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**PROMOTING INSTITUTIONAL REFORMS IN
LATIN AMERICA**

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DAY TWO**

[TRANSCRIPT PREPARED FROM TAPE RECORDINGS.]

MR. ZEMKO: ...we will hear from Nicolas Ducote, who is with the CIPPEC of Buenos Aires, Argentina, who has also been working trying to bring the private sector to a consensus on reform issues and putting those forward for dealing with some of the issues that Argentina is dealing with.

...I believe, we have the experience of Argentina, which I think will continue with some of this topic of the national business agenda and reaching consensus within the private sector.

So, Nicolas?

MR. DUCOTE: Thank you, John, thank you, CIPE and the rest of you, for the invitation.

The first case I am going to make is that Argentina faced even bigger challenges than Venezuela, Guatemala or every other country in the region to do anything reasonable in the past three years. And just to give you a little bit of background on some of the hard numbers of what that implied, I will talk briefly of what set out to achieve with CIPE support on this project and the challenges we faced; second, what are the lessons that we learned in that, because unfortunately, I believe that many of our countries might go through similar crisis still ahead on some of the things that Argentina went through, and there are good lessons of how to do good work in terms of promoting reform under very stressful context; and third, what did we achieve, what contributions has this effort done in Argentina, and where do we go from here.

So, where did we start? We presented this project in early 2002 to do what would be a national business agenda. Most of you have heard the details from my colleagues about what that implies, basically, bringing the business community together to try to promote reforms in a set of arenas that are of concern to the business community.

Our role was convening and helping them understand the importance of advocating for what they believe in and giving them the tools to do some of that.

CIPPEC, ourselves, have and continue to have some positive experiences in advocating for better policies, but this time, we wanted to really engage and pass those tools on to the business community.

In what context did that take place? This is just a short story of Argentina in its last three years. When we started thinking about the need for this project, we faced a country that was coming out of the biggest debt default in history, 300 percent devaluation, bank deposit freezes, hundreds of bankruptcies in the private sector, total breach of contracts across the economy, no rule of law whatsoever where you want to imagine that, the right to cross the street or the right to get access to your own property, a fall into poverty of 57 percent of the population for a country that was the least poor in Latin America, 22 percent unemployment, 20 percent of the people in

conditions of starvation for a country that could produce food for 300 million people in the world.

The economic impact on Argentines and on any kind of agenda was very, very significant, and I will just take two points out of the many that one could take.

The first is we went into a scenario in the past two years of having very few if any rules. When you don't have rules, businessmen unfortunately go toward rent-seeking rather than profit-seeking. They start looking for the advantage that they can get in changing and getting exceptions in regulations because environment is so unstable.

So what we saw was many of our own business people that were concerned about the rule of law, about the importance of having economic stability, were lobbying for individual benefits in a context that was very, very difficult.

Just to give clear examples of this--we had a pacification that meant that everyone who had debts in dollars or assets in dollars was turned into pesos, and suddenly, you had companies that got exceptions--everybody except the company that sells such-and-such kind of product or electricity. So businessmen in defense of their shareholders' value really went into very hard and, in many cases, very debatable, in terms of the bribing or whatever took place in their attitudes to get benefits in this context of uncertainty.

So we saw a lot of exceptionalist regulations, and this also led to the biggest split there has been in the past 20 years in the Argentine business community--not among the business associations but within. We had the split of an industrial union in Argentina, and the split is still not resolved. You can read about it in the papers of last week, every week. It is basically divided into two very, very antagonistic groups that basically fought for different kinds of benefits for industries, and that impeded almost any kind of agreement within the industrial union and outside of it.

The banking association was split; the supermarket association was split; the rural association was split. So in that context, it is a difficulty to say, okay, whom do I sit down when I am talking about the industrial union, who comes and talks for the banks.

The second point I want to share with you in terms of what happens when you have such an uncertain economic situation is what happens at the micro level. As we were seeing yesterday, when one looks at the experiences of a single company or how to open a business or whatever, in Argentina, all business leaders had to focus exclusively on the bottom line. They had almost no time at all to put collaborative efforts into, okay, now I want to sit down and discuss the national business agenda, or I want to be concerned with the importance of public sector reform. They were all basically concerned with their indicators within their companies, and every indicator of social engagement for them, even playing ball or whatever, fell

dramatically. There is not one single arena in which coming together for the business community remained positive or helpful to be able to come up with an agenda.

So on the economic side, those are two, at least, just to mention some of the changes.

On the political side--which is a big part of the national business agenda because you want to come up with an agenda from the business community and share with government and get the government to buy into the need for these reforms and to push it forth--Argentina since 2001 saw the resignation of its vice president. Elections in 2001, with the biggest negative vote in history, 20 percent of people, in a system which has compulsory voting, went and broke up their ballots and said "I don't care to vote." We had a totally blocked legislature vis-a-vis the Presidency. We had bribes in the Senate. The newspaper today uncovered the biggest scandal--\$5 million in bribes to pass legislation. Because of this blockage, the executive branch--it is not some external person--the executive branch bribed the legislators one-by-one, and these kinds of things really did not help the relationship between the politicians and the community or the citizens to be one of trust.

The government fell on December 21 of 2001. We had a huge amount of street protests, repression, five Presidents in two weeks. And the problem was not that we knew--if someone tells me, "Okay, in the next two weeks, you are going to have five Presidents," fine, then, I'll just say okay, I'll just sit down and wait for two weeks. But every President who came, you thought was going to be there for the next three months or eight months or whatever. So, in came one, he was there for two days, he was kicked out; in came another for five days, he was kicked out. And these were not Presidents of the same line. When de la Rúa, which was of the Radical Party, was kicked out, we had Puerta [phonetic] take office. Puerta belongs to Menem's [phonetic] side of the equation, so we had like a return back to--Puerta lasted two days, and Rodrigasa [phonetic] came in. Rodrigasa is a populist totally on the different side. Rodrigasa was kicked out, and Camano [phonetic], which afterward passed on to Dualdo [phonetic], which is a totally different ideological view of Argentina.

So this huge uncertainty made it very difficult to get politicians to agree on anything, policymakers to want to sit down and have a reasonable conversation on what the challenges were of the country. If we wanted to run a survey like this, okay, what do public officials think of what kind of country we need, or what are the priorities, this was really, really in a messy situation and was very difficult.

To wrap it up, we had not only very strong shifts on who was in power, but elections--we broke the world record for elections. We had 23 elections in one year. We had elections all over the country, district by district. Every week, we had a different election. We had 19 candidates for the Presidency. And this is not like three candidates and 16 down there. We had 19; none of them had more than 12 to 15 percent of the vote. You had

five candidates who all had reasonable chances of being President. This meant that for our project, the business leaders were totally split.

Unlike other elections, where usually, the business community goes beyond one side, and maybe labor goes behind another, here, you had one-third of the business community behind Ricardo Lopez Murphy [phonetic], one-third behind Menem [phonetic], and another one-third behind Duardo Kirchner [phonetic] and this current administration.

That made it very difficult for them to come to an agreement on policy.

The second thing, as I was mentioning, not only did we have 23 elections all throughout the country, and in every one of these elections, the President was involved--they became nationalized elections because the President, Kirchner, was so weak when he came into office that in every election, he was playing two or three Senators or Congressman, so he had to be out there, because he has a very small minority in government. So again, we feared having a blockage between the executive and the legislative.

Eighty-one percent of elected offices in Argentina were replaced during 2003. This meant that at any level, if you were doing business at the local community, at the provincial or at the government, you did not know who you would be talking to.

Finally, this huge competition of so many candidates, so many elections, unfortunately made this a race to the bottom. You were competing with so many that you just promised and offered whatever came across. So we had every time more populist promises and policies--increase in wage salaries for everybody; we are going to make free education, free housing; everybody is going to get a job--all these kinds of populist measures were also accompanied by calls and promises of increased state interventionism--the nineties were all wrong, privatization did not work, so now we are going to have the government provide job, the government provide public services.

So the environment was really difficult, and I won't go much more into detail with some of the challenges we faced, because even within that complicated context, many things came out positive and there are useful lessons to be learned.

So how did we go about doing our work? The first thing we needed to do was to map the business association environment. So what we did was we picked the 40 biggest business associations in Argentina, and we looked at in some cases for the past 5 years, but for everybody for the past 3 years, every, single public policy position they had taken. We looked at every newspaper for the past 3 to 5 years to see who worked with whom, did they agree or disagree between the rural sector and the banking sector, did they come up with documents saying what kind of policies they wanted to promote, who were the speakers in charge of those expressions, did they ever act together.

One thing we found was that since 1998--because it was the time period that we took--there was no joint action of the business community on public policy issues. They had never come together--I am not asking 40, I am not saying three---you could not get someone from the financial, someone from the rural, and someone from the industrial sector together to just say, hey, we are all concerned about judicial independence, or we are all concerned about corruption.

So our efforts were very much pioneering in trying to get these people simply to sit together at the table. The level of distrust that they had because they had each been battling for exceptions in their regulations, or for preferences in certain state activities, had led them to be really separate.

So we mapped all that. We saw the lack of articulation, and we tried to understand why they were so unarticulated, and we managed to engage them. This was done by visiting one-by-one. We had to put a huge amount of unexpected hours into convincing people simply to sit down at the table. And the guarantees that we had to do for this seemed as if they were a peace negotiation between Israel and Palestine. It was like, okay, no media coverage; this meeting will be secret; we will host it in such-and-such hotel at 8 p.m. in the evening so nobody hears about it. It was really a matter of providing the biggest guarantees we could about the low profile of this until some agreement had been reached.

Finally, we did manage to do that. We managed to sit 38 of the 40 biggest business organizations in the country. We had three focus groups, and we asked them three questions, and this was very useful for us. One is we wanted to hear from their own voices why couldn't they agree in the past, why had they never come together. What was wrong with articulating themselves to express and to advocate for the reforms that Argentina needs.

So we got a whole list of things, and I'll just mention a few of them, because I think some of these might be also for Latin America, not really for Argentina.

The first--I take some of what Douglass North was saying yesterday. He spoke about building institutions is passing from the personal to the impersonal kind of transaction. Argentina is totally personalized in its representative organizations. Politics is personalized. It is not the [inaudible] parties. Menemistas [phonetic] against [inaudible] or Dualdistas [phonetic], and there is so much put onto the personal figure of the leaders, and this not only happens in politics but also in the business associations. So the personalization made it really difficult to work in terms of institutions. You were not speaking to the industrial union. You were speaking to whomever was president of that industrial union during those three years. Also, that came accompanied with a lack of renewal, so many of the leaders of these associations were the same leaders of the nineties and some even of the eighties, and that made it very complicated, because during the whole electoral period, there was much questioning that everything that had been done in the nineties was wrong. So how could you sit down with people who

had been very much involved in the changes in the nineties and have a legitimate conversation on the changes that Argentina needed going into 2000.

Second, there is very high individualism between the organizations. Even if you had solid institutions that were in agreement within--which I would say we didn't have--there was a lot of competition to be in favor with government. Since the rules were changing so fast, if you were the bankers, and you were in conflict, you wanted to approach government, so you were going to, say, defend finances against industry, and the same if the industry was going, and say no, forget about the banking sector or the financial services--provide benefits to us.

So that high individualism and competition really made it difficult for them to articulate.

Third was a very clear lack of honest and transparent interaction with government. Argentina had a lot of bribes and corruption--it still has--and that makes it difficult for people to have a healthy relationship with government. Whenever the government was approached, it expected to be approached with a private interest and money behind that interest. So trying to create a conversation where the private sector legitimately sits down and says, listen, these are our concerns, these are the reasons why we have these concerns, and these are our proposals was very unusual. There is not a practice of doing this in our country.

Finally, just to wrap up a few things, there is a very active role of the state in dividing the private sector. It was part of the agenda of several of our ministers of economies during the past two years to divide because it was easier to build their own policies--well, the famous "divide and rule"--by making the private sector not have a strong common position.

And lastly, I would say there was lack of technical expertise within the business associations. They did not study the problem in depth. They made comments sometimes of okay, we need to change whatever--for example, let's say, we don't have judicial or personal security, so we need to do something with the police. And they never really studied the issues and saw why we had those problems.

So all these things were part of the past, and they responded to the problems of why weren't we able to articulate ourselves up until now.

The next question we asked was what issues can we agree on. There, we heard much of what you would expect and much of what we received from our colleagues here. The issues that came across the word were that we could agree on the need for tax reform, on reducing the social security tax burden for companies, on the need to improve judiciary and political institutions, on the need for fiscal surplus and fiscal responsibility, on the need for having predictable contracts and transparency in public and private administrations, on the need to enforce the law and resolve some

issues of social exclusion, auditing the government, and transforming the central bank into a truly independent institution.

So they came up with a list of let's say 15 to 20 things that they could agree on across the board, and this was an unusual exercise. Argentine business associations were used to looking at the differences and their conflicts of interest rather than at what things they could agree on.

Once we had that on the table, they really all went back with a sense, of "Oh, look, I have been fighting with the banking sector for 3 years, and look at how many things we have in common." I think this was a very positive contribution in terms of creating awareness about their common interests.

The last question we had was the most relevant to the project, which was, okay, now that we have these agreements, how do we give a battle to advocate for them, how do we make a choice of which of these we are going to try to take into the government arena, and what strategies do we use for that.

So they came up with a few thoughts on that which I'll share. First was let's reduce this from 15 to 5 or 6. Let's pick our battles and focus on those.

Second, we need to bring in other actors than business. Business did not appear to be a legitimate actor to go and sit down with government and tell them "This is what we would like you to do." Instead, if they brought in nonprofit organizations, if they brought in academia, and built some kind of coalition that really provided for more support. So they decided they would talk to universities and the leading civic associations and bring them in, just like probably the Coordinadora [phonetic] or other efforts have done.

Third, they decided that they needed to choose a few strong leaders among them to take this into the public arena. You could not have 20 voices explaining things in different words. So there was an exercise, okay, who was going to represent the business community in speaking for these things, and that presented big challenges also--is it going to be the big five that are usually well-known and have their own lobbying professionals, or is it going to be a representation of the wider group of business associations.

So they started moving on strategy, and finally, they decided that they would engage government on very different levels. They would talk to the legislators, they would talk to the judges, they would talk to the executive branch--it wasn't going to be a single strategy of only talking with the president, or only talking with the minister of economy, but trying to get several actors to buy into this.

So that was how we set up the project. Those are the advances we managed to achieve. There are five things that came up as key elements

to push on the agenda, and this is what we have on our hands right now, things that you will find fairly obvious and I think we would all agree are very important in terms of what we heard yesterday and what we are hearing today.

First was the need for a stable legal framework, rule of law and property rights. Argentina has violated these in the past two years, and we just need to know, even if we don't agree with the rules of the game, just tell us what they are and how are things going to be for the next few years.

Second was the need for judicial reform. Again, if one has to pick a battle in Argentina, we have a huge problem of enforcement of rule of law and property rights, so we need to reform the judiciary.

Third was the need to improve public institutions with a focus on improving the work of Congress, having a better functioning Congress, and improving the system of checks and balances. Argentina does not have independent branches of power. The President actively intervenes and is changing the Supreme Court just like Menem did and actively intervenes in changing Congress, and there is not a system of controls there.

Fourth, we need to reform the public sector. We have a very inefficient public sector. Just to give one indicator, it is outdated because it is 2001, but Argentina was the eighth country in terms of expenditure per capita in health for its citizenry. We were at the level of Germany, New Zealand, France. We were ranked 62nd in the quality of the services provided. So the efficiency of our public administration in allocating resources intelligently is nonexistent.

Lastly is the need for tax policy reform. There are huge problems of tax burdens that lead to informality. There is tax unpredictability. We have had six major tax changes in the past two years--taxes on every check you sign, taxes on labor are uncertain. For example, it is the third time in a row since the President decided that every time you fired someone, you had to pay double whatever needed to be paid, and that was only for six months so that we would not have more unemployment. After the six months, that was renewed for another three months, then it was renewed for another six. So if you were making decisions from the private sector that, okay, I won't fire these eight people or two hundred people because I'll wait until these changes, you were constantly be faced with different rules in terms of tax or social security things.

These are the difficulties and challenges and the context in which we operate.

What are the key contributions--and with this, I will finish up. First, we managed to create the pre-conditions for a change and built trust between the organizations to work together. Up until now, as I said, for at least the past five years, they had not sat at the same table. Now they have done this. They have talked to each other, and actually, there have been

three or four things outside of our project that have happened because of what we did that are quite positive.

For example, there is the national meeting of the Industrial Union, or of the banking sector, and for example, they invited each other to these meetings. They allowed for the others to come and present in the presentations or to participate in those things. We had them come together for running a survey, for example. They decided to run a survey on what is the perception of the business leadership and the business community in Argentina, and they cosponsored some of this and tried to understand what is happening out there in the grassroots.

We had some positive consequences, but the first I would say big contribution that CIPE and our efforts have done is to create a sense of trust and the possibility of working together.

Second, now they know what they can agree on, why they hadn't agreed, and they have a sense of how do they move forward. This allows us to move from theory to practice, to say, okay, you know we have these agreements; in 2003, we said this. Now we are going into 2004. How are we going to move forward?

They have an agenda. They have something that every time they sit down with government, they can show. They have something that in their own discourse and public messages, they can say, whenever the financial or rural or whatever sector comes out with a statement, they can say, "And we are concerned with...", and mention the same five things.

Finally, one of the things that Douglass North was saying yesterday, we have got to know much better how our economy and our political system works, but particularly we get to understand better how the business association sector works, and they know it much better. They have started to understand who can play with whom, what are the challenges, and that knowledge is essential to be able to move forward.

So where we stand now is that we have a 2004 head which should be a much better ear for us in terms of pushing and advocating for the National Business Agenda. We don't have any elections forward. We have a government that has passed its first six months of populist messages and now really has to get down to work, and it will need the help of the private sector in doing that, and we have a private sector that is concerned with the need for making reform in Argentina.

So we are very much looking forward that even if the time frame was not adequate in this first 2003, we would have liked to see more results during the campaign, and once the new President comes into office that 2004 will be a much better year, and we look forward to having some of the results that our colleagues in the rest of Latin America are having.

Thank you very much for your time and attention, and we look forward to reporting better results in the next one of our meetings.

Thank you.

[Applause.]

MR. ZEMKO: Thank you, Nicolas.