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Inequalities pose a critical challenge for government. Not only do they harm economic growth and create social distress, but they also hamper access to opportunities and basic public services. Government plays an important role, not only through taxes and transfers, but also by designing and implementing public policies that tackle inequalities in the distribution of income and other outcomes that affect people's well-being.

Latin America and the Caribbean (LAC) remains the most unequal region in the world, although much has been achieved over the past years as a result of strong growth and structural reforms. To sustain these achievements in a challenging global environment, LAC governments will need to design and implement policies to promote economic growth and job creation, while continuing to work to ensure more equitable access by the population to cost-effective services. This will require high-quality, timely and internationally comparable evidence to inform policy making and benchmark specific interventions. *Government at a Glance Latin America and the Caribbean 2017* provides such evidence to guide public sector reforms in the LAC region.

## Key findings

**The state is much smaller on average in the LAC region than in OECD countries.** Government spending accounts for about 31% of GDP on average in the LAC countries, compared to 41.5% in OECD countries; nevertheless, the difference is decreasing. Between 2007 and 2014 expenditure increased by 4.7 percentage points in the LAC region compared to a 2.5 p.p. increase in the OECD. In 2014, LAC governments spent about 8.7% of GDP on social benefits (e.g. education, health and pensions) on average, while this figure was 16.9% in the OECD area. In turn, for the same year LAC countries employed fewer people as a percentage of total employment (12.4% in LAC and 21.6% in OECD countries). In 2014 government investment as a percentage of GDP reached 2.6% in LAC countries compared to an average of 3.2% in the OECD.

**Fiscal policy plays a more limited role in income distribution in LAC than in OECD countries, on average.** The tax benefit system drives a wedge between market and disposable income, reducing the Gini coefficient by 2.8 percentage points on average in LAC, as opposed to 17.8 percentage points in OECD countries. This happens due to a combination of less progressive direct tax schedules; greater reliance on indirect, often regressive, taxes; a proliferation of tax benefits; and subsidies in several sectors (e.g. energy) that are poorly targeted and often benefit the better-off. The distributive potential of government intervention is nevertheless much stronger when social in-kind spending is taken into account.

**Health systems in the LAC region are highly fragmented, in terms of both service delivery and financing.** Most countries have several, coexisting financing schemes for health. Moreover, public health expenditures are often treated as off-budget items and therefore not subject to the full scrutiny of the budget process. Although coverage is relatively high in the LAC countries surveyed, the package of goods and services received by beneficiaries tends to be less comprehensive than in OECD countries. Overcoming fragmentation and improving co-ordination is a key challenge for increasing health expenditure efficiency in the LAC region.

**Governments in the LAC region have yet to create a culture of policy evaluation that can do much to improve policy design and implementation.** For example, while around three-quarters of LAC countries reported having a national strategy for digital government, only slightly more than one-fifth signalled efforts to measure the financial benefits of government ICT projects for citizens and businesses. Similarly, over 70% of LAC countries have public procurement strategies to pursue secondary policy objectives, but only a much smaller number of countries (6.3% in the case of green procurement and 28.6% in the case of support for MSMEs) measure the impacts of those strategies. In the same vein, while countries have adopted formal requirements for the use of different regulatory tools, such as consultation and regulatory impact assessment, their implementation in practice varies greatly among countries and, in a similar way to OECD countries, ex post evaluation is seldom carried out in LAC countries.

**The centre of government's leadership and co-ordination roles have increased but focus mainly on procedures as opposed to policy content.** The number of cross-ministerial initiatives has increased in LAC countries during recent years, reflecting efforts to enhance the co-ordination function of the centre of government. For example, 92% of LAC countries indicated that open government initiatives are co-ordinated by the centre of government. In a similar way to OECD countries, co-ordination and policy discussions take place through cabinet meetings and bilateral contacts with ministers. However, in comparison to OECD countries, the centres of government in the LAC region play a more active role in reviewing and ensuring compliance with processes than on assessing, discussing or deciding new public policies.

**The use of merit-based recruitment has improved in the region, while performance appraisal and compensation management need further development.** Merit-based competitive hiring has been reinforced in the last 10 years, mainly through the introduction of public employment web portals and the strengthening of civil service agencies. However, in many countries, performance appraisal tends to be formalistic in nature, with limited effect on performance. In turn, in many countries, pay inequities – both horizontal (same responsibility, different pay) and vertical (hierarchically superior positions with lower pay) – abound and have worsened over time.

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