markets.

So about the reform agenda, the first to get it is to become competitive. The second is you have to base it on principles. And we use competitiveness to define the importance of having free market [inaudible] reforms to advance democratic principles and to have the leadership of the private sector. This is very different from the competitiveness view of Harvard and all those guys that are pushing the Michael Porter idea. We want to do this from the grassroots to the government--not the opposite. We want the people to identify and discover their strengths, their needs, and then the government to cooperate with them to overcome obstacles.

But the challenges are to overcome traditional practices. The unholy alliance is very powerful in our countries, and the crony capitalism is pervasive. So you have to do something to stop them, and basically, the way to stop them is to have an equally powerful force on your side, and that

equally powerful force on your side is organizing regular business people, identifying business leaders who are not crony capitalists, the people who know the everyday life of business, who are willing to participate in order to make reforms.

So, how do we get this broad support? Basically, we use the national business agenda. The national business agenda is a democratic mechanism for consulting the business community toward identification of obstacles affecting the business community, obstacles hindering business capacity. Also through the national business agenda, the business community is able to find the priorities they have about public policy.

We have hundreds of problems, but we have to start solving the most important ones at the first, so the national business agenda empowered the business community to focus on the most important ones. Also, the national business agenda allowed them to propose solutions on how to overcome the obstacles.

So, after working with the national business agenda, you are not working with the advice from the technocracy, you are not working with advice from the wise people--you are working basically with the advice from the people who are the ones who suffered the most because of bureaucracy, regulation, and the obstacles government creates to doing business.

This is very important for influencing public policy, because you get through legitimate need for the reform. It is not what the President of the Confederation de Cameras [phonetic] wants; it is not what the President of the Chamber of Commerce wants. It is what the grassroots, what the constituency really needs to become competitive.

The methodology of the national business agenda is basically a listening methodology. You have to identify business leaders, and you have to listen to them, you have to speak to them, and this is important, because within the private sector, it allows representation of regular business people, not only the rich and famous, because the rich and famous have lots of opportunities to influence public policy. They can go directly to the President, they can go directly to the minister and do the reform. But you have to empower the regular business people, and they are willing to participate.

So in our methodology with the national business agenda, we have focus group interviews and surveys. We get in touch with the experts, and when I say "experts," I mean the guy who goes every day to the Ministerio de Comunicaciones [phonetic] to get the permit to operate a truck. When I say "experts," I am talking about the guy who goes every day to the Ministerio de Hacienda [phonetic] to pay taxes and to fulfill all the requirements. That's the information you need.

Also in Guatemala, [inaudible] and Honduras, we work with more than ten business associations, and we work with more than 500, 600 entrepreneurs and business leaders. And this is important, because after

doing that, you have legitimization of business people's needs. It is not what CIEN from our desk we believe is good. It is not what CIPE believes is good for Central America. It is not what the U.S. Government believes is good for Central America. It is what the Central American business leaders and business people, regular business people, believe is better for them in order to do business.

But doing business is not stealing money, doing business is not getting privileges--doing business is just letting people use the markets and gain from the trade based on free market-oriented principles. It is not privileges or incentives.

So, what are the obstacles we found in Guatemala? This is just for you to have a flavor of the obstacles that we have. Everybody speaks in Guatemala about little access to credit, but nobody has ever paid attention that the problem with access to credit is related to the judicial system.

It is impossible to make a borrower pay back the loans, so banks will not lend money to anybody. Housing construction is costly because there is no homogenization in regulations. Every municipality has its own labor, its own building code. So if you want to be in the housing business, you have to fulfill 320 different building codes.

Inadequate public security raises transportation costs for firms. Basically, if you are a firm, and you have to move your merchandise, there are lots of possibilities that you will be robbed, and that makes it very expensive for the firms to operate.

Also, the contrabando [phonetic] on the black market of stolen property results in unfair competition for honest firms. It is not that your merchandise is stolen by a bunch of thieves. The problem is that they go to the same market that you go, and when you try to sell your stuff, you will find your own product half the price that you produce it. So there is this unfairness problem, but this is because we don't have good law and order, we don't have a good judicial system in order to build with that.

Labor regulation imposes too many costs for firms and hampers productivity. Basically, our politicians love to raise the minimum wage and love to give lots of benefits to the workers, but they never take into account that the firms are in the middle, and they are the ones who have to become competitive, and they don't have the tools to become competitive.

Also, the amount of taxes paid by the small and medium enterprises is not the problem, but the costs associated with all the paperwork related to them. That was very surprising for us, because we were working with these small and medium enterprises, and they told us, "We are not complaining about the taxes that we pay. The problem is that we do not have the lawyers, we don't have the accountants in order to fulfill all the requirements. What we want is an easier way to fulfill requirements. We are

not trying to evade taxes. We want to pay them. But we want to have an easier life paying taxes."

And finally, the tax policy is uncertain due to the highly discretionary way that the politicians handle taxes in Central America.

So as you can see, these are our seven top priorities in Guatemala to reform, but this is a very powerful instrument for us because we are approaching--and when I say "we," I am referring to CIEN and the organized private sector--we are approaching politicians and we are asking for specific solutions to a specific problem, and many of these problems do not require an additional peso on the budgetary side of the issue. This is just political willingness to do the changes. So after one year, after one year and a half, we are going to review the politicians, and we have like a report card on how to evaluate the politicians on doing the reform.

There are many lessons we have learned through this project. The first is you have to get consensus about the need for reform, so you have to have the private sector speaking the same language. And the way we discovered to do that is using the word "competitiveness," but using "competitiveness" to define how to operate on a free market economy, how to do business not in the traditional way but how to do business on a modern economy. Also, you have to identify the most advanced sector, which is the exporters in our case, but exporters were the ones that lead the change inside the private sector. And also you need a few good men. You need business leaders that are willing to pay the price of being the promoters. You have to have government officials who are willing to work, willing to listen. And there is a special role for the think tanks. The think tanks can from the outside be helpful for business leaders and government officials trying to mediate and do some kind of arbitrage between them in order to help the reforms advance.

Another lesson is that organizing the voice of business people is like glue. In Guatemala, we start with exporters, but soon, manufacturers, farmers, construction business, all of them join the competitiveness framework, and all of them join the business agenda.

So if you have a legitimate way of presenting the problems and presenting the needs of the business people, the others which are not so advanced as the exporters will have to participate.

Also, spreading the word will pay. At CIEN and some of the chambers participating in the process, we have made hundreds of conferences, press conferences. We participate on TV and radio shows. We write in the press. And that will pay off, because when you start to make noise, politicians will listen, the civil society will listen. And if you have a democratic-based reform agenda, they don't have any way to oppose that.

So in Guatemala, we are a highly polarized society. We have the people on the left, who don't want to know anything about the private sector. But when they learned how we built this proposal, based on

democratic principles and listening to the regular business people, they were forced to join us, because they cannot use the argument that you are just promoting crony capitalism.

So it is important to spread the word, because spreading the word is the same as making noise, and the more noise you make, the more interested political parties will be in your reforms.

Also, as I am insisting, democratic principles legitimize private sector proposals. It is not the traditional private sector proposal, but this is a new way of presenting the problems and needs of the regular business people.

So, as you can see, I want to finish with this quotation from Alfred Marshall: "If we are trying to pursue reform, it is a good idea to abandon the idea that we can pursue the reform from the desk," that we can pursue the reform from the offices of the Ministerio de Hacienda [phonetic.] Some reforms can be done from the Ministerio de Hacienda [phonetic]. Some reforms can be done from the Ministerio de Economía [phonetic]. But the most important reforms are the ones that are going to set free the geniuses of the private sector or of the private enterprise.

So basically, what we are trying to do through the national business agenda is to empower regular business people in order to influence public policy, and we have been very successful in doing that, even to the point where now, the IDB and the World Bank are not imposing their own agenda. They are working now on the problems we identified through the national business agenda, and they are working on the solutions that are the best solutions for the entrepreneurs, not for the IRS or whatever is the budgetary office in your country.

So I think we have a long way to go in Latin America, but at least we have to let out this macroeconomic perspective that everything has to be done from the top and start doing things from the bottom, as all of our entrepreneurs and business people do every day. Otherwise, we will not set free the genius that belongs to free enterprise.

Thank you.

[Applause.]

MR. ZEMKO: Thank you very much, Hugo.