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Rethinking Public Sector Management in Argentina: The Role Of Leadership And Coordination In The Governance Improvement Of State-Owned Enterprises (SOEs)

By Gustavo Sebastián Lopetegui and Sebastián López Azumendi

Abstract

Since December 2015, the administration of President Macri has emphasized the relevance of policy coordination and leadership in order to make public policies more effective. He appointed two Secretaries of State, under the Chief of the Cabinet of Ministers (JGM), who established a delivery unit whose main task is to facilitate policy coordination among line ministries. One of President Macri's priorities was the improvement of the performance of SOEs, which demanded the need to think carefully on how to reform a sector affected by an enduring legacy of institutional fragility and poor financial performance. Maximizing synergies among partner agencies and mainstreaming good governance across SOEs proved effective in the adoption of good governance standards by government enterprises. Moreover, the appointment of managers with previous experiences in the industry and the adoption of good practices of management contributed to improving performance and the alignment with good governance standards. High levels of consensus allowed the government to move from individual interventions in SOEs to whole-of-government approaches, which would eventually lead to the approval in February 2018 of the Guidelines on the Good Governance of SOEs.

Introduction

The article describes governance reforms in the State-Owned Enterprises (SOEs) of Argentina, as a result of strong political leadership and enhanced coordination among a range of key government agencies. Since December 2015, the government of President Macri has emphasized the relevance of team building and policy coordination as a means to improve government effectiveness. A whole range of coordination arrangements, from sector roundtables to regular follow-up arrangements directly involving the President and his ministers, were implemented as part of a system to increase the effectiveness of public policies.

This approach was the result of a combination of factors, including a Cabinet composed of members that came from

both the private and public sectors, who shared a management culture focused on results, and a clear will from the top of the Executive to manage policy-making processes through teamwork and the achievement of specific policy priorities.

Countries' experiences highlight the importance of coordination for better policy-making. Based on the challenges presented by high levels of policy fragmentation and the proliferation of ministerial portfolios, the government of New Zealand developed the "Factors for Successful Coordination Framework" as a way to promote synergies and maximize the cost effectiveness of policymaking and service delivery.¹

In Argentina, different entities were tasked with the oversight of SOEs. First of all,

as shareholders of these companies, line ministries were responsible for key decisions concerning the management of SOEs. Line ministers appointed the members to the Board, assessed their performance, and engaged in the approval of companies' investments and strategy. In addition, the Anticorruption Agency (OA) and the National Internal Control Agency (SIGEN) were mandated to, respectively, (i) oversee the implementation of anti-corruption policies by SOEs; and (ii) the effectiveness of auditing processes. Finally, the Treasury Department was responsible for approving the budget and supervising its implementation by SOEs.

During the past presidential administration, oversight agencies were highly influenced by politics, lacking the necessary empowerment to follow their statutory mandates.² There was a large gap between what the law mandated and what the role of oversight agencies was in practice.³ Lack of oversight and poor management resulted in SOEs with huge increases in payroll, economically unfeasible investment projects and large financial losses.⁴

One of President Macri's first measures was to establish a comprehensive government program focused on eight strategic themes. Under the Modernization of the State theme, the President requested the reorganization ("*ordenamiento*") of the SOEs' portfolio, especially through the appointment of experienced managers, the improvement of management processes, and good governance practices. The Office of the Chief of the Cabinet of Ministers (JGM) was charged with this task.

A delivery unit within this Office was established in order to monitor the implementation of the government program and coordinate efforts across the public sector. The unit, led by two secretaries of state, was

tasked with the oversight of ministries and decentralized agencies, including SOEs.

The biggest challenge for the delivery unit was to empower oversight agencies to meet their statutory objectives while maximizing policy coordination efforts. It was not in JGM's plans to generate government silos with disruptive effects on a sector that lacked both institutional maturity and was affected by severe deficits.

The following sections describe the government's efforts during its first two years in office to improve the governance of SOEs.

The Task: Improving the Governance and Performance of SOEs

Argentina has experienced an uneven path of state ownership. From full nationalization and establishment of state corporations to the full privatization of these same enterprises, the country went through different management models for utilities and other industries such as oil and gas. In the period 2003-15, the Kirchner administration nationalized as well as established 13 new SOEs.⁵ Poor management and the full subsidization of utilities forced the Treasury to transfer resources to SOEs, by December 2015, in the amount of US \$9.6 billion.⁶ By December 2015, for every peso of revenue, SOEs spent two pesos on operating costs.

In addition to operational deficits, SOEs suffered from weak corporate governance.⁷ Except for financial institutions and those listed in the stock exchange market – regulated, respectively, by the Central Bank and the National Stock Commission – companies lacked policies aimed at promoting transparency, the prevention of corruption, the professionalization of management, and the reporting of performance. Boards were politically appointed with no qualification criteria, procurement practices

#	Enterprise	Activity	Total Transfers from Treasury	Transfers for Operational Expenditures	Transfers for Capital Expenditures	Employees
1	Energía Argentina	Electricity generation	\$3,678	\$2,928	\$750	645
2	Trenes Argentinos Pasajeros	Passengers' railways transport of Buenos Aires Metropolitan Area	\$1,609	\$1,435	\$174	24,660
3	Agua y Saneamientos Argentinos	Water and sewage services for Buenos Aires Metropolitan Area	\$944	\$325	\$619	6,441
4	Nucleoeléctrica Argentina	Manages 3 nuclear plants	\$615	\$0	\$615	3,512
5	Aerolíneas Argentinas	National flag airline (passengers)	\$560	\$538	\$22	12,330
6	Trenes Argentinos Cargas	Freight railway's transport	\$559	\$210	\$349	4,598
7	Yacimientos Carboníferos de Río Turbio	Production of coal	\$475	\$340	\$135	2,960
8	Empresa Argentina de Soluciones Satelitales	Satellites industry	\$388	\$0	\$388	539
9	Fabricaciones Militares	Production of military equipment	\$208	\$160	\$47	2,352
10	Radio y Televisión Argentina	TV and Radio Broadcasting	\$195	\$189	\$6	2,806
11	Correo Argentino	Postal Service	\$160	\$160	\$0	18,576
12	Telam	National news distributor	\$51	\$51	\$0	926
13	Educar	Connection of schools through the internet	\$40	\$22	\$18	403
14	Veng	Aerospatial industry	\$33	\$0	\$33	417
15	Tandandar	Ship building and repairing	\$27	\$25	\$2	653
16	Administración General de Puertos	Manages the port of Buenos Aires	\$26	\$10	\$16	522
17	Dioxitek	Production of fuel for nuclear plants	\$18	\$0	\$18	193
18	Radio y Televisión de la Univ. Nacional de Córdoba	Cordoba's University Radio and TV	\$8	\$8	\$0	274
19	Fábrica Argentina de Aviones (FADEA)	Production of military airplanes	\$5	\$5	\$1	1,558
20	Radio Universidad Nacional del Litoral	Litoral's University Radio and TV	\$0	\$0	\$0	67
21	Empresa Argentina de Navegación Aérea (EANA)	Air navigation services	\$0	\$0	\$0	2,257
22	Mercado Central	Wholesale fruit and vegetables market for the Buenos Aires Metropolitan Area	\$0	\$0	\$0	536
23	Casa de Moneda	Security printing	\$0	\$0	\$0	1,693
24	Intercargo	Airport handling services	\$0	\$0	\$0	1,866
25	Banco de Inversión y Comercio Exterior	Financial lending for development	\$0	\$0	\$0	260
26	Banco Nación	Financial lending for development	\$0	\$0	\$0	18,288
27	Lotería Nacional	Lottery services	\$0	\$0	\$0	1,100
28	Corporación Puerto Madero	Real State	\$0	\$0	\$0	28
29	Construcción de Viviendas para la Armada	Real State	\$0	\$0	\$0	67
30	Yacimientos Petrolíferos Fiscales (YPF)	Exploration, production, and distribution of oil and gas				22,025
TOTAL			\$9,599	\$6,407	\$3,192	132,574

Source: Office of the Chief of the Cabinet of Ministers, 2018

Table 1: Financial Situation of SOEs by December 2015

were affected by lack of transparency, in some cases cartelization, and companies who did not abide by transparency standards like in neighboring countries, such as Chile and Peru.

Government Strategy and Results

The JGM team dedicated to SOEs, composed of four members, designed a three-pronged strategy to meet the President's objective, focusing on: a) improving the management of SOEs through better monitoring, capacity-building, and professionalization; b) establishing strategic plans for each firm; and c) improving the oversight and governance standards of SOEs through the adoption of best international practices.

All three pillars were implemented through the set-up of consensus building

and clear collaboration mechanisms among agencies. Under the President's leadership, ministers with the largest SOEs portfolios met bi-monthly to monitor improvements in the performance of SOEs. CEOs were invited to present their strategies before the ministers. Two independent experts from the private sector were invited to join these meetings. This initiative immediately permeated to the media,⁸ highlighting the relevance of improving deficit-prone SOEs as a priority for the administration.

It became clear to the JGM team that the most efficient and effective way to face the challenge of good management in SOEs was through an action plan composed of different phases. Initial phases would be concentrated on communicating to companies the relevance of good governance and on promoting the implementation of good management

practices. Higher levels of institutionalization would come naturally after SOEs believed in the reform. The role of oversight agencies would be critical for the success of the initial phases.

The objective of JGM was to maximize resources and synergies among government agencies with responsibilities for SOEs' governance. In December 2016, under JGM leadership, the Anticorruption Agency (OA) and the National Internal Control Agency (SIGEN) established the Good Governance Team (GGT). The set-up of the GGT allowed for an improved and more coordinated identification of synergies and the reduction of information asymmetries among these institutions. It was very important for the success of coordination to develop a shared vision concerning the outcomes expected as a result of the collaborative engagement.⁹ Its most visible output was the establishment of communities of practice in different areas of SOEs' governance.

In March 2017, the GGT established the SOEs Integrity Network. The objective of the Network was to mainstream anticorruption policies in management processes and facilitate the exchange of practices among practitioners. Whereas only 20 members of SOEs participated in the first meeting, by the end of 2017 more than 100 participants gathered at the Network's meetings.

It was very important for a small team like the GGT to count on "champions" to spread reforms. The announcement of the President's policy priorities and the establishment of the Integrity Network encouraged members of SOEs to contact the GGT in order to advance the governance agenda, most notably the implementation of good management practices and integrity programs. The first

results came from those same champions, whose efforts were recognized by the GGT through different means such as social media (i.e. Twitter), policy documents, and advisory assistance from international donors. Aerolíneas Argentinas, the national flag airline, became a paradigm of change both in terms of financial and governance performance.

The Government also requested an assessment of its corporate governance standards by the Organization for Economic Cooperation and Development (OECD). The OECD has been defining good governance for SOEs since 2005, when it published the Guidelines of Corporate Governance for State-Owned Enterprises. Different OECD missions came to Argentina to collect information and meet public officials as well as senior management of SOEs. The assessment was important to reinforce the government's message of SOEs that meet international best practices.

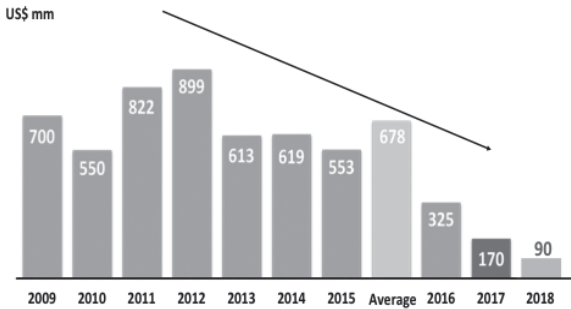
Taking advantage of this momentum, and the fact that mainstreaming efforts were showing positive results, the GGT decided to take a step forward towards government guidelines on good governance. Positions within the GGT went from maintaining the status quo (i.e. ad-hoc approaches), to instructing SOEs to adopt corporate governance codes. It was agreed that the best, most effective, way to build corporate governance institutions within SOEs was to make a strong case about the benefits of change. Forcing SOEs to implement corporate policies could risk the early achievements of a consensus-building practice and stronger awareness of the importance of good governance.

The Good Governance Guidelines for SOEs were conceived as a non-binding policy instrument, a code of practice,

The Case of Aerolíneas Argentinas

Aerolíneas Argentinas went through a radical transformation after December 2015. Between 2008 and December 2015 the company, a fully state-owned enterprise, received US \$5 billion (US \$687 on average per year) to cover both operational and capital expenses. The company lacked a commercial orientation and was politically captured. Payroll increased from 9,161 in July 2008 (nationalization) to 12,330 in December 2015.

Reduction of State Subsidies to AR



Source: Aerolíneas Argentinas, 2017

After renewing its management, replacing politicians by managers from the private sector, the company diminished its needs for financial support abruptly. Subsidies from the Treasury were reduced from US \$553 million in 2015 to US \$170 million in 2017; it is expected that the company will require US \$90 million in 2018 and reach break-even in 2020. Whereas in the period 2009-15 the company required on average US \$94 per passenger, that amount is expected to reach US \$7 in 2018. Turnaround efforts were made with little impact on the workforce, which was only reduced by 5 percent.

Procurement policies were also improved in order to generate savings and improve the quality of purchases. Since December 2015, the company reduced annual spending by US \$81 million (2017 vs. 2015), while increasing (including 2018 estimates) by 32 percent the number of transported passengers.

In terms of connectivity, the company focused mainly on the domestic market, where the big growth opportunity lies: if compared to its South American neighbors, Argentines still fly half as much as Brazilians do and one-third as much as Chileans. In only 25 months, Aerolíneas created 38 new routes and increased its capacity by 10 percent. The number of passengers transported increased by 13 percent vis-à-vis 2015 and 7 percent if compared to 2016.

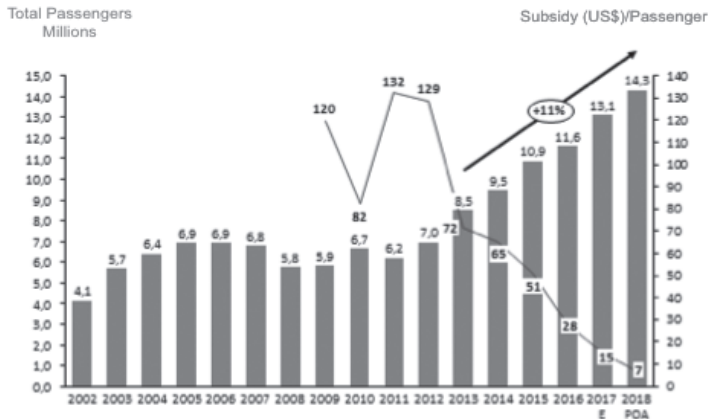
A new hub was created in Córdoba (the second-largest city in Argentina), accounting only a few months after its creation for 6 percent of the overall network traffic.

This expanded offer was supported by an aggressive commercial strategy, which entailed installment plans, agreements with banks and credit cards, and promotions, mainly driven by the airline digital channels. Direct sales of air tickets increased by 38 percent, the majority of them through the company's webpage. Moreover, AR reduced the commissions it used to pay to travel agencies

from 3 percent to 0 percent, generating positive impacts in terms of both cheaper tickets for costumers and savings for the company of US \$8 million.

In 2017, the company broke three times its own record of passengers transported. Once more in January 2018, the company reached its latest record for the month, with 1,241,766 passengers transported, accounting for an average of more than 40,000 daily travelers and surpassing the January 2016 mark by 6 percent.

More Passengers and Less Subsidies



Source: Aerolíneas Argentinas, 2017

through which the government would define its expectations regarding governance in SOEs. In a period of six months, the GGT developed the first draft of these Guidelines, which would later be validated with line ministers, and finally approved by the Chief of the Cabinet of Ministers.¹⁰ Strong political will was critical in moving the agenda forward.

Enforcement of the Guidelines would be based on “comply or explain” approaches. Every four months, SOEs would receive a survey in which they would have to report on whether they met the Guidelines’ criteria for every component and to justify their lack of implementation in cases of non-compliance.

The JGM team made significant efforts not only concerning the improvement of the governance of SOEs, but also with regards to the monitoring of companies’ performance and the reduction of operational deficits. By law, SOEs are obliged to submit monthly reports on how they execute their budgets. However, until 2015, companies rarely shared performance reports with the National Budget Office (ONP), a directorate within the Treasury Department. Following previous approaches on good governance, JGM’s objective was to work closely with ONP towards a better mechanism that would allow both agencies to improve monitoring.

While in September 2016 only 36 percent of SOEs complied with their reporting obligations to the ONP, by January 2018, 97 percent of SOEs submitted performance information under the newly created mechanism, leading to an exponential increase in SOEs’ accountability. Today, the Office of the Chief of the Cabinet of Ministers receives a monthly update on the evolution of the number of employees per enterprise, transfers from the

Treasury, income, expenses, and other performance indicators.

Reforms conducted by the JGM also allowed a substantial reduction in the transfer of resources from the Treasury to cover operational deficits. In 2016, thanks to a result-focused management system, operating incomes increased 10 percent in real terms and costs were reduced by 18 percent, which allowed reducing SOEs’ deficits by 46 percent.¹¹ This decline in deficits also helped reduce SOEs’ impact on the budget by 25 percent. Transfers from the Treasury for current expenditure (which had peaked at 1.5 percent of GDP in 2014) went down to 0.73 percent of GDP in 2016. The percentage of fiscal transfers to cover operational expenses of SOEs reached 0.5 percent of GDP in 2017.¹²

Lessons from the Experience and the Way Forward

The improvement of SOEs’ management processes and practices in Argentina is taking government to rethink traditional rules of policy-making and engagement with both institutional and non-institutional actors. According to traditional public-sector practice, good governance is the result of formal arrangements that shape the behavior of actors. Hence, for example, new legislation should be the way to convince government enterprises of aligning with good governance practices.

Since December 2015, efforts to improve the governance and management of SOEs followed a different pattern. SOEs inherited from the previous administration combined mismanagement, large operational deficits, poor transparency, and weak corporate practices. Aware of these challenges, President Macri’s administration decided to prioritize good governance in SOEs, starting from the development of

internal capacities and the mainstreaming of good practices across the range of SOEs. This was done under the assumption that moving from consensus building to higher levels of institutionalization would be more effective than going in the opposite direction. Several lessons come out of this process.

Firstly, policy reform of relative significance needs decisive political support from the top of government. This was the case in Argentina, where President Macri identified the improvement of management of SOEs as one of the Government’s 100 policy priorities. Consistently with this mandate, the Chief of the Cabinet of Ministers was charged with the task of coordinating SOEs policies across the public sector.

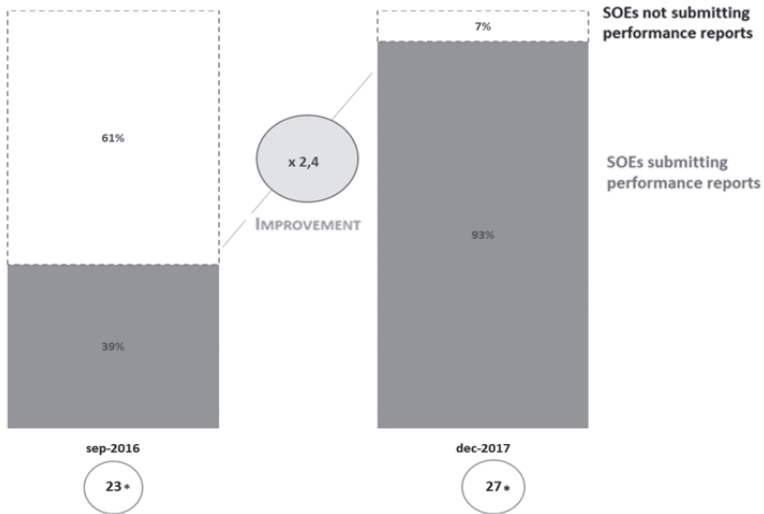
Secondly, developing synergies and reducing information asymmetries among government agencies proved effective in establishing a comprehensive governance agenda. The GGT worked from the

very beginning as a team, maximizing collaboration and coordination. Leading this agenda from one of these institutions without shared and coordinated policies would have provoked permanent overlapping and backlashes, hampering the effectiveness of the administration’s policy priority.

Thirdly, the adherence to international corporate governance standards helped to lock in some of these reforms. SOEs saw good governance not only as part of a government policy but also as an international commitment.

SOE reform put into question the premise according to which good governance is “a one moment” picture, in which the establishment of formal arrangements leads to more transparency and good management. This premise proposes starting from formal arrangements at the very beginning of the reform process, under-estimating the impact of

Monitoring Efforts Improvements of SOEs Performance



* SOEs that received the request for information

Source: JGM, 2018

Figure 1: Monitoring Effort Improvements of SOEs’ Performance

Evolution of Fiscal Transfers for Operational Expenses (as % of GDP)

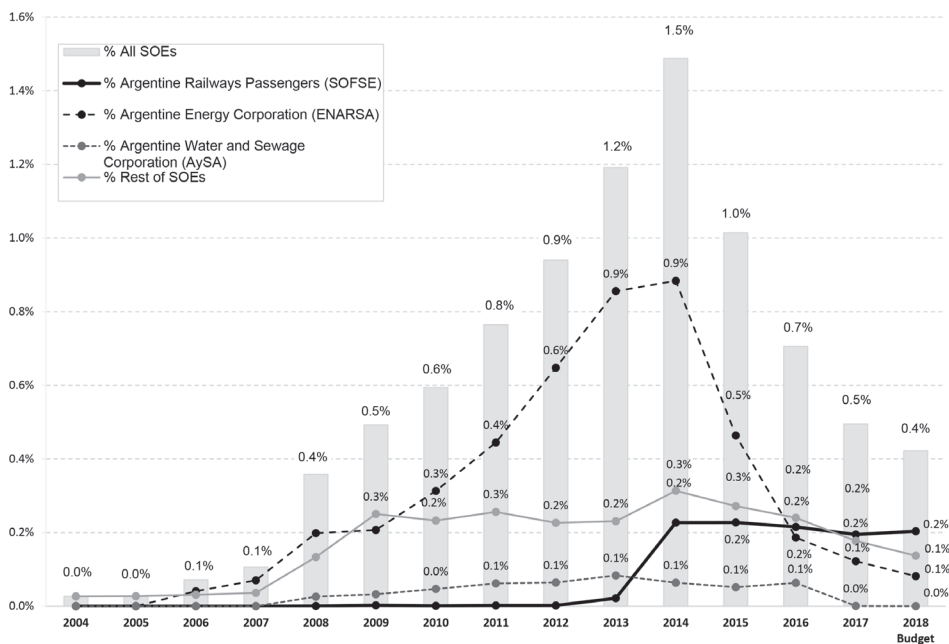


Figure 2: Evolution of Fiscal Transfers for Operational Expenses (as % of GDP)

laws on institutions that may not be yet prepared to change behavioral/organizational/institutional patterns.

JGM started its SOE policy generating consensus and trust, and providing assistance to companies that were affected by severe organizational deficits. Behind this approach lay the objective of creating policy momentum to provide the right incentives for enterprises to believe in the reform. After two years, and despite significant social and political constraints, the program showed relevant results not only in terms of the improvement of the governance of some SOEs, but also in terms of the improvement of financial indicators. Institutional maturity and visible results are currently allowing government to move a step forward towards higher levels of institutionalization, as shown by the recent approval of the Guidelines on the Good Governance of SOEs.

NOTES

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⁶ Office of the Chief of the Cabinet of Ministers’ Letters, *Empresas Públicas para el Crecimiento*.

⁷ Office of the Chief of the Cabinet of Ministers’ Letters, *Empresas Públicas para el Crecimiento*.

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¹² Official Gazette of Argentina, “Boletín Oficial,” 9 February 2018, <https://www.boletinoficial.gob.ar>.

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