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Guatemala Country Financial Accountability and Procurement Assessment Report (CFAA/CPAR)

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MAIN ABBREVIATIONS AND ACRONYMS

BANGUAT	Bank of Guatemala (central bank)	MFP	Ministry of Public Finance
CGC	Office of the Controller General of Accounts	MTEF	Medium Term Expenditure Framework
CFAA	Country Financial Accountability Assessment	NFPS	Non-financial public sector
COSO	Committee of Sponsoring Organizations of the Treadway Commission	NGO	Non governmental organization
CSO	Civil society organization	PER	Public Expenditure Review
CPAR	Country Procurement Assessment Report	PIP	Public Investment Program
DBE	Directorate of State Assets	PFM	Public Financial Management
DCE	Directorate of State Accounting	ROSC	Report on Observance of Standards and Codes
DCP	Directorate of Public Credit	SAT	Superintendency of Tax Administration
DTP	Technical Directorate of Budget	SEGEPLAN	Secretariat of Programming and Planning of the Presidency
<i>Guatecompras</i>	Contracting and Procurement Information System	SIAF	Integrated Financial Management System
IDB	Inter-American Development Bank	SICOIN	Integrated Accounting System
IMF	International Monetary Fund	SIGADE	Debt Management and Financial Analysis System
INFOM	Municipal Development Institute	SNIP	National Public Investment System
IT	Information Technology	UAP	Budget Analysis Unit of Congress
LOP	Organic Budget Law	UDAF	Financial Management Unit
		WB	World Bank

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TABLE OF CONTENTS

PREFACE.....	IV
EXECUTIVE SUMMARY	VII
I. COUNTRY BACKGROUND	1
Political and Economic Evolution	1
The Public Sector.....	2
Governance Environment	3
The CFAA/CPAR in the Country Context	5
II. LEGAL AND INSTITUTIONAL FRAMEWORK.....	7
Formal Rules for Public Financial Management	7
Budgetary Attributes of different Branches of Government.....	8
The Integrated Financial Management System (SIAF)	10
Public Procurement Regulatory Framework.....	10
Civil Service	14
Analysis and Recommendations	16
III. BUDGET FORMULATION	20
The Process of Budget Formulation	20
Content of the Budget.....	21
Budget Outcomes as Indicators of Budget Reliability.....	24
Analysis and Recommendations	26
IV. TREASURY AND BUDGET EXECUTION MANAGEMENT	29
Revenue Administration	29
The Budget Execution Process	30
Internal Control Framework	34
Analysis and Recommendations	34
V. PROCUREMENT MANAGEMENT.....	40
Strategic Planning	40
E-Procurement.....	41
Procuring Units	43
Analysis and Recommendations	45
VI. FISCAL REPORTING AND EXTERNAL OVERSIGHT	50
Financial Reporting.....	50
The External Audit Function	51
Legislative Oversight.....	53
Monitoring by Civil Society	53
Analysis and Recommendations	54
VII. CONCLUSIONS AND MAIN RECOMMENDATIONS.....	58
Leveraging Opportunities to Move Forward	60
Suggested Fundamental Actions.....	61
Other key reforms that affect PFM	65

ANNEXES	66
Annex I Plan of Action Recommended	66
Annex II Background Papers and Persons Interviewed.....	72
References.....	79

LIST OF TABLES, BOXES AND FIGURES:

TABLE 1: CENTRAL GOVERNMENT OPERATIONS.....	3
TABLE 2: PROPOSED AMENDMENTS TO THE STATE PROCUREMENT LAW.....	12
TABLE 3: BUDGET FORMULATION PROCESS.....	21
TABLE 4: EARMARKED REVENUES IN THE BUDGET.....	22
TABLE 5: AGGREGATE GENERAL BUDGET EXECUTION.....	25
TABLE 6: DEVIATION FROM BUDGETED DEFICIT.....	26
TABLE 7: AVERAGE ABSOLUTE DEVIATION OF GENERAL BUDGET EXPENDITURE EXECUTION.....	26
TABLE 8: VALUE-ADDED TAX EFFICIENCY.....	29
TABLE 9: SUMMARY OF 2003 AUDIT RESULTS.....	52
 BOX 1: GUATEMALA AT A GLANCE.....	 1
BOX 2: MAIN LAWS AND REGULATIONS GOVERNING PUBLIC FINANCIAL MANAGEMENT.....	7
BOX 3: DR-CAFTA IMPLICATIONS ON PUBLIC PROCUREMENT.....	13
BOX 4: WEAKNESSES OF THE PROPOSED CONCESSIONS LAW.....	14
BOX 5: SELECTED OPTIONS TO REFORM THE MUNICIPAL TRANSFER SYSTEM.....	17
BOX 6: MAIN ASPECTS OF THE PROCUREMENT REFORM PROGRAM.....	18
BOX 7: EXPENDITURE BUDGET CLASSIFICATIONS.....	24
BOX 8: EXPENDITURE BUDGET EXECUTION PROCESS.....	31
BOX 9: RULES ON MUNICIPAL DEBT AUTHORIZATION.....	33
BOX 10: SOME RECENT SOCIAL AUDIT INITIATIVES... ..	53
 FIGURE 1: GOVERNANCE INDICATORS: 2004/2002/200/1998 AND REGIONAL COMPARISON 2004.....	 4
FIGURE 2: CENTRAL GOVERNMENT EMPLOYMENT AND WAGES IN 2002.....	15
FIGURE 3: CURRENT STATUS OF GUATEMALA'S PROCUREMENT STRATEGY.....	41
FIGURE 4: TRENDS IN USE OF <i>GUATECOMPRAS</i>	42
FIGURE 5: INTEGRATING PROCUREMENT AND BUDGET PLANNING.....	47
FIGURE 6: SAVINGS POTENTIALS OF STREAMLINING STRATEGY.....	48
FIGURE 7: PHASES OF COST REDUCTION STRATEGY.....	49

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PREFACE

The Country Financial Accountability and Procurement Assessment Report (CFAA/CPAR) is a diagnostic tool that covers the Government's ability to fulfill its fiduciary responsibility to the citizenship, in managing public resources through sound public financial management (PFM).¹ As such, it seeks to support development objectives by facilitating a common understanding of the state of PFM systems, practices and accountability arrangements. On that basis, the assessment makes recommendations with the ultimate goal of increasing the efficiency and transparency of public expenditures. Information obtained in CFAA/CPARs can also help development agencies to identify potential risks, posed by weaknesses in PFM arrangements, to the use of loan or grant proceeds.²

The World Bank and the Inter-American Development Bank (IDB) have agreed to collaborate with each other in the overall coordination of PFM diagnostic work. The two participating Banks expect that their collaboration in Guatemala will foster a common understanding of how the CFAA/CPAR should support the country's development agenda, and make good use of their combined efficiencies of scale.

This report was prepared on the basis of: (i) the Memorandum of Initiation (2004); (ii) interviews held with several government officials and stakeholders from the private sector, non-governmental organizations, civil society organizations (SCO) and development agencies; (iii) the Country Assistance Strategy (CAS) agreed with the Government of Guatemala (2005); (iv) the analysis of surveys, questionnaires, and other information and documents collected during the fact findings missions conducted on October 25-29, 2004 and January 17-28, 2005; and v) a workshop for the presentation by the Banks and discussion of the CPAR report with the participation of government officials from the Ministry of Public Finance and the Office of the Controller General of Accounts conducted in Guatemala City on March 9, 2006. The report reflects basically advances made and recommendations identified at that moment. A WB fiduciary mission conducted a joint review with the Ministry of Public Finance's officials in March 15-16, 2007 to assess the actions taken and progress made in the implementation of the Plan of Action recommended by the Banks in June 2005; The findings and results of this evaluation were included in the relevant sections of the report.

¹ The CFAA/CPAR combines two exercises that have traditionally been carried out separately: the Country Financial Accountability Assessment (CFAA) and the Country Procurement Assessment Report (CPAR).

² The CFAA/CPAR, however, is neither an audit nor is prepared following audit procedures (World Bank, 2003).

The Participating Banks' Assistance Strategies

The World Bank's Country Assistance Strategy (CAS) for FY05-08 proposes a strategic program of lending and non-lending services to support the main pillars of Guatemala's "Vamos Guatemala" plan, which is aimed at promoting sustainable and equitable growth and poverty reduction through: (i) strengthening the "fundamentals" –i.e., macro stability, personal and legal security, and governance and public sector management; (ii) promoting social solidarity through investments in human development and rural infrastructure; (iii) accelerating sustainable growth through public-private partnerships; and (iv) improving the country's competitiveness.³

The core of the IDB's Country Strategy for 2005-07 is to reduce poverty as a basic condition for establishing a solid and lasting peace, founded on the fullest participation of the population in the twin processes of economic and social development. The Strategy seeks to promote sustainable and widely based economic growth through support to economic diversification and inclusion of all sectors of the population. Key themes are creating a climate conducive to production, improving human capital with emphasis on promoting equity, and improving the operation of the country's key institutions.

In addition to its inherent value as a diagnostic tool, the assessment has special relevance through its relationship to the participating Banks' assistance strategies, lending programs, and policy dialogue. The linkages are particularly strong in three areas:

Public sector modernization and governance. Public financial management systems that contribute to operational and allocative efficiency are critical elements of public sector effectiveness. These features, together with fiscal transparency, can positively influence the governance environment.⁴ Hence, in these areas the CFAA/CPAR constitutes a key non-lending service of the participating Banks.

Design and implementation of the participating Banks' lending program. The exercise can provide valuable information to help the Government with the design of capacity-building programs under its ongoing modernization agenda, and will feed into the implementation of ongoing operations (e.g., the Integrated Financial Management System Project) and the preparation of new ones (e.g., the Governance and Public Sector Management Project). Additionally, a central component of the Guatemala CAS is a programmatic series of annual Development Policy Loans (DPLs) focusing on four key areas, one of which is the continued strengthening of public sector management and governance. The CFAA/CPAR is the major analytical tool underpinning the DPL-supported actions in that area.

³ The CFAA/CPAR is one of the non-lending services contained in the CAS.

⁴ The governance environment and certain PFM functions (e.g., procurement and revenue administration) are also important aspects of a country's enabling environment for business and investment.

Management of the participating Banks' lending portfolio. The CFAA/CPAR can inform strategies to make more efficient use of the Government's own institutional settings and systems for project-related financial management and procurement activities.

EXECUTIVE SUMMARY

1. This Country Financial Accountability and Procurement Assessment Report (CFAA/CPAR) analyzes the Government's fiduciary responsibility to manage public resources through transparent institutions and efficient systems of budgeting and procurement. Accordingly, the recommendations contained in this report seek to identify areas where public financial management (PFM) can be improved with the goal of strengthening fiscal discipline, enabling more efficient allocation of resources, and increasing operational efficiency.

2. PFM enhancements, in the context of other key public sector reforms, can positively influence the country's governance environment, a key aspect considering that one of the Government's critical challenges is promote higher levels of transparency and enhance the Governance framework to reduce corruption. At the same time, the Government's relatively low level of revenues calls for an active pursuit of opportunities for efficiency gains. Enhanced fiscal transparency, in turn, could help as validation to potentially increase those revenues.

Summary of Findings

3. The financial management reform process, initiated in the mid-1990s under the umbrella of public sector modernization, has produced improvements in the performance of budget management institutions. The implementation of the integrated financial management system (SIAF), built upon a good normative framework and facilitated by a modern technological platform, has contributed to efficiency in executing financial transactions and to the production of opportune information on most government finances. The underlying accounting system (SICOIN) operates in most government entities and a version tailored to municipalities (SIAFMUNI) is rapidly being expanded. All in all, the formal norms are progressively generating a culture of accountability and fiscal prudence in officials responsible for PFM.

4. The financial management methodologies and processes are well documented and normally followed. The Government is able to track revenues and expenditures on a timely basis and under a broad classification system. Effective controls of its cash position, including an efficient common fund system and rather complete central government debt records, are in place. Both the annual budgets and financial reports provide considerable government financial data that is publicly available.

5. The external auditors have independence and room to exercise their functions, including timely annual reporting to Congress on fiscal information. Furthermore, leading civil society organizations with good technical and convening capacity have been engaged constructively in social audit initiatives and integrity pacts. Still, important obstacles remain, as summarized in the following paragraphs

6. **Procurement.** Efforts to modernize public procurement have not been so significant than other areas. The public procurement system has advanced to a certain degree but has not

achieved the desired level of transparency, competition and predictability. While transparency has benefited from the initial stage launch of an electronic government procurement tool (*Guatecompras*), policy deficiencies complicate enforcement and negatively affect the efficiency of budget execution and the government's ability to deliver public services.

7. Procurement planning, management and monitoring remain inadequate because of various factors that could be addressed. The public procurement regulatory framework is outdated and inefficient, includes some barriers to competition, and is not conducive to transparency or economic results. Unduly onerous requirements, lack of clarity, a preference for anachronistic approaches to control, and the absence of procedural guidance or standard bidding documents have fostered a proliferation of arrangements which lead to fragmentation and further compounds the regulatory shortcomings.

8. Because there are not an effective public procurement policy nor the mechanisms for policy oversight, a clear, unifying vision of the objectives of public procurement and its role within the PFM system is missing. There is also limited capacity to monitor the system's performance and effectively utilize the feedback for policy development, procurement planning, and control. As a result, capacity building initiatives are not well coordinated, the development of key implementing tools (e.g. bidding documents) is lagging, and there have been no in-depth assessments of the government's procurement strategy or the supplying markets to support the introduction of new contracting approaches and cost reduction programs.

9. At the executing entity level, most procuring units have poor capacity and there is no strategic planning clearly linked to the entities' budget processes and institutional and developmental objectives. While the Commissioner for Public Sector Modernization (COPRE) is undertaking a modernization of the legal framework, there is no clear leadership for a sustained national dialogue and a focused effort to coordinate the procurement reform.

10. **Financial management.** While a formal budget formulation process is in place, and the Ministry of Public Finance (MFP) is strengthening it with clear plans for adoption of a medium-term/performance based expenditure framework, the high incidence of constitutionally and legally mandated earmarked funds and fixed-type costs limits the room for resources allocation in the budget planning. Similarly, the incomplete information on municipal budgets and investment projects prevent comprehensive sectoral planning. On the other hand, the unrestricted capacity of Congress to introduce unrestricted changes to budget plans (particularly the public investment program), and of the Executive to modify the budget during the fiscal year through transfers, can affect the credibility of budget formulation.

11. Regarding budget execution, on one hand the flexibility of some entities is restricted by the monthly periodicity of the system of quotas; on the other, many entities and programs operate out of the single treasury account payment system, an exemption which can produce idle funds, increase transaction costs, and reduce transparency. And, whereas budget execution accounting practices have been standardized, there is still certain degree of fragmentation in internal administrative systems and procedures. This is evident at the time of this analysis in personnel and payroll management, which are complicated by the variety of disconnected regimes and practices used for hiring and compensation, and –as mentioned

above— in procurement and contracting practices as mentioned above. This has been addressed partially through the implementation in 2006 of a internet based payroll system (Guatenómina).

12. In terms of fiscal reporting, at the moment of the analysis, the simultaneous (and sometimes late) recording of expenditure commitments and accruals may generate incomplete information on total expenditures incurred and debt, carrying the risk of generating payment arrears. However, since January 2006 MFP established since January 2006 implementing quarterly commitment limits and monthly cash flow and accrual limits, facilitating in this way the timely recording of each expenditure stage.

13. On the other hand, the lack of consolidated government financial statements restricts the capacity to undertake comprehensive analyses of budgetary performance, financial position, and fiscal risks –which are not performed in a systematic manner. It was clarified that at central level period exercises of budgetary performance and fiscal risk are being performed weekly.

14. Finally, the independent assurance on the reasonableness of fiscal data (e.g. on Public Accounts) is constrained by capacity limitations of the Office of the Controller General of Accounts (CGC), particularly its low numbers of qualified professionals. The problem is compounded by the weaknesses that make the internal audit function largely irrelevant.

Suggested Fundamental Actions

15. Moving forward, the Government should focus on implementing key actions that are relatively less complicated because they do not require legal changes, may be supported by current capacity building projects, and can produce improved outputs in the short-term. Pilot programs in line ministries that are responsible for the majority of the budget (i.e. Infrastructure, Health, and Education) should be accelerated with a focus on strengthening procurement and financial management processes, including internal controls. As the pilots produce measurable results, they could be expanded throughout the public sector.

16. At the same time, the Government should begin developing consensus on systemic changes aimed at ensuring that the reforms are sustainable, the procurement and financial management systems better integrated, and the regulatory framework consistent with international standards.

17. Each chapter of this report provides recommendations to strengthen the country's PFM foundations, operational processes, and transparency. These suggested actions are largely consistent with the Government's own plans, and are supposed to be put into practice under proper sequencing arrangements. Selected *fundamental actions*, driven primarily by operational efficiency implications, are identified throughout the report and included in the following paragraphs.

18. **Budget planning.** The Government has designed a good plan to adopt a results-based and multi-annual approach to budgeting. To validate and sustain what is by nature a long-term endeavour, a cautious and gradual approach is encouraged.

19. In the short to medium term, the approach in the pilot ministries should be expanded, from the institutional level, to sectoral and programmatic levels. Costed sectoral strategic plans should be developed for reconciliation of the top-down and bottom-up multi-year budget planning. The public investment program (PIP) should be based on those plans, with due consideration to recurrent cost implications. These actions could bring about more meaningful discussions over operational efficiency in the use of resources, an orderly review of budgetary implications of existing and new policies, and better planning of the recurrent costs of investment decisions.

20. **Revenue administration.** The Superintendency of Tax Administration (SAT) is already heading in the right direction with its comprehensive strategic plan. Accordingly, and with a view of improving transparency of tax data and effectiveness of registration, assessments and collections, some key actions to be implemented are to: (i) continue expanding the coverage and information content of the taxpayer account, including accurate identification of outstanding debt; (ii) aggregate that information so as to enable better reporting on declared and assessed taxes, including well-classified and reconciliated data on arrears; and (iii) clear up the registration databases, make penalties for non-compliance with tax obligations more effective (as pertinent, through modifications to the Tax Code), and strengthen the risk-based focus of audits.

21. **Budget execution.** In the short term, proper and timely recording of expenditure commitments and accruals should be both enforced and enabled (e.g., moving from monthly accrual quotas to quarterly commitment limits –always keeping emergency options to deal with unexpected cash flow problems). These actions could help prevent payment arrears, a form of non-transparent financing that can affect fiscal discipline and increase cost of works, goods and services. They could also improve predictability in resource flows to service delivery units, which could therefore plan and use those resources in a more timely and efficient manner –a matter of particular importance in light of the introduction of results-based agreements for budget management. This recommendation was implemented since January 2006 implementing quarterly commitment limits and monthly cash flow limits.

22. **Treasury management.** In the medium term, the Treasury's common fund payment system should be significantly expanded to all central government noncommercial entities, taking into consideration the respective legal implications, so as to prevent idle funds, reduce transaction costs, and increase transparency.

23. **Procurement policy and management.** A plan to clearly assign procurement policy formulation and oversight functions, separating them from operational tasks (e.g., management of framework contracts), and ensuring proper leadership and resources for both, should be developed soon for a medium-term implementation for a successful implementation of the procurement reform. Further development of *Guatecompras* should take place, in the short term, as part of a comprehensive strategic plan for e-procurement, focusing in particular on a better interface with SIAF modules, product classification and information standards, and use of data for procurement planning.

24. At a strategic level, the Government could benefit in the short term from in-depth market studies and a review of its supply processes for identification of cost saving

opportunities. A conservative estimate of the overall savings that could be potentially achieved by streamlining the Government's supply strategy is approximately 500 million Quetzales per year (approximately US\$65.5 million).

25. At the executing entity level, procurement planning and management should be institutionalized in the short to medium term, by overhauling the annual operating plan process and developing key implementation tools (e.g., documents and monitoring systems) – starting with pilot ministries, and eventually adopting them as policy. These efforts should be framed in well-targeted medium-term capacity building programs coordinated with prospective civil service reform advancements, and be properly linked to cost reduction strategies such as potential initiatives to take advantage of economies of scale in volume consolidation (e.g. including enhanced use of framework contracts under clear arrangements for awarding and management.)

26. Focusing on tools and strategies designed to improve the efficiency and transparency of the system's outcomes would ease the pressure for significant regulatory action in the short term and, at the same time, it is likely to help build momentum for the reform.

27. **Internal controls.** The institutional assessments carried out under COPRE's leadership, together with the specific findings reported in audit reports, should be the basis to develop in the short term internal control strengthening plans in the budget executing entities –again, starting with pilot ministries. On the other hand, recognizing that the internal audit institutional weaknesses cannot be solved in the short term, certain technical actions can be undertaken, e.g. preparing an internal audit manual, providing internal auditors with tools from the government audit information system (SAG), developing a system of training and certification, and improving the coordination with the CGC.

28. By enhancing controls of expenditure processes, the opportunities for corrupt practices, leakages and patronages that affect operational efficiency can be reduced.

29. **Financial management systems.** The ongoing development of SIAF modules for personnel registry and payroll, procurement, fixed assets and inventories, should be framed in a medium-term comprehensive strategy that takes into account the need to re-structure and streamline procedures within executing entities. With regards to payroll controls, the continued implementation of decentralized payroll preparation in ministries should be complemented with efficient interfaces between the human resource management systems and SIAF's cited module, and with a system of periodical payroll audits.

30. In general, operational efficiency can be improved if the control rules and procedures are relevant, widely understood, and cost effective.

31. **Transparency of fiscal reporting.** The expansion of coverage of SICOIN, complemented as needed with incentives and sanctions, should serve in the short term to disclose budgetary and financial information of entities (including municipalities) that do not form part of the General Budget. Similarly, an effort should be made to begin disclosing the composition of certain large accounts (notably the groupings for “state obligations” and “secretariats and other dependencies”), identifying the arrears portion of the known payables, disclosing the nature and fiscal significance of contingent liabilities and quasi-fiscal activities,

and disclosing local government indebtedness to the Municipal Development Institute (INFOM) and others. In 2006 the Municipal Transparency webpage and Fiscal Transparency were established at www.minfin.gob.gt where is published information regarding municipal budget and transfer recipient entities.

32. In the short to medium term, the MFP should strengthen its capacity to assess and monitor fiscal risks associated with the financial performance of decentralized and autonomous entities, and should develop consolidation methodologies and begin applying them to the central and general government. The actions summarized in these two paragraphs would increase the availability of evidence required for comprehensive and effective oversight of the use of funds, thus reducing the opportunity for breaches in fiscal discipline and operational efficiency.

33. **External oversight.** An effort should be made in the short term by the CGC to utilize and validate available SAG modules, complemented with better use of risk assessment techniques to develop the annual audit work plan and to plan individual audits –so as to adhere to international standards and focus on significant and systemic issues. By enhancing external scrutiny, these actions could influence operational efficiency via increased accountability for efficient and rule-based management of resources.

34. In the medium term, the CGC should address the overhaul of its staff structure, shifting resources for a more efficient ratio of administrative to technical operational staff, and ensuring that the latter are increasingly composed of qualified professionals. At the same time, the CGC should make more extensive use of its legal power to use work of private auditors.

35. **Municipalities.** The ad hoc alliances that have been fostered between government entities and cooperation agencies to strengthen local government administrative capacities, should lay the ground work for the short-term preparation of a uniform sector-wide strategy, under which the various sources of funds available are efficiently allocated. Further implementation of SIAFMUNI and access to *Guatecompras* should continue, but with due consideration to the mentioned strategy. The latter should also contemplate opportunities to simplify internal administrative procedures, to address ambiguities and contradictions in municipal debt legislation, to further facilitate associations of municipalities to take advantage of potential economies of scale in shared administrative tasks, and to carry out market analyses to identify room for cost saving mechanisms. In 2006 it was completed registry module and the municipal Financial Statements are currently generated through SIAFMUNI. Currently all municipalities have access to *Guatecompras* and is used by a 95 %.

36. **Legal framework.** The Government, mostly through COPRE, is sponsoring key reforms to civil service, public access to information, procurement, and concessions laws. In this regard, country circumstances (e.g., a highly divided Congress that makes it difficult to shepherd major legal reforms) demand –in the short term– a strategic approach to legislators and opinion makers, so as to ensure due technical and public debate, and achieve reasonable compromise to generate wide-based support.

37. Improvements to the procurement law should aim at ensuring a more streamlined and transparent process, consistency with DR-CAFTA, and coverage of all entities managing public funds (e.g. social funds.) Consistency with established international practices may facilitate greater utilization of local rules under operations financed by external donors.

38. Financial management legal enhancements (taking into account possible constitutionally restrictions) should contemplate making the PIP process mandatory, and putting certain limits on the executive and legislature's capacity to dictate budget allocations and composition of the PIP, as well as to the executive's capacity to modify the budget during the fiscal year through transfers. These actions could lead to increased credibility of the budget process, which in turn could help avoid shifts across expenditure categories that could affect operational efficiency of service delivery.

39. **Other key reforms that affect PFM.** Efforts to modernize PFM should not take in place in isolation, but be complemented by other key public sector and governance reforms, such as modernizing civil service, establishing key legal precepts to help the fight against corruption and strengthen probity controls, and strengthening judicial systems that guarantee the rule of law. In the short to medium term, the office of the Commissioner for Transparency should be better focused, staffed and resourced to further develop and implement the incipient anticorruption strategy. During a similar timeframe, legislation concerning public access to information, together with actions to further enable social audits, should be pursued. At the end of 2005 the Government approved a governmental agreement (Acuerdo Gubernativo) regarding free information access, that establish among others, the obligation for public officers to present an annual accountability report of the preceding period.

I. COUNTRY BACKGROUND

*Political and Economic Evolution*⁵

1.1 With approximately 12.2 million inhabitants and an average per capita income of about US\$2,000, Guatemala is the largest economy in Central America (Box 1). Poverty in the country is high and deep: about 56 percent of all Guatemalans lived in poverty in 2000 and about 16 percent in extreme poverty.

Box 1: Guatemala at a Glance

Population: 12.2 million
Surface area: 108.9 thousand sq. km
Population per sq. km: 110.2
Population growth: 2.6 %
Population under 15 year old: over 50%
Life expectancy: 65.5 years
GNI per capita: US\$ 1,760
GDP: US\$ 23.3 billion

Source: World Development Indicators 2004

1.2 **Political context.** Long-standing social and economic tensions sparked a 36-year civil war that ended in 1996 with the signing of the Peace Accords, which marked an important turning point in Guatemala's political and socio-economic development. The Peace Accords aimed to reverse the negative impact of the conflict and foster a more inclusive socio-economic development, by setting targets in four main areas: (i) resettlement, re-incorporation and reconciliation; (ii) human development; (iii) productive and sustainable development; and (iv) modernization of the state and improved governance.

1.3 Progress toward achieving the targets established in the Peace Accords include, inter alia: (i) steps taken to implement mechanisms at sub-national and local levels to empower communities; (ii) important recent gains in education and health coverage and increased social sector spending; (iii) improved coverage of basic utility services; (iv) better management of public finances with the implementation of an Integrated Financial Management System (SIAF), and increases in public revenues (albeit below agreed targets). However, progress has been slower in other important areas, such as achievement of higher growth rates. Deceleration in progress towards achievement of the Peace Accord targets was especially apparent in the last years of the Portillo administration, 2002-2003, in tandem with a noticeable weakening of governance and public sector institutions.

1.4 The incoming Berger Administration, elected for the 2004-2008 presidential term on an anti-corruption, pro-growth platform, has reaffirmed its strong commitment to the Peace Accords, particularly through an economic reactivation plan, *Vamos Guatemala!* that is fully consistent with the framework established in the Accords. One of the fundamentals of *Vamos*

⁵ Based on World Bank (2005).

Guatemala! is to improve governance and credibility of public sector management and institutions. Central to this strategy is the consolidation of an efficient and transparent public financial management (PFM) system. These efforts have been deemed positive for the country's domestic and international image and investment climate.

1.5 **Economic context.** Guatemala's record of macroeconomic management during the past decade has been characterized by low inflation, stable outputs per capita, and generally sound fiscal management. The country's ratio of public debt to GDP (around 18 percent) remains one of the lowest in the region, despite similarly low tax revenue to GDP ratio (around 10 percent). Its sovereign bond ratings are below but close to investment grade.⁶

1.6 With respect to growth, however, Guatemala has long performed more poorly than the rest of the region. In the period 2001-03 there was a deceleration of the economy due to both internal and external factors. Internally, the investment climate was negatively affected by the aforementioned deterioration in governance and a weakening of the rule of law – which, in turn, gave rise to a conflict between Government and significant segments of the private sector. On the external front, the terms of trade were negatively affected by the collapse of the world price of coffee, and recession in the U.S. and other trading partners. Looking ahead, the ratification of the free trade agreement with the U.S. (DR-CAFTA) and the deepening of regional integration efforts, offer significant opportunities for attracting new investment and fostering trade-led growth.

1.7 One of the key economic and political challenges for Guatemala is the need to increase public expenditure to reduce poverty and support economic growth, while maintaining fiscal discipline. Consequently, it is an important priority for the Government to enhance the efficiency of public resources management. As evidenced in the fundamentals of *Vamos Guatemala!*, it is a stated objective of the administration to improve public procurement and financial management because they offer major opportunities for gains in efficiency and reduction of opportunities for waste and corruption. In addition, the Government is very interested in attracting private funds for large infrastructure projects, which are urgent but cannot be included in the public investment program without crowding out priority social investments. The Government's efforts to attract private investors can greatly benefit from overall improvements in governance and transparency.

The Public Sector

1.8 **Composition and size.** Titles IV and V of the Constitution regulate the attributions and competencies of the Government, defined broadly as the legislature, the executive, the judiciary, the local governments, and other constitutional bodies such as the offices of the controller general, the public prosecutor and the attorney general. The non-financial public sector (NFPS) consists of the central administration entities, decentralized institutions that operate under the central government's authority, autonomous entities, social security, public enterprises, and municipalities.⁷

⁶ Two notches below investment grade according to Moody's, and three notches below according to S&P.

⁷ MFP (2005).

1.9 With central government expenditure below 14 percent of GDP (Table 1), Guatemala's public sector is small by international comparison.⁸

Table 1: Central Government Operations
(in percent of GDP)

	1999	2000	2001	2002	2003
Revenue	10.5	10.4	11.1	11.6	11.3
Tax revenue	9.3	9.4	9.7	10.6	10.3
Other	1.1	0.9	1.4	1.0	0.9
Expenditure	13.3	12.4	13.3	12.2	13.4
Current expenditure	8.1	8.6	9.2	8.6	9.3
Capital expenditure	5.2	3.7	4.1	3.6	4.1
<i>Statistical discrepancy</i>	<i>-0.5</i>	<i>-0.4</i>	<i>-0.2</i>	<i>0.3</i>	<i>-0.2</i>
Overall balance	-3.3	-2.4	-2.4	-0.3	-2.3
Net external financing	2.4	0.9	1.3	0.2	0.9
Net internal financing	0.9	1.5	1.1	0.1	1.3

Source: IMF (2005).

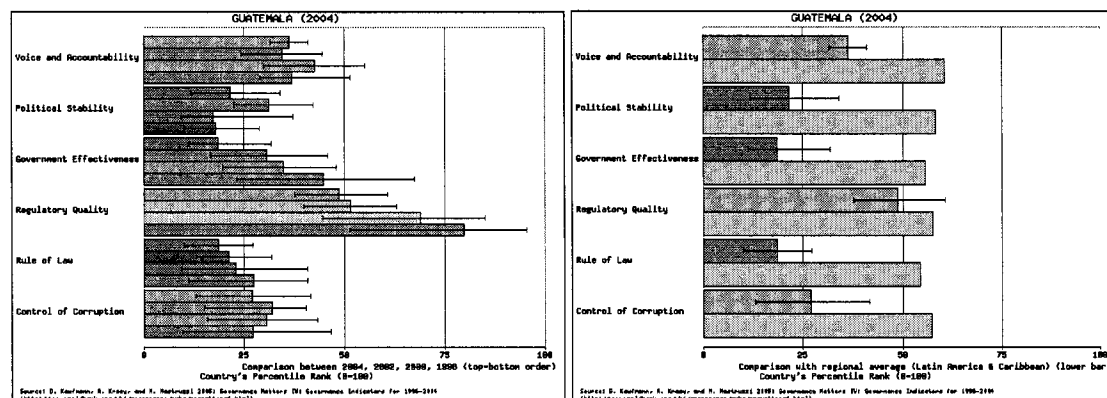
Governance Environment

1.10 This section contains data on governance and corruption indexes as of 2004, which help portray the state of affairs as of the end of the Portillo administration. Therefore, any effects that actions by the current administration could have on those indexes are not yet reflected. The data should thus be read with caution.

1.11 Perceptions of governance as of 2004 remained unfavorable. The Worldwide Governance Research Indicators Dataset showed that in all six major governance categories, Guatemala fell below the 50th percentile, with the dimensions for rule of law, government effectiveness, political stability, and control of corruption below the 30th percentile (Figure 1).⁹ Moreover, no improvement was shown with respect to the 1998 results. The picture was not better when compared to the Latin America and the Caribbean average: all indicators for Guatemala presented much lower levels, with the exception of regulatory quality.

⁸ Major progress in the privatization program was achieved during the late 1990s, reducing significantly the public enterprise activity. The port authorities and the National Electrification Institute (INDE) are the only non-financial public enterprises that carry sizable operations.

⁹ The six governance indicators (voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption), reflect the statistical compilation of responses on the quality of governance given by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries, as reported by a number of survey institutes, think tanks, non-governmental organizations, and international organizations. (Kaufman, 2005)

Figure 1: Governance Indicators: 2004/2002/2000/1998 and regional comparison 2004

Note: Percentile rank indicates the percentage of countries worldwide that rate below Guatemala (subject to margin of error). The statistically likely range of the governance indicator is shown as a thin black line.

Source: Kaufman (2005).

1.12 Control of corruption. According to the Corruption Perceptions Index 2004 (Transparency International, 2004), Guatemala ranked 122 out of 145 states worldwide, only ahead of Paraguay and Haiti in Latin America and the Caribbean. This result possibly reflects the highly publicized cases –taking place during the previous administration– of misuse of public funds, reports of influence peddling, intervention into mismanagement in banks, and failures to prosecute suspects of corrupt activities.

1.13 As noted previously, the first year of the Berger administration has seen important steps being taken to improve the overall governance framework (such as the creation of the Office of the Commissioner for Transparency), and law enforcement (including a series of high profile arrests and indictments). However, much work remains in both areas.

1.14 In appearance, the regulatory framework for transparency and anticorruption is fairly comprehensive: there are seventeen laws which define the national integrity system. However, as discussed later in this report, critical cornerstones of this system –including the procurement and civil service laws– require substantial revisions. Furthermore, some key concepts –such as the offering and soliciting of bribes, embezzlement, political interference, and conflict of interests– are not well defined in criminal law, and additional regulations –such as whistleblower protection– are needed to support investigation and prosecution of corrupt practices.

1.15 Enforcement is expected to improve as a result of multiple initiatives which include the ongoing judicial reform, wider use of the government procurement system (*Guatecompras*) –which also allows interested parties to submit allegations of corruption directly to the system administrator–, and the obligation of public officials to submit patrimonial declarations (though, as argued in Chapter VI the capacity for verification is low). Another positive development has been the creation of a financial investigation unit and an anticorruption “hotline” in the Public Ministry (office of the public prosecutor), which is also the focal point for implementation of the Inter-American Convention against Corruption. Still, due to the lack of a comprehensive mechanism to coordinate information and follow-up

actions among the many involved agencies, enforcement will continue to be a persistent challenge.

1.16 The presence of multiple institutions charged with different roles in the fight against corruption has complicated coordination and lead to duplication of efforts, limited enforcement, and insufficient emphasis on preventive measures. The creation of the office of the Commissioner for Transparency was an important, yet incipient, development introduced by the Berger administration to improve coordination and develop a comprehensive strategy. An early benefit of this instance has been the engagement of private sector representatives and CSOs in a constructive dialogue and cooperation around integrity and social audit initiatives.¹⁰ It seems that, moving forward, the Commissioner for Transparency needs to focus more on policy and coordination, rather than investigation and enforcement.

1.17 **PFM implications.** The perception of government effectiveness can be affected by the way the Government manages the inputs required to produce and implement good policies and deliver public goods. The perception of corruption can be affected by the degree of fiscal and public procurement transparency that the Government adopts. Thus, the quality of PFM, analyzed in the following chapters, can be a factor in enhancing the country's governance environment. However, efforts to modernize PFM should not take in place in isolation, but be complemented by other key governance reforms, such as establishing key legal precepts to help the fight against corruption and strengthening judicial systems that guarantee the rule of law.

The CFAA/CPAR in the Country Context

1.18 Good budget institutions allow governments to balance the three interrelated objectives of budgetary performance: aggregate fiscal discipline, efficient allocation of resources according to the Government's policy priorities, and operational efficiency in the use of resources (Schick, 1998). Institutions, understood as sets of formal and informal rules, influence behavior of public officials involved in the process of planning, allocating and spending public money aimed at implementing government policies and programs.

1.19 **Objectives.** With the view of strengthening the performance of Guatemalan budget institutions at the three cited levels,¹¹ the overall objectives of the CFAA/CPAR are to: (i) update analytical knowledge on the legal and institutional framework and systems for budget planning and execution, procurement and contracting, fiscal reporting and external oversight; and (ii) accordingly propose a set of recommendations, thereby helping the Government in the design or implementation of capacity-building programs under its ongoing public sector

¹⁰ For example, the local chapter of Transparency International has an agreement with the Government to monitor the utilization of *Guatecompras* and give out monthly awards to the public entity that complies more closely with the applicable rules. Moreover, an award for transparency in municipal procurement was instituted in October 2004 and is given out quarterly.

¹¹ The Public Expenditure Review (World Bank, 2005a) analyzes other aspects (fiscal sustainability, quality of sectoral expenditure planning and allocation, and decentralization policy) that have a significant impact on the three levels of budgetary performance.

modernization agenda.¹² Emphasis is put on *fundamental actions* that could enhance operational efficiency.¹³

1.20 To that effect, Chapter II describes the PFM legal and institutional framework, Chapter III looks into the process of budget formulation and its reliability, Chapter IV examines treasury and budget execution management, Chapter V discusses procurement management, Chapter VI evaluates the arrangements for fiscal reporting and external oversight, and Chapter VII presents the main conclusions and suggests priorities for action.

1.21 The ultimate goal is to contribute to key fundamentals of *Vamos Guatemala!*: strengthening public sector management and institutions, enhancing fiscal management and expenditure efficiency, and positively influencing the governance environment.

¹² In the context of the CFAA/CPAR, a number of additional “just in time” interventions were made. These included: (i) a performance budgeting workshop; (ii) an e-procurement readiness assessment; (iii) a high level study of the government’s supply system and identification of potential cost savings strategies; and (iv) a workshop on procurement aspects of concessions and public-private partnerships in infrastructure.

¹³ The *fundamental actions* found throughout the report respond primarily to the results of a preliminary assessment of public financial management performance indicators (Annex 2).

II. LEGAL AND INSTITUTIONAL FRAMEWORK

Formal Rules for Public Financial Management

2.1 The PFM legal instruments are contained in various laws and regulations listed in Box 2. Under the general rules established in the Constitution, the Organic Budget Law of 1997 (LOP) governs the formulation, approval, execution, evaluation and closing of the national budget, as well as the systems for government accounting, treasury, and public credit. The State Contracting Law (1992), in turn, regulates public procurement.

Box 2: Main Laws and Regulations Governing Public Financial Management

- Articles 237-243 of the 1985 Constitution regulate public finances, particularly the general state budget. Articles 232-236 regulate the fiscal control function of the Office of the Controller General of Accounts (CGC).
- The Organic Budget Law (Decree 101 of 1997, as modified by Decree 71 of 1998) and its Regulations (Accord 240-98, modified by Accord 433-2004) norm the public sector financial management systems, i.e. budget, integrated accounting, treasury and public credit.
- The annual Law of the General State Revenue and Expenditure Budget lays out the revenue and expenditure budgets of the central government, and provides for specific budget rules applicable to the fiscal year (although these have been similar from year to year).
- The Ministry of Public Finance (MFP) has issued various manuals, e.g.: Budget Formulation, Programming of Budget Execution, Organization and Basic Functions of Financial Management Units (UDAFs), Budget Classifications, Budget Modifications; and user guides for the Integrated Financial Management System (SIAF).
- The State Contracting Law (Decree 57 of 1992, as amended by Decrees 29-97, 34-2001 and 73-2001) and its Regulations (Decree 1056 of 1992) norm public procurement.
- The regime for external audit is established in the Organic Law of the CGC (Decree 31 of 2002) and its Regulations (Decree 318 of 2003). That same legislation governs public sector internal controls and internal audits. Accordingly, the CGC has issued norms for government (external) audits, internal controls, and government internal audits (last updated in 2003).
- The Law of the Executive Body (Decree 114 of 1997) dictates the organizational framework of the executive branch.
- The Civil Service Law (Decree 1748 of 1968) regulates public employment, albeit several specific regimes also apply.
- Municipal financial management is regulated principally by the Municipal Code (Decree 12 of 2002, as amended by Decree 56 of 2002), the General Decentralization Law (Decree 14 of 2002), and the Organic Budget Law
- The Tax Code (Decree 6 of 1991) and other specific legislation provide the framework for tax and customs administration functions.

2.2 **Institutional arrangements.** The MFP is responsible for the direction and coordination of public finance, as well as the “control” of public sector budgets, excepting municipalities and the public university (Universidad de San Carlos). Each public sector entity must maintain a financial management unit (UDAF) responsible for budget, accounting and treasury functions. UDAFs serve as the link with MFP’s central normative directorates for these functions.

2.3 The MFP, through its Normative Directorate of State Contracting and Procurement (DNCAE), also has the mandate to develop procurement policy and implementation tools, coordinate capacity building programs, and carry out other functions that are typical of a procurement policy office. In practice, however, the DNCAE is not adequately staffed to fulfill these responsibilities and focuses almost exclusively on operational functions.¹⁴

2.4 The Constitution grants the Office of the Controller General of Accounts (CGC) the power to exercise fiscal control (*fiscalización*) of finances throughout the public sector and other recipients of public funds. Its Organic Law establishes, inter alia, the CGC's responsibility for the external audit of financial statements and budget execution reports of the central government, decentralized and autonomous entities, and its authority to set governmental norms on internal controls and internal audits.

Budgetary Attributes of different Branches of Government

2.5 Guatemala's Executive has powers of proposing and executing the budget that seem similar to those in other Latin American countries, with the same tendency towards a strong role of the Ministry of Public Finance (MFP). There is, however, a significant exception in that neither the Constitution nor the LOP imposes any limits on the faculty of Congress to modify the annual state budget.¹⁵ This has been particularly evident in the significant reprogramming –as much as 70% in 2003– of the program of works developed by regional development councils (Maul, 2005). The Congress also retains the power to authorize public debt and tax legislation, and approve budget execution reports. The president holds the right of veto on laws passed by the legislature, which can be overturned by a two-thirds congressional majority.

2.6 The Executive must present the annual General Budget proposal to Congress by September 2 of the preceding fiscal year (which coincides with the calendar year), and Congress must approve, modify or disapprove it by November 30. If by the start of the fiscal year the General Budget Law has not been approved, the budget in effect from the previous year is put again into effect. The authority to modify the budget during the fiscal year can be summarized as follows:

- Budget modifications resulting in an increase or reduction in the overall budget totals must be approved by Congress (if the Executive makes an objection to a budget increase, a two-third majority vote from the Congress is required for the increase to become effective). However, the LOP allows the MFP to adjust the budget, within the amount

¹⁴ The DNCAE administers the Public Sector Contracting and Procurement Information System (*Guatecompras*) and the framework contracts (discussed in Chapter V). The latter activity absorbs approximately 90 percent of its resources.

¹⁵ Congress usually modifies the budget proposed by the Executive, including a significant increase in budgeted expenditures for 2003 –an electoral year– that lead to a 75% increase in the budgeted deficit. However, as argued later in the chapter, the Executive has sufficient powers to modify the budget during the fiscal year so as to control the actual fiscal balance.

authorized by Congress, if current revenues have a tendency to be significantly below the budget estimates.¹⁶

- Inter-institutional transfers can be approved by accord issued by the affected entities, subject to prior positive opinion from the MFP –a power that has consistently been exercised.¹⁷ The MFP can authorize transfers within a central administration institution when the modifications affect personnel, emergency or unforeseen costs, change the financing sources, or shift resources between programs or investment projects. Other intra-institutional budget modifications can be approved by each entity's supreme authority. There are certain exceptions to the mentioned general rules: the Constitution stipulates that allocations for investments cannot be transferred to current expenses, and the annual General Budget laws can establish other transfer restrictions such as limits to the use of budgetary savings from personnel expenditures and debt service.

2.7 Extra-budgetary entities. The Congress, the judiciary, certain constitutional offices, the autonomous entities, and the central government decentralized entities, are excluded from the annual General Budget Law formulation and approval process (in this regard, the latter encompasses only the transfers from the General Budget).¹⁸ The budgets of decentralized entities are approved -through the MFP- by accord before December 15 of each year. During the fiscal year, these entities can authorize modifications within their budgets, unless these affect the investment budget, the sources of financing or personnel costs, in which cases authorization from the MFP is required. The autonomous entities, excepting the Universidad de San Carlos and the National Central Agricultural School (ENCA), are required to submit their annual budgets to the Executive and the Congress only “for information”. A marginal portion of donor funds that do not require counterpart funding also escapes the budgetary system (see Chapter IV).

2.8 Local governments. The 331 municipalities represent around 15 percent of the public sector and are heavily dependent upon central government transfers, which account for approximately 65 percent of total municipal revenues (though the majority of municipalities are much more dependent on transfers than this aggregate figure would suggest).¹⁹ These transfers are funded from a mandated constitutional allocation (10 percent of ordinary revenues), a share of the value-added tax (1.5 percentage points of the 12 percent VAT rate), and –less significant– other shares of taxes. The transfers are distributed among municipalities on the basis of pre-established formulas that limit the use for operating expenditures (10

¹⁶ The Executive exercised this power in 2004, by freezing certain expenditure allocations of the 2003 budget (which was in effect because the 2004 budget was not approved). This action, combined with a thorough modification of budgetary allocations (42 transfers representing 10 percent of the expenditures executed during the year), allowed the actual implementation of an Executive-driven budget.

¹⁷ The opacity and alleged misuse of inter-institutional transfers (e.g. those benefiting the Presidency and Defense) from 1998 to 2003, has been flagged as a transparency issue (Coalición por la Transparencia, 2004).

¹⁸ During 2003, the total expenditure execution of the General Budget (including transfers) was of Q26,333 million. During that period, the expenditure execution of entities excluded from the annual General Budget Law formulation and approval process was of Q7,637 million. This information was drawn from the 2003 annual audit report, which covered financial statements of 68 out of 79 NFPS central government entities, some with qualified or adverse opinions (Table 9).

¹⁹ World Bank (2005a).

percent of the constitutional transfer and 25 percent of the VAT allocation).²⁰ There are also a number of social and infrastructure funds that implement projects at the municipal level, albeit not through the municipal treasuries.

2.9 Municipal budgets, as stipulated in the Municipal Code, are formulated by each mayor and presented during the first week of October to the municipal council, which can modify it and must approve it by December 15. Budget modifications during the fiscal year require approval by the council. For “purposes of consolidation and information”, the LOP requires municipalities to report the approved and executed budgets to the MFP, Congress and CGC.

The Integrated Financial Management System (SIAF)

2.10 The SIAF system, born in the mid-nineties as part of the public sector modernization program, integrates the budget, accounting, treasury, and public credit systems through a common set of rules and procedures. Its basic premise is normative centralization (by MFP) and operational decentralization (by executing entities, via legally mandated institutional financial management units –UDAFs). But, as explained in Chapter IV, the MFP does maintain a critical operational role in the budget execution cycle –a reflection of concern for aggregate spending controls.

2.11 At the center of the budget management process is SIAF’s integrated accounting system (SICOIN), whose module for standardized budget formulation and execution is operating in 42 central government entities, 20 decentralized and autonomous agencies, and 2 major municipalities.²¹ SICOIN is complemented by various operational tools, such as the Contracting and Procurement Information System (*Guatecompras*) and modules for payroll preparation, rotating funds and asset registry. A version tailored to municipal needs (SIAFMUNI) is under implementation in 44 municipalities. A previous lighter tool for recording budget execution (SIAFITOMUNI) is installed in 321 municipalities.

Public Procurement Regulatory Framework

2.12 The State Procurement Law and Regulations, while fairly complete, are outdated. The bases for awards are excessively vague, the use of contract bracketing could lead to disqualification of otherwise competitive bids, and appropriate provisions for consultant selection are not contemplated. In addition, there are no subsidiary instructions providing practical guidance to staff on procedural details or standard bidding documents. All of this has fostered a proliferation of application practices whose results are neither transparent nor economical.

²⁰ The constitutional transfer and tax-sharing formula for distribution, as established in the Municipal Code, is as follows: 25 percent based on equal parts; 25 percent based on population; 25 percent proportional to own revenues per capita; 10 percent proportional to the *inverse* of own revenues per capita; and 15 percent proportional to the number of towns and villages in the municipality.

²¹ In terms of its IT structure, since 2004 the system has been operating under a database management software with n-tier Internet architecture (SICOIN-WEB), which reduces costs associated with communication systems (dedicated links), processing capacity (servers and other equipment), software upgrades and maintenance. At the same time, the system is supported by security safeguards –logical (e.g., user profiles and access protocols, audit trails, etc.) and physical (e.g., firewalls, encrypted data transmittal, etc.).

2.13 Reforming the legal framework. The Commissioner for State Modernization (COPRE) intends to modernize the procurement legislation with the introduction of important amendments. It would be desirable that such amendments take into account the recommendations already made to address the main shortcomings of the current law, which are listed below.

Table 2: Main Shortcomings of the State Procurement Law

Main issues previously identified	Proposed amendments	Old Article	New Article
The thresholds for public bidding and for delegation of authority are low and cannot be updated for inflation.	Increased thresholds; procedure based on inflation to adjust thresholds. ²²	9 38 43	5 22 24
The registry of "pre-qualified bidders" limits competition and may be abused.	Obligation to register as a condition to bid is eliminated.	22	11
The bracketing in bid evaluation may lead to disqualification of competitive proposals.	No change proposed.	29	N/A
Contracts are not necessarily awarded to the lowest evaluated bid, but to the bid which is "the most convenient to the interests of the state".	The new definition still provides for award to the "most convenient" bid.	1, 28	2, 28
The chapter on concessions is not comprehensive.	No amendment (however, the Government is proposing a new law on concessions.)	95	N/A
Bids can be priced and contracts paid in quetzals only.	Requires specifying currencies of bid and payment.	19	10
The price adjustment mechanism for imported goods is ambiguous and may be abused.	No amendment is proposed.	7	N/A
Bank guarantees are not in the list of acceptable bid and contract securities	The new article 1 b provides a broad definition of "garantía", which appears to include all types of securities.	64	2
The mechanism for contract award decisions is not effective.	A new provision introduces a "best and final offer" procedure among the three lowest bidders whom are invited to improve their offer. ²³	28 and 34	16 and 20
There is no mechanism for correction of arithmetic errors at bid evaluation or contract award.	Establishes that bids containing arithmetic errors shall be rejected. ²⁴	28	16
Automatic default to direct contracting if no bids are received.	Automatic default to shopping if no bids are received ²⁵	32, 43	32
Framework contracts are not sufficiently defined.	Clarifies process and responsibilities. ²⁶	43 46	25 27
The contractual dispute resolution mechanism is not effective.	Not addressed.	102, 103	

2.14 Procurement requirements under trade agreements. Consistency with Guatemala's commitments under the multilateral free trade agreements is an important external driver for

²² However, there is no adjustment mechanism for shopping thresholds.

²³ Neither "best and final offer" nor competitive negotiations may not be appropriate in Guatemala, given the current control environment and capacity in Guatemala. In addition, this approach is not appropriate in all cases and requires additional safeguards that should be specified in the law. In the case of complex contracts where it is difficult to define requirement before bidding, a two-stage approach would be more appropriate.

²⁴ Based on established practice, arithmetical errors should not be cause for rejections, provided that the bidder accepts the corrections made by the evaluating committee.

²⁵ The procuring entity should assess the reasons for the lack of response and re-bid after making the appropriate amendments.

²⁶ However, these definitions should be expanded.

reforming the procurement law.²⁷ While all the agreements to which Guatemala is a party include specific chapters on government procurement, these provisions have not yet been implemented in practice. However, DR-CAFTA includes better enforcement mechanisms and is likely to have greater impact in the area of public procurement. DR-CAFTA includes specific dispute settlement procedures for procurement which may result in compensation to the aggrieved bidder and commercial sanctions in case of non-compliance. Given the generally proactive utilization of available remedies that characterizes U.S. business practices, it is reasonable to anticipate that compliance with DR-CAFTA's procurement rules will become an important benchmark for Guatemala's procurement system.²⁸

2.15 DR-CAFTA does not require its parties to adopt new procurement legislation, but prohibits them from developing procurement policies or apply rules inconsistent with the agreement with respect to contracts above the specified thresholds.²⁹ Guatemala's current procurement law may require modifications in order to be congruent with CAFTA's provisions which set forth principles and procedures to foster open and transparent procurement practices (Box 3).

Box 3: DR-CAFTA implications on public procurement

Among the main DR-CAFTA provisions that may have a direct impact on current rules and practices in Guatemala are the following:

- Parties cannot require that foreign firms participate in public bidding through a local agent.³⁰
- Parties must apply fair and transparent selection procedures.
- Domestic systems must provide for timely and effective bid review procedures for aggrieved bidders.
- A minimum bid preparation time of forty days is prescribed.
- Build-operate-transfer contracts (BOTs) are included in the scope of application and the transparent and non-discriminatory treatment for all participants in public bidding for BOT contracts is specifically required.
- Parties must implement fair procedures to debar bidders who participated in corrupt or fraudulent practices.
- Parties must implement effective transparency and anticorruption measures.

2.16 **Concessions Law.** Public Private Infrastructure (PPIs) projects are an important component of the Government's financing plans and, consequently, the Government is very interested in moving fast with the implementation of a new regulatory framework for concessions. However, in absence of a comprehensive analysis of the institutional, legal, and private sector environments required to support concessions and PPIs, there is no clear regulatory strategy. The Executive's proposal for a new concession law should incorporate

²⁷ Guatemala is a party to the following agreements: Central America-Chile (1999), Central America -Dominican Republic (1998), and Central America-Panama (2002). However, Guatemala is not a party to the WTO Agreement on Government Procurement.

²⁸ DR-CAFTA covers all goods and most services, including construction, and applies to all agencies specified in the agreement. This scope of application encompasses most central government entities, including the main spending ministries and state-owned enterprises, and the majority of departments and municipalities.

²⁹ Thresholds are the same for all DR-CAFTA countries (US\$6,725,000 for works; US\$58,550 for goods and services). However, for the first three years following the entry into force of the agreement, the thresholds for procurement of goods and services will be US\$8 million for works and US\$117,100 for goods. A number of other transitional provisions will apply during the first two years of application (e.g. with respect to time for bid preparation, time limits to submit bid protests, and publication of notices of contract award.)

³⁰ Such requirements exist with respect to certain items, such as drugs.

established international practice in the area of Public-Private Infrastructure Projects (PPIs). Box 4 lists some important aspects of this practices which are particularly relevant in the local context.

Box 4: Main Recommendations Based on Established International Practices in the Area of PPIs

- In addition to concessions, the draft law should address other PPI modalities in which the Government is interested
- It is important that the law define clearly which public services are included (for example, areas such as forestry or the mining sector)
- It is critical to ensure full consistency between the concessions law and existing legislation governing the relevant sector (e.g. the General Electricity and Telecommunications Laws.)
- The various options for concessions covered by the law should be clearly defined (e.g. management contracts vs. BOTs.)
- Turnkey contracts should not be addressed in the concession law, but in the procurement law or regulations.
- The treatment of unsolicited proposals should be addressed in the law.
- International arbitration should be provided for and routinely included in contracts with foreign concessionaires.
- It is very important to define clearly when international or national bidding would be used.
- Any request by the concessionaire to modify the contract should be explicitly approved by the public entity.
- Any approvals which decentralized entities would require to initiate the process should be clearly specified.
- Provisions on payment to the concessionaire should be clear and complete.
- The law should include clear provisions on extensions of the concession period.
- Evaluation and award criteria should be clearly defined in the law.
- The entity responsible for promoting and coordination opportunities for concessions and PPIs projects should be clearly identified in the law.

*Civil Service*³¹

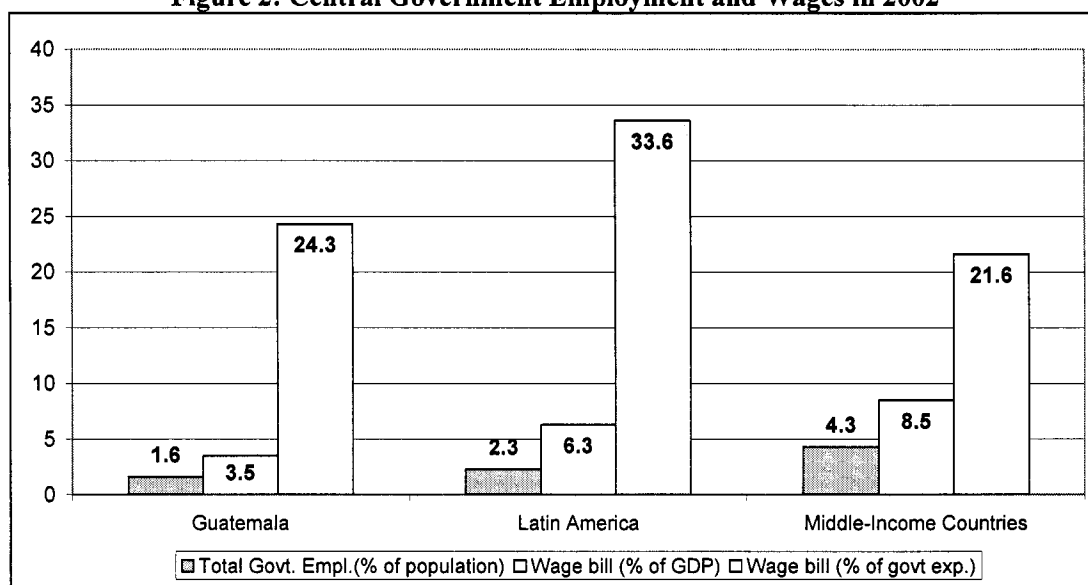
2.17 Guatemala's public sector employs comparatively few people. As shown in Figure 2, the central government work force in 2002 represented around 1.6 percent of Guatemala's total population, which is considerably lower than the averages for Latin America and middle-income countries in general. The size of Guatemala's central government wage bill also is relatively small, averaging only 3.5 percent of GDP. The total wage bill in 2002 represented 24.3 percent of total central government expenditures, significantly below the Latin American average, but slightly higher than in middle-income countries.³²

2.18 **Legal and institutional framework.** Guatemala's civil service is mainly governed by a Civil Service Law (1968), which constitutes a National Civil Service Office (ONSEC) as the entity responsible to organize the public sector personnel administration system.³³ The Civil Service Commission (JNSC) has as its main objective to settle labor disputes between public employees and the state. Each ministry has a management administration unit in charge of – inter alia– human resource management. COPRE has been given the responsibility of drafting

³¹ Based on World Bank (2005a).

³² While it seems that Guatemala is performing better than other countries, it is important to keep in mind that the expenditures classified as part of the central government wage bill differ in some countries.

³³ Even though ONSC is mandated by law to take the lead in civil service matters, it is perceived as a weak institution with limited resources and political support.

Figure 2: Central Government Employment and Wages in 2002

Source: World Bank (2005a).

a new Civil Service Law. At the same time, the MFP has been playing a lead role in matters concerning the civil service remuneration. Certain overlaps in functional assignments have led to a duplication and fragmentation of responsibilities that hamper progress in civil service reform.

2.19 Special employment regimes for a number of sectors, e.g judiciary, military, education and legislative workers generate contradictions among different regulations and with the overall civil service framework.³⁴

2.20 **Personnel management.** The process of selecting and evaluating civil servants is time consuming and ineffective. According to the legislation, ONSC is responsible for keeping a register of candidates, evaluating the different candidates for job openings, and presenting the recommended candidates to the executive entity. These procedures consist of around sixteen steps that on average take 195 days, but are in any case often ignored. Civil servants can be hired under four categories: *Regime 011* includes all civil servants in permanent positions. *Regime 022* includes those hired under fixed-term contracts for specific projects. *Regime 041* refers to “temporary” employees hired on an hourly rate.³⁵ *Regime 029* was created to hire professionals and technicians for specific projects on a temporary basis, so as to avoid restrictions imposed by civil service regulations. In practice, many professionals have been hired under this regime to perform permanent jobs.

³⁴ Special regimes for different sectors are not always a problem as such. The issue in Guatemala is the increasing fragmentation and inefficiencies of the different and contradictory systems.

³⁵ Most temporary employees work in hospitals and construction work. Even though they are classified as “temporary”, many have been working in the same position for many years.

2.21 The compensation of Guatemala's civil servants includes both monetary and non-monetary benefits. The base salary is determined according to the public salary scale, which includes many sub-classifications with different positions and salaries. This, together with the multiple regimes, has led to high fragmentation of the wage bill. Job descriptions and career plans, let alone performance management systems in line with a merit-based public service entry and promotion, are yet to be effectively designed and implemented. Although the law foresees an annual evaluation of public employees, these evaluations are not enforced. Given the dismissal process established by the law, once hired, it is very difficult to fire permanent public employees or even assign them to some other public branch.³⁶ On the other hand, job stability for public employees at the professional and managerial levels is weak, as these professionals are often hired on service contracts that depend highly on political factors.

2.22 **Proposed reforms.** New draft amendments to the Civil Service Law prepared under COPRE's leadership propose important changes, such as: (i) creation of a Personnel Management Unit (*Secretaría de Gestión Humana*, SENASEC) that would partially absorb ONSEC; (ii) creation of a civil service career plan; (iii) creation of human resource management departments in the executing entities; (iv) introduction of annual salary reviews and competitive entrance and promotion policies; (v) change in the dispute settlement procedures by establishing conciliation settings; and (vi) limits to the number of political appointments. The draft law also proposes to revise the system of civil service categories, separating them into the following levels: (a) high level, elected or nominated by the President, (b) managerial level, (c) professional level, and (d) administrative or professional assistance level. In addition to the new categories, the wage scales are to be restructured in a manner that would provide better performance incentives. In parallel, a Municipal Civil Service Law also has been drafted to accompany the on-going decentralization process.

Analysis and Recommendations

2.23 **Budget rules.** There is a comprehensive legal and regulatory framework that covers each relevant area of budget management. The distribution of fiscal functions is clear, yet not always adequate. Medium-term *fundamental actions* to enhance the budget process (taking into account possible constitutional restrictions) should include establishing certain limits to the legislature's capacity to dictate budget allocations and composition of the public investment program, as well as to the executive's capacity to modify the budget during the fiscal year through transfers.³⁷ These actions should lead to increased credibility of the budget process, which in turn could help avoid shifts across expenditure categories that could affect operational efficiency of service delivery.

2.24 To decrease the risk that government activities take place without reference to fiscal targets, and to allow comprehensive sectoral planning and well-targeted allocation of

³⁶ Only a judge of the Labor Court can order the ending of a labor contract. These labor conflicts normally last over a year.

³⁷ The MFP considers that the capacity to modify budgets from one entity to another is a valid mechanism of budgetary flexibility. Hence, it is important that as part of the budget execution responsibility of each executing entity, more transparency be given to the use of transferred resources, as well as those that were programmed since the beginning in their respective budgets. Thus, MFP considers that the central point is one of transparency rather than flexibility, as the latter can be justified or necessary in certain cases.

resources, the Government should incorporate noncommercial decentralized and autonomous entities into the General Budget formulation, approval and control process. This effort should be accompanied by addressing the more fundamental question of the nature and degree of autonomy needed by the agencies to effectively perform their tasks, matching autonomy with accountability mechanisms, and thus designing the appropriate links to the central government's financial management system.³⁸

2.25 Any initiative to update the legal framework for budget management could contemplate the inclusion of certain rules that are repeatedly included in the annual General Budget laws (which in turn could deal solely with specifics of the fiscal year), and address the operational issues to be dealt with when the budget is not approved and the previous budget comes into force (e.g., the procedures to update the public investment program).

2.26 **Municipal transfers.** The current system of constitutional and tax-sharing transfers is complex to administer (several sources of funds, with different rules and restrictions), and is based on a distribution formula that is not necessarily conducive to efficiency and equity of fiscal resource allocation. This situation calls for a reform of the transfer system, which has legal implications, a subject analyzed in detail in the Public Expenditure Review (World Bank, 2005a). Box 5 summarizes some of its key proposals.

Box 5: Selected Options to Reform the Municipal Transfer System

Use of constitutional and tax-sharing transfers. The current system has some legal restrictions on how the transfers are to be used. It is not clear that these restrictions make sense, if the purpose of the transfers is to provide basic revenues for the municipalities, while various social and investment funds finance specific investment projects. These restrictions could be removed—or relaxed to a level that is more consistent with the reality of expenditure patterns in Guatemala.

Consolidation of the transfers. In line with the view of simplifying operation of the system, the different sources could be converted to a pool operating under a single set of norms.

Distribution Formula. Any transition to a new formula should be approached gradually. Here are suggested financial management (i.e., not equity-related) guidelines that could be considered in revising the formula:

a) *Equal parts* only makes sense if it is calibrated carefully to some minimal fixed cost of running a municipal government. It is not clear that this is the current objective of this component of the formula, and if it is, there is no quantitative rationale given for the large (25 percent) weight put on this component.

b) Analyses have shown that for low revenue mobilization, inclusion of *revenues per capita along with its inverse* is self-defeating. The inverse revenue component could thus be substituted with some poverty measure. On the other hand, for high revenue mobilization, there is an incentive for municipalities to misreport their own source revenues. Revenues per capita itself is unlikely to provide an appropriate incentive for efforts at improved tax administration. Without complementing (or substituting) this indicator with some measure of the tax base rather than tax revenues, it is impossible to tell whether the system is rewarding tax effort or simply the good fortune of having a relatively large and growing tax base. An area for more in-depth analysis would be to estimate econometrically the potential revenue of the municipalities and construct a measure of fiscal effort on that basis. At minimum, the *disincentive* of the current formula could be corrected.

Source: World Bank (2005a).

2.27 **The integrated financial management system.** The successful implementation of SIAF, built upon a good regulatory framework and standardization of procedures, and

³⁸ See treatment of the subject in SIGMA (2001).

facilitated by a modern technological platform, has contributed to the production of timely and reliable (though not yet complete) information on government spending supported by audit trails. At the same time, the formal norms are progressively generating an accountability and fiscal prudence culture in officials responsible for public expenditure. SIAF's contribution to the MFP's capacity to control aggregate spending has been significant.

2.28 SIAF, however, is still administered as a project. To ensure the system's sustainability, the MFP should pursue an institutional absorption strategy for its regulatory and information technology administration and maintenance.³⁹ Although system performance and security are strong, the MFP should make better use of the user logs and other tools to monitor system performance, and develop a business continuity contingency plan. The MFP plans to contract an external system certification in the short term.

2.29 **Procurement reform.** With the exception of the introduction of the initial phase of *Guatecompras*, there has been no significant improvement in the quality of the procurement system since 1999. Box 6 summarizes the reform actions recommended in the 1999 CPAR.

Box 6: Main Aspects of the Procurement Reform Program

Not Implemented

- Improve regulatory framework
- Carry out evaluation of framework contracts
- Adopt standard documents
- Develop a procurement data base
- Create an administrative career in the area of public procurement
- Develop options for a regional capacity building program in procurement

Marginally Implemented

- Establish a policy oversight body
- Implement training programs in procurement management (not only on the use of GUATECOMPRAS)
- Establish procurement units in the main entities

2.30 The Government, through COPRE, is sponsoring key needed reforms to the State Procurement Law. However, country circumstances (e.g., a highly divided Congress that makes it difficult to shepherd major legal reforms) demand a strategic approach to legislators and opinion makers, so as to ensure due technical and public debate, generate wide-based support, and achieve reasonable compromise. The Government could also take advantage of

³⁹ Normative administration could be approached by strengthening (and re-structuring, as needed) the roles of the Budget, Treasury and Accounting Directorates (the LOP assigns to the Accounting Directorate the responsibility to "administer the integrated financial information system"). Information Technology (IT) administration could be approached by strengthening MFP's Informatics Directorate or through outsourcing of IT services under that Directorate's supervision.

this opportunity to repeal conflicting and obsolete provisions, establish a clear legal hierarchy, introduce additional provisions consistent with established international practice, and develop a comprehensive strategy for concessions and PPIs.

2.31 On the institutional front, DNCAE's policy mandate in public procurement conflicts with its current operational functions (i.e. management of framework contracts) and is not exercised in practice. Procurement policy formulation and oversight responsibilities, including leadership for implementing and monitoring the reform, should be clearly assigned by the Government to DNCAE or another appropriate entity and adequate resources allocated to enable their effective exercise. Both the legal and institutional aspects of the reform are particularly important to facilitate implementation of DR-CAFTA. Guatemala's capacity to monitor and enforce the procuring entities' application of the trade agreement may be impaired unless regulatory quality improves, the institutional framework is strengthened, and procurement capacity developed.

2.32 Low staff retention, lack of professional standards, and limited availability of training remain persistent systemic issues which hinder efforts to build the capacity of staff carrying out procurement responsibilities and whose resolution will necessarily require close coordination with the civil service reform. Among other aspects, there is a need to develop appropriate professional and accountability standards for procurement staff, including entry level requirements, career and merit-based promotions, tenure, and a pay scale commensurate with comparable civil service positions.

2.33 With respect to the framework for concessions, a cautious approach is encouraged. A number of fundamental aspects need to be addressed before adopting legislation which may fail to properly address the Government's expectations and maximize the benefits of the private provision of infrastructure. It is also critical for the Government to incorporate appropriate safeguards to foster private sector confidence in the transparency of the system. A recent study on concessions in the transport sector financed by the World Bank provided detailed recommendations to the Government on this subject.

III. BUDGET FORMULATION

The Process of Budget Formulation

3.1 **Medium-term framework.** In accordance with the LOP, the Executive is responsible for formulating a multi-annual budget. Accordingly, the MFP prepares annually the aggregate budget projections and underlying major macroeconomic variables for a three-year forward period. While the information gathered provides certain details on the revenue side, the expenditures are only aggregated according to major economic classifications.

3.2 The MFP has concrete plans for developing the institutional-specific information in the context of the 2006-2008 multi-annual budget. The Public Finance Technical Commission contemplated in the LOP was officially updated in January of 2005, and has since contributed to the multi-annual budget formulation process. The Commission is conformed by the Vice-Minister of Public Finance (who presides it); the Economics Manager of the central bank (BANGUAT); the Collections Intendence of the Tax Administration Superintendence (SAT); the Under-Secretary of the Presidency's Secretariat of Programming and Planning (SEGEPLAN); and MINFIN Directors (Budget, Public Credit, Fiscal Analysis and Studies, State Accounting, and General Treasury). In comparison with similar countries, these are significant steps that would lead, in the medium term, to sectoral and programmatic exercises that inform the annual budget formulation process.⁴⁰

3.3 **Revenues.** Under the framework of the Technical Commission, MFP's Technical Budget Directorate (DTP) formulates the revenue budget jointly with MFP's Directorate of Economic and Fiscal Analysis and Studies and the SAT, who in turn make use of macroeconomic projections from BANGUAT.⁴¹ These early projections inform the annual fiscal policy and expenditure budget planning process.

3.4 **Expenditures.** The LOP and its regulations require that the MFP, in coordination with SEGEPLAN, propose the budget policies and general guidelines that underpin the budget formulation process. However, the minimum content of those documents is not regulated. The stages in the formulation cycle are summarized in Table 3. Based on the budget policy, norms and ceilings, executing entities formulate their draft institutional budgets, which are discussed with the MFP before their incorporation into the budget proposal. There is more room for maneuver in the discussion of options for capital than for recurrent spending, but the MFP ultimately commands the decision-making process;⁴² that is, to the extent that budget rigidities allow.

⁴⁰ Currently, the Budget Formulation Manual makes no reference to the multi-annual budget.

⁴¹ For the estimates of non-tax revenue, the DTP coordinates with the respective generating entities.

⁴² Two normal complaints from executing entities is that the lateness in communication of ceilings affects the due process of budget planning, and that the process by which the DTP makes budgetary cuts is usually unilateral and opaque. The MFP has begun to address these concerns in the 2006 formulation cycle, through the submittal to executing entities of budgetary ceilings, once validated by the government authorities, so that the entities can program their expenditures in line with its priorities and those ceilings. This measure intends to reduce the involvement of the DTP in the budgetary programming of the executing entities.

Table 3: Budget Formulation Process

Dates	Process	Participants
Jan. - Feb.	Preparation of budget strategy	DTP/SEGEPLAN
	Preparation of investment project norms	SEGEPLAN
Feb. - Mar.	Preparation of "exploratory" budget	DTP/DCP/SEGEPLAN/BANGUAT
Jan. - Apr.	Preparation of investment project proposals	Executing entities
Apr. - May.	Preparation of budget policy, norms and ceilings	DTP/SEGEPLAN
May	Review of budget policy, norms and ceilings	Minister of Finance Technical Commission
May	Approval of budget policy, norms and ceilings	Council of Ministers
May - June	Formulation of draft institutional budgets and annual operating plans	Executing entities
June - July	Analysis of draft institutional budgets	DTP/Executing entities
July - Aug.	Preparation of budget proposal	DTP, Minister of Finance
Aug.	Validation of budget proposal	Council of Ministers
Sep.	Presentation of budget proposal to Congress	Minister of Finance

Source: MFP (2004).

3.5 Rigidities. The Constitution requires that at minimum 10 percent of ordinary revenues go to municipalities, 5 percent to the Universidad de San Carlos, 2 percent to the judiciary (although the norm has been to allocate 4 percent), 1.5 percent to federated sports, and 1.5 percent to non-federated sports and physical education.⁴³ The Value-Added Tax (VAT) Law requires that, of the 12 percent VAT rate, 1.5 percentage points go to municipalities, 1 point to regional development councils, 1 point to peace social funds, and 1.5 points to social spending (distributed equally between programs for citizen security, technical education and nutritional security). These and other earmarked revenues accounted for 40.7 percent of the 2005 tax revenue budget (Table 4). With remunerations and debt service representing 29.2 and 26.5 percent of tax revenues, the space for flexibility in formulating the budget is limited.

3.6 Public investment program. While the Law of the Executive Body assigns to SEGEPLAN the responsibility to design, coordinate, monitor and evaluate the national investment projects system, there is no specific legislation to regulate its operation and mandate its use. It should be noted, however, that enhanced coordination between SEGEPLAN and DTP has increased the coverage of the national public investment system (SNIP), which is currently based on a technical evaluation and prioritization process that SEGEPLAN uses to approve or reject project proposals.⁴⁴

3.7 SNIP's main output is the 4-year Public Investment Program (PIP) that is supposed to guide investment budgeting in the public sector. Then again, the lack of a legal requirement for feasibility studies allows the entities or Congress to incorporate projects into the budget that have not undergone the ex-ante assessment process.

Content of the Budget

⁴³ Ordinary revenues are defined, in simple terms, as non-earmarked net tax revenues. The LOP regulations establish the calculation formula.

⁴⁴ Annual budget norms require that investment projects have SEGEPLAN's approval before DTP's incorporation into the General Budget proposal.

Table 4: Earmarked Revenues in the Budget

Recipient	Source	As percent of tax revenue budget
Municipalities	10% of ordinary revenues 1.5 VAT percentage points Share of other taxes	12.1
9 Social Funds (includes PRONADE)	1 VAT percentage point	5.0
Development Councils	1 VAT percentage point	3.6
Communications and Infrastructure (includes COVIAL)	Share of tax on petroleum derivatives Other taxes	3.3
Universidad de San Carlos	5% of ordinary revenues	3.0
Judiciary and Constitutional Court	4% of ordinary revenues	2.5
Education (excludes PRONADE)	0.75% of ordinary revenues 0.5 VAT percentage points Other taxes	2.4
Tax Administration	2% of collections	2.1
Security	0.5 VAT percentage points	1.8
Health	Tax on cigarettes and tobacco Share of other taxes	1.4
Federated sports	1.5% of ordinary revenues	0.9
Forestry Incentives	1% of ordinary revenues	0.6
Culture and Sports	0.75% of ordinary revenues Share of other taxes	0.5
Controller General of Accounts	0.7% of ordinary revenues	0.4
Agriculture, Livestock and Nutrition (excludes social funds)	0.5 VAT percentage points	0.3
Supreme Electoral Tribunal	0.5% of ordinary revenues	0.3
Tourism	Share of other taxes	0.3
Others	Various	0.2
Total		40.7

Source: CFA calculations using 2005 General Budget Law and other legislation.

3.8 As noted in Chapter II, the coverage of the General State Revenue and Expenditure Budget is limited - it encompasses the Executive, a couple of constitutional offices (CGC and the Office of the Attorney General –PGN–), as well as the transfers to other public sector entities. Of these entities, the LOP requires that budgets of decentralized agencies be approved by the Executive through accord, with participation of the MFP. On the other hand, the MFP should also receive the budgets of the Congress, the judiciary, autonomous entities, and municipalities for information. These budgets, however, are neither disclosed as annexes to the General Budget nor consolidated.⁴⁵

3.9 The LOP requires that the budget proposal submitted to Congress be composed of a purpose statement (*exposición de motivos*), the draft General Budget Law, and annexes detailing certain classifications. The General Budget Law must contain the Revenue and Expenditures budgets, and general rules applicable to each fiscal year.

⁴⁵ The time overlaps (e.g., the General Budget is presented to Congress by September 2 while the budgets of autonomous entities are approved by the Executive by December 15) and the lack of sanctions for noncompliance with information requirements, are mostly responsible for the lack of consolidation. The expansion of SICOIN could eventually help in the budget consolidation process.

3.10 The purpose statement contains summarized information on the macroeconomic environment (including growth and inflation projections for the year), the fiscal situation (including for the budgeted, ongoing and two preceding years), and other information such as social spending. Both the budget proposal and the Law itself contain annexes with aggregated tables and charts comparing different aspects of the budget with the two preceding years, and the forward-looking three-year aggregate projections (classified by major economic lines) and underlying macroeconomic assumptions. The budget documentation also contains a 2-page summary of tax expenditures.

3.11 Box 7 lists the six expenditure classifications used in the General Budget Law, which in its body provides aggregate data by entity, major economic groups and programs. Attached to the Law are summaries by sources of funds, functions, and regions. The same information is provided for each executing entity's budget, which additionally provides brief descriptions of its budget policy and programs, quantified goals for some programs, and the number of personnel posts. The approved budgets for recent years and the latest budget proposal are posted on MFP's webpage.⁴⁶

⁴⁶ <http://www.minfin.gob.gt>

Box 7: Expenditure Budget Classifications

Administrative classification

- 16 central government entities
- 22 grouped secretariats and other agencies of the Executive
- Grouped state obligations (transfers to other public sector entities)
- Public debt service

Geographical classification

- 8 regions
- "Multi-regional", foreign service, and public debt service

Functional classification

1. Administration (7 functions)
2. Defense and internal security (2 functions)
3. Social services (9 functions)
4. Economic services (9 functions)
5. Public Debt

Sources of funds

1. Treasury funds
2. Earmarked treasury funds
3. Institutional own funds
4. Internal credit
5. External credit
6. Internal grants
7. External grants

Classification by group of expenditure

The detailed budget line items are classified as operational expenditures, investments or debt service, under the following groups:

0. Personnel services
1. Non-personnel services
2. Materials and supplies
3. Property, plant, equipment and intangibles
4. Current transfers
5. Capital transfers
6. Financial assets
7. Debt service
8. Other expenditures
9. Global assignments

Programmatic classification

- Program / Sub-program / Project / Activity / Work

Sources: 2005 General Budget Law and MFP (2005)

Budget Outcomes as Indicators of Budget Reliability

3.12 A comparison of budgeted and actual revenue can provide an overall indication of the quality of revenue forecasting, a critical factor since budgeted expenditure allocations (and underlying policy priorities) are based upon it. As shown in Table 5, tax revenue outturn over the last five years has been increasingly closer to the initial budget, which in principle reflects well on the MFP's capacity to plan annual availability of resources. On the expenditure side,

while execution has been below both the initial and modified budgets, the degree to which these are accurate predictors of aggregate spending has been uneven. Interestingly, the modifications introduced from 2001 to 2003 to raise expenditures did not lead to similar increases in aggregate execution, which actually came closer to the initially approved than the modified budget. An exception can be found in the level of current expenditures during 2001-02, which exceeded the initial budget.

Table 5: Aggregate General Budget Execution
(in percent of budgeted revenue)

	2000	2001	2002	2003	2004
Revenues					
<i>Modified Budget as percent of Initial Budget</i>					
Tax revenue	96	101	101	101	NA
Non-tax revenue	95	102	103	108	NA
Total revenue	96	101	101	101	NA
<i>Executed Budget as percent of Modified Budget</i>					
Tax revenue	99	94	102	98	106
Non-tax revenue	99	99	100	96	96
Total revenue	99	95	102	98	105
<i>Executed Budget as percent of Initial Budget</i>					
Tax revenue	96	95	103	99	NA
Non-tax revenue	93	101	102	104	NA
Total revenue	95	96	103	99	NA
Expenditures					
<i>Modified Budget as percent of Initial Budget</i>					
Current expenditure	99	108	105	102	NA
Capital expenditure	92	120	112	111	NA
Total expenditure	97	112	107	105	NA
<i>Executed Budget as percent of Modified Budget</i>					
Current expenditure	98	98	97	94	94
Capital expenditure	82	71	85	82	76
Total expenditure	93	89	93	90	87
<i>Executed Budget as percent of Initial Budget</i>					
Current expenditure	97	106	101	96	NA
Capital expenditure	75	86	95	91	NA
Total expenditure	90	99	99	94	NA

Note: The 2004 Budget was not approved.

Source: Own calculations using MFP data.

3.13 In terms of aggregate fiscal deficit, the Executive has shown a good record of keeping actual deficits below the budgeted figures (Table 6).⁴⁷ Then again, the predictability of the budgeted deficit has declined, as shown by the deficit deviation in proportional terms over time (from 7 percent of the budget in 2000 to 17 percent in 2004, in the latter case influenced by the tardy approval of the investment program and issuance of bonds for deficit financing, which limited capital expenditure execution).

⁴⁷ Deficit defined here as revenues minus expenditures in the General Budget.

Table 6: Deviation from Budgeted Deficit
(in percent of budgeted expenditure)

	2000	2001	2002	2003	2004
Deficit deviation from modified budget	-7.0	-7.3	-8.8	-8.5	-16.6
Deficit deviation from initial approved budget	-6.7	2.9	-3.4	-5.0	NA

Note: The 2004 Budget was not approved.

Source: Own calculations using MFP data.

3.14 The credibility of the budget can be roughly indicated by the extent to which budget entities receive the resources initially indicated: where the composition of expenditure varies regularly from the original budget, the latter will not be a useful ex-ante statement of intent. Since 2000, the inter-institutional variation of execution against the initial budget has consistently decreased, down to a 12 percent average variation across 18 budget entities in 2003 (Table 7). Two caveats, however, are worth noting. It is evident that the increased credibility of allocations is driven by current expenditures, while the volatility of capital budget execution remains markedly variable. Similarly, certain entities have consistently been granted increased budgetary allocations during the fiscal year, an issue that has been questioned by civil society organizations and some legislators.⁴⁸

Table 7: Average Absolute Deviation of General Budget Expenditure Execution
(in percent of budgeted expenditure)

	2000	2001	2002	2003	2004
<i>Variance in Modified Budget as percent of Initial Budget</i>					
Current expenditure	43	16	19	9	NA
Capital expenditure	201	170	149	283	NA
Total expenditure	44	22	18	9	NA
<i>Variance in Executed Budget as percent of Modified Budget</i>					
Current expenditure	6	6	4	8	8
Capital expenditure	14	28	26	22	24
Total expenditure	9	12	7	11	11
<i>Variance in Executed Budget as percent of Initial Budget</i>					
Current expenditure	31	17	18	11	NA
Capital expenditure	202	158	159	278	NA
Total expenditure	34	21	18	12	NA

Notes: The 2004 Budget was not approved. The coverage is of 18 entities from 2002 to 2004 and 17 entities from 2000 to 2001, including in each case a line encompassing "state obligations" (transfers from the General Budget). Interest on debt is excluded.

Source: Own calculations using MFP data.

Analysis and Recommendations

3.15 **Budget planning.** The MFP exercises a strong role in a budget formulation process that follows an established procedural framework in an orderly and timely manner. The sound methodologies used for analysis and monitoring of budgeted revenues and expenditures, and the coordinated application of these methodologies, have increased the ability of the Government to maintain aggregate fiscal discipline. However, there is still much room to

⁴⁸ From 2000 to 2003, the Presidency executed expenditures significantly over the initial budget (within a range of 266 percent in 2000 to 22 percent in 2003). Over the same period, the Ministry of Defense executed expenditures over the initial budget within a range of 85 percent in 2001 to 24 percent in 2002.

increase the credibility of the initial expenditure budget as an allocative instrument, which is evidenced by the inter-institutional variations in execution (particularly in capital expenditures).

3.16 Funds for current spending are allocated on a largely incremental basis (the previous budget is taken as the base for discussion). The PIP allows more room for prioritization and is based on due ex-ante evaluation processes. However, the operation of SNIP in its current form is relatively new (2001) and as such, various features are pending –which could undermine its potential as a tool for policy-based and cost-effective investments.

3.17 There are no legal restrictions on potential changes by the entities or Congress to the PIP composition, its coverage is still incomplete (e.g., social funds have only recently started to register their project proposals and municipalities are not part of the system), project formulation capacity and sectoral tools are limited, the link between the SNIP and SIAF information systems has not been established, and the monitoring and evaluation modules have not been designed. Furthermore, the requirement for normative body authorization (e.g., the Ministry of Education’s approval of school infrastructure projects carried out by social funds) is not always met. Neither is the requirement to calculate future recurrent expenditures performed and used for the preparation of the multi-annual budget.

3.18 The Government took a significant leap towards enhanced planning and accountability with the introduction in 2005 of agreements among MFP, SEGEPLAN and four major Ministries to adopt a results-based and multi-annual approach to budgeting. The process has been undertaken under a well-designed plan that is likely to result soon in a formal medium-term expenditure framework that informs the annual budget formulation and approval process. To validate and sustain what is by nature a long-term endeavour, a cautious and gradual approach is encouraged.

3.19 The already available multi-year fiscal targets and indicative ceilings for the pilot ministries are good bases for implementing certain *fundamental actions*: (i) the approach should be expanded to a sectoral level (e.g., incorporating social and other funds) and broken down to a programmatic level; (ii) costed sectoral strategic plans should be developed as the catalytic documents for policy assessment and reconciliation of the top-down and bottom-up multi-year budget planning; and (iii) the PIP should be based on those plans, with due consideration to recurrent cost implications. These actions, for which some steps have been taken already, could lead to more meaningful discussions over operational efficiency in the use of resources, an orderly review of budgetary implications of existing and new policies, and better planning of the recurrent costs of investment decisions.

3.20 The performance indicators should progressively reach an appropriate, yet manageable, mix of dimensions (e.g., effectiveness, efficiency, economy, quality) and ambits (e.g., process, outputs, outcomes).⁴⁹ At the same time, the sophistication of cost accounting systems to measure the marginal cost of changes in performance should be progressively built. Credibility of the new practices should rely on a formal program assessment process that informs budget ceilings and allocations for upcoming years, on higher degrees of

⁴⁹ Guzmán (2005).

certainty and flexibility to entities in the execution of their budgets, and eventually on introduction of other incentives linked to performance.

3.21 As is expected from such a significant overhaul of the budgetary system, which should be gradually implemented over the medium and long term, there are capacity gaps in executing entities and in the DTP that need to be addressed, for which a significant effort of training and updating is required. In a system that will necessarily imply more devolution to executing entities, the DTP should shift its transactional focus, and thus develop capacity, to assess the fiscal and budgetary impact of policy changes and programmatic trade-offs, and to maintain a system of budgetary accountability (e.g., standardizing reporting formats, assisting executing entities to measure productivity and output, and evaluating results).⁵⁰ One important obstacle, with legal and other implications, must be recognized: any effort to modernize budget planning is necessarily limited by the high level of budget rigidities (earmarked revenues and fixed costs).

3.22 **Budget transparency.** In terms of content, the General Budget documentation provides a large set of data on the planned uses of budgetary funds –with the clear and important exception of transfers to constitutional offices and decentralized entities– and shows some sophisticated advances, e.g. the disclosure of tax expenditures and aggregate three-year projections. However, attention should be paid to some shortcomings.

3.23 Extra-budgetary funds are neither consolidated nor disclosed as attachments to the annual budget documentation; similarly, there is no consolidation of the general government budget or any aggregated public information on municipal budgets. *Fundamental actions* to close these information gaps, for which the expansion of SICOIN should help, could expand the scrutiny on operations, expenditures and procurement processes of the service delivery units, which in turn could enhance operational efficiency by helping prevent waste of resources and enhance the provision of services.

3.24 There is a robust classification system in terms of administrative, functional and economic items, but the definition and dissection of programs could be enhanced. Other disclosures recommended in the IMF's Fiscal Transparency Code (IMF, 2001) that could improve the budget documentation are: statements describing the nature and fiscal significance of contingent liabilities and quasi-fiscal activities; improved and more comprehensive information on the quantitative macroeconomic framework, fiscal policy and sustainability; and identification of major fiscal risks, including variations in economic assumptions. Details of debt stock and financial assets could also be included.

⁵⁰ See treatment of the subject in Schick (2001).

IV. TREASURY AND BUDGET EXECUTION MANAGEMENT

Revenue Administration ⁵¹

4.1 The Superintendence of Tax Administration (SAT) is a decentralized entity, created in 1998, granted with functional, financial, technical and administrative autonomy to exercise tax and customs administration. SAT administers the value-added tax (around 52 percent of its collections in 2004), the income tax (24 percent), import duties (11 percent), excise taxes (11 percent), and other minor taxes. Altogether, SAT collects around 97 percent of central government tax revenues.

4.2 As shown by a basic measure of VAT efficiency, the SAT quickly made an impact in the efficiency of collections, moving from a 36.8 index in 1998 to 41.8 in 2000 (Table 8), but deteriorating in 2001 and staying constant for the following two years –a reflection of significant governance and managerial problems during that period. With the new government, the 2004 efficiency index showed an important increment.

Table 8: Value-Added Tax Efficiency

	1998	1999	2000	2001	2002	2003	2004
Nominal GDP (a) in Q million	124,023	135,287	149,743	164,737	181,996	196,396	213,093
Net VAT collections (b) in Q million	4,562	5,524	6,259	6,983	8,532	9,289	10,482
VAT rate (c)	10.0	10.0	10.0	10.8	12.0	12.0	12.0
Efficiency index [(b/a)/c]	36.8	40.8	41.8	39.2	39.0	39.4	41.0

Source: SAT.

4.3 **Registration and filing controls.** The procedures for taxpayer registration (RTU) and assignment of identification numbers (NIT) are well documented, though the databases are under depuration. In terms of monetary amounts, returns for around 86 percent of internal tax and all customs collections are filed through electronic means –these levels exceed those found in most Latin American countries. However, the actual number of returns filed through that media is less than 13 percent, and the systems for control of non-filers are still ineffective. Given the reliance on filers for every modern tax administration system to work, it is of the utmost importance to rigorously prosecute non filers and non compliers.

4.4 **Tax audits and controls.** The audit information system (FISAT), currently under partial implementation, allows better targeting of taxpayer audits –thus helping prevent the discretionary approach under manual systems. A special unit dedicated to the 1,500 largest taxpayers is in operation, and a purchase/sale information system (*Asiste Libros*) has recently been made mandatory for the 300 largest taxpayers. It is expected that these tools will enhance data cross-checks and make the audit function more efficient. In this regard, special efforts are required in customs: about 50 percent of merchandise, well above international standards, is physically inspected –yet bearing little results. Value assessment mechanisms are undeveloped, security in ports is generally weak, and inventory control of special regimes (*maquilas, zonas francas*) is practically inexistent.

⁵¹ The scope of this CFAA/CPAR does not contemplate an in-depth analysis of tax and customs administration. Nor does it cover matters of tax and customs policy.

4.5 Collections. Actual collections are made via contractual arrangements with the banking system, with the internet-based tax and payment declaration system (BancaSAT) making up 86 percent of internal tax collections and all customs collections. A unified taxpayer account (*cuenta corriente*) is partially in operation: its coverage is limited to the large taxpayers and it misses certain data (e.g., customs duties) to easily assess the accurate outstanding debt. On the other hand, since current regulations do not allow filing returns without their simultaneous payment, there is no formal outstanding tax debt, excepting that based on audit assessments.⁵²

4.6 Taxpayer services. With the operation of BancaSAT and the simplification of declaration forms, the filing and payment process has been significantly facilitated. BancaSAT is part of an electronic service portal (e-SAT)⁵³ that has been complemented with enhanced dissemination of legal and regulatory tax and customs data, and better facilities for telephone and walk-in queries. Important issues, however, remain in customs: procedures are burdensome, and there is little coordination with other control entities at entry points. Corruption in customs officials has been a historical concern.

The Budget Execution Process

4.7 In accordance with the LOP, budgetary credits approved by Congress constitute maximum limits to budget allocations, and expenditures cannot be committed or accrued in absence of available credit balances. The different stages of budget execution, summarized in Box 8, are well defined. The use of budget allocations by executing entities are restricted by quarterly commitment quotas and monthly accrual/payment quotas established by the MFP (in line with the level of current revenue collections). While these quotas put the MFP in a strong position to control aggregate expenditures, the executing entities suffer from limited flexibility in executing their budgets. The extensively used practice of simultaneous recording of commitments and accruals (only the commitments for which there is available payment quota are recorded) prevents full information on actual commitments.

4.8 Treasury operations. The Constitution establishes that all public revenues constitute a common fund, which in accordance with the LOP is administered by MFP's National Treasury. In line with the budget structure, however, revenues generated by entities that do not form part of the General Budget are not channeled through the Treasury. The treasury single account is thus constituted by a limited number of bank accounts maintained by the Treasury in the Central Bank (BANGUAT), which are funded largely by taxes administered by the SAT and, to a much lesser extent, by ministries and other agencies with collection facilities (*fondos privados*).⁵⁴

⁵² As opposed to other tax administration systems, in Guatemala a tax filer cannot declare its impossibility to pay due to financial reasons while at the same time recognizing the debt by filing a return.

⁵³ www.sat.gob.gt

⁵⁴ The CGC identified, in its audit report on the 2003 General Budget Execution, only one instance of noncompliance with the requirement to deposit *fondos privados* into the common fund. The questioned amount was of Q6.4 million (0.03 percent of revenues).

Box 8: Expenditure Budget Execution Process

- **Budget execution program.** This document, prepared by the institutional financial management units (UDAFs) at each budget entity and approved by the Technical Budget Directorate (DTP) of the Ministry of Finance (MFP), distributes the approved budget at the levels of commitment and accrual. Budget programming takes place on an annual and quarterly basis.
- **Expenditure quotas.** The Budget Execution Programming Committee (COPEP), headed by the Viceminister of Finance and integrated by various MFP Directors, approves quarterly commitment quotas and monthly accrual and payment quotas.
- **Budget commitment.** Commitments, provided there is availability of resources in the quotas, are triggered by the issuance of purchase orders (goods or services), payrolls (salaries), bills (utilities), or by the existence of legal requirements (transfers). UDAFs are responsible for crediting expenses committed but not accrued by the end of the fiscal year to the following year's budget.
- **Expenditure accrual.** Provided there is an open commitment, accruals are recorded by UDAFs in the integrated accounting system (SICOIN), against the legal documentation (invoices, payrolls) that sets the financial obligation to pay for goods and services received.
- **Payment request.** The UDAFs request payments by MFP's National Treasury against accruals recorded in SICOIN. There is an intermediate step by which MFP's State Accounting Directorate (DCE) screens entries for consistency before submitting the payment requests to the Treasury.
- **Payment.** Accrued expenses are paid by the National Treasury, from the common fund held in the Central Bank (BANGUAT), to recipients via electronic deposits to their bank accounts.
- **Record keeping.** All steps in the budget execution cycle are recorded in SICOIN using "single journal entries" (CURs). Supporting documentation is maintained by each UDAF.
- **Other procedures.** Alternative procedures apply to payments to be made directly by UDAFs using rotating funds and for execution of externally-funded projects with the use of special advance accounts. Nevertheless, the basic principle of recording all accrued expenditures through CURs in SICOIN applies equally.

Sources: LOP and its regulations, MFP (2005a), interviews)

4.9 The bulk of expenditures are paid directly from the common fund (treasury payment account) to providers of goods and services, using a system of electronic deposits into bank accounts. Other expenditures can be paid by the executing entities using a restricted system of rotating funds controlled through SICOIN.⁵⁵ Bank reconciliations are performed on a daily basis by MFP's State Accounting Directorate (DCE). The process is done to a large extent via automatic matching of entries against the electronic statements provided by BANGUAT.

4.10 Overall control of the cash position is based on the MFP's authority to establish monthly payment quotas and release payment requests made by the executing entities, combined with daily monitoring of the common fund balance. In case of temporary cash shortfalls, the LOP allows the MFP to issue short-term treasury debt for up to 20 percent of budgeted current revenues.

4.11 **Accumulation of arrears.** The MFP has established a policy of inhibiting floating debt and equaling the monthly accrual and payment quotas. It is well known, however, that entities circumvent this policy by delaying accrual recording until funding becomes available (notably but not solely in connection with contracts of works by the Ministry of Communications, Infrastructure and Housing). Hence, even though the accounting system

⁵⁵ Each rotating fund is capped at 5 percent of the executing entity's non-personnel expenditure budget. The balances are transferred at the end of the year to the common fund.

allows recording of expenditures on an accrual basis, there is in essence a simultaneous recording of accruals and payments, thus preventing the identification of accounts payable (and the share of those that may be in arrears).

4.12 Donor funds. When required by international agreements, the MFP opens separate special accounts for the receipt of external funds for projects. These accounts (*cuentas madre*) normally fund separate subsidiary accounts (*cuentas hija*) managed directly by implementing units with project-specific procedures. Enforcement of the requirement that execution of these funds be recorded in SICOIN has been significantly enhanced, thus allowing donor funding to be effectively captured by the budget management system.⁵⁶ However, the process is done ex-post and not always in a timely manner.⁵⁷ In terms of administration, it is normal the set up of project-specific implementing units, with the UDAFs playing solely a recording role.

4.13 Other procedures. A significant portion of the budget is executed through specially created funds, most of which operate under trust funds opened in commercial banks.⁵⁸ Similarly, there are a number of constitutional bodies (e.g., the legislature and the judiciary) and decentralized entities that are funded through transfers from the common fund to their institutional bank accounts. In these cases, the central treasury payment system captures the transfers, but the subsequent transactions are managed directly by the executing entities.

4.14 Municipalities. The Municipal Code requires that all municipalities implement before 2006 an integrated municipal financial management system (AFIM), which creates AFIM units to substitute the figure of “municipal treasurer” –currently in charge of revenue and expenditure financial management. As noted in Chapter I, most municipalities depend heavily on constitutional transfers, which are disbursed by the MFP every two months, potentially leading to short-term borrowing.

4.15 Budget execution procedures are consistent with those of the central government, and their standardized implementation has been facilitated by the information systems mentioned earlier (SIAFITOMUNI and SIAFMUNI).⁵⁹ In practice, budget execution mirrors similar central government issues, particularly the simultaneous recording of the three expenditure stages (commitment, accrual, and payment) that prevents identification of floating debt.

4.16 Debt records.⁶⁰ The LOP stipulates that the MFP is responsible for the formulation of public credit policy and the authorization of all public sector credit operations. Debt management responsibilities, including maintenance of public credit records, are assigned to MFP’s Public Credit Directorate (DCP). In practice, the DCP manages directly the external debt database using UNCTAD’s Debt Management and Financial Analysis System (DMFAS/SIGADE), while BANGUAT manages the internal debt database and transfers the files to the DCP on a daily basis.

⁵⁶ The CGC identified, in its audit report on the 2003 General Budget Execution, grants amounting to Q96 million (0.4 percent of revenues) that were not recorded in the budget.

⁵⁷ The 2005 General Budget Law includes various allocations to regularize execution from previous fiscal years.

⁵⁸ The 2005 General Budget Law identifies 12 funds (e.g., social and infrastructure funds) that account for about 8.5% of the total expenditure budget.

⁵⁹ A municipal financial management manual (MAFIM) was issued by the MFP, but its use is not mandatory.

⁶⁰ This document does not cover matters of debt management.

4.17 Debt databases are the basis for debt service data incorporated into the annual General Budget, for execution of payments by the National Treasury, and for reconciliation with accounting balances. There is an automatic link between SIGADE and SICOIN for the execution and recording of external debt service. BANGUAT, in turn, reports internal debt payments to the DCE for entry into SICOIN.

4.18 Municipalities are required by the Municipal Code to provide the DCP with a monthly detail of internal and external loans in effect and contracted loan balances, but compliance is very low. DCP's municipal debt database is conformed almost exclusively of information provided by the Municipal Development Institute (INFOM) on loans to this institution. Municipal debt policy and management, including INFOM's role, is analyzed in the Public Expenditure Review (World Bank, 2005a). For the purposes of this report, it should be noted that the lack of completeness and accuracy of municipal debt records is in large part due to a number of ambiguities and contradictions with regards to the legal basis for municipal borrowing (Box 9).

Box 9: Rules on Municipal Debt Authorization

The Constitution states that Congress has the power to contract, convert, consolidate or undertake borrowing domestically or externally, taking into consideration the views of the Executive and the Monetary Board. It goes on to say that for any "state entity" to conclude negotiations of loans or other forms of debt, it must have prior consent of the Congress. The Organic Budget Law stipulates that the MFP is responsible for the formulation of public credit policy and the authorization of all public sector credit operations.

The Municipal Code, in turn, establishes that all loans should be approved by a two-thirds super-majority of the members of the Municipal Council. It states that foreign loans and domestic and foreign bond issues should be "channeled" through the MFP and be "subject to the borrowing policy established by the State for the public sector." This implies an approval process by the MFP, albeit in fairly vague terms. In addition, noticeably absent is any reference to other types of domestic borrowing, e.g. from the domestic banking system or INFOM. The Organic Law of INFOM further states that its loans to municipalities do not require authorization from the Executive or opinion from the Monetary Board.

From the creditor side, there are no rules that apply specifically to municipal debt (other than certain information requirements established in the Regulations for Administration of Credit Risk). The Superintendence of Banks upholds confidentiality requirements with regards to details on the loan portfolios of domestic banks. (World Bank, 2005a)

4.19 **Contingent liabilities.** Other than records of guaranteed debt, no information is consistently compiled and reported on contingent liabilities.

4.20 **Safeguard of assets.** MFP's Directorate of State Assets (DBE) is the normative body for asset management and is responsible for collecting and consolidating registries of property, plant and equipment. This information, however, is not yet complete, reconciled against physical inventories, properly valued or used for accounting purposes (e.g., depreciation recording). As part of the SIAF Project, work is ongoing for the development of modules for asset and inventory management that –if coupled with adequate procedures for asset management– should help executing entities in developing control of assets and stocks.

Internal Control Framework

4.21 The Organic Law of the Office of the Controller General of Accounts (CGC) establishes the concept of “governmental control”, and provides the CGC with the power to regulate institutional internal control norms and the functioning of internal audit units. The current set of internal control norms (2003) is largely consistent with international standards, though there are gaps in their implementation, as evidenced by recent institutional assessments carried out by private firms hired by the Commissioner for State Modernization (COPRE) with USAID support. Specific instances of noncompliance, with different degrees of relevance, are identified in CGC’s annual audit reports (see Table 9 in Chapter VI).

4.22 **Internal audit.** The internal audit function has its legal basis in the Organic Law of the CGC, which has issued a set of internal audit norms (2003) setting the basic guides for design, implementation and functioning of internal audit units. Moreover, the CGC receives internal audit plans and reports, and has the responsibility to evaluate internal auditors.

4.23 The Regulations to the Organic Law of the CGC establish the requirement for all public entities to “create, support and strengthen” internal audit units (UDAIs).⁶¹ Internal auditors are named by, and report to, the authorities of each entity –but are prevented from undertaking any administrative or prior control function. In practice, though, internal audit units suffer from limitations in human, technical and technological resources, and some perform ex-ante control tasks. Most internal audit work is related to certain financial reviews (not financial statement audits) and unplanned special reviews. In general, quality of the procurement processes is not contemplated.

Analysis and Recommendations

4.24 **Tax administration.** While tax administration has been substantially modernized since 1998, the SAT was not exempt from the governance deterioration witnessed at the end of the Portillo administration. Allegations of corruption and money laundering affected its image, and instability at the board and management levels affected its strategic direction and performance. Moreover, various rulings from the Constitutional Court have made the legal framework unstable, affecting both tax policy and administration.

4.25 At the operational level, the information systems have allowed orderly, systematic, and massive data processing that facilitates taxpayer compliance, but SAT’s capacity to effectively use the wealth of information compiled is still incipient. Most notably, coordination between internal revenues and customs areas for information exchange and joint work is not yet effective. Finally, SAT’s capacity for enforcement is constrained by its overburdened legal department and by deficiencies in the jurisdictional process for the legal prosecution of tax and customs related cases (e.g., lack of specialized courts).

4.26 Given the still-substantial resistance in Guatemala to higher taxation, the Government is renewing its effort to strengthen tax administration as a means of raising revenues. A strategic plan, focusing on implementation of 106 points developed with technical assistance

⁶¹ UDAIs have been established in 88 percent of central government entities and 8 percent of municipalities.

from the IMF and supported by the Tax Administration Project, is under implementation. The process is being facilitated by a new project portfolio system with clear assignments, inputs, outputs, timetables, and monitoring arrangements.

4.27 Early concrete actions taken include: (i) a complete personnel evaluation and cleansing of an important number of questioned customs officials; (ii) strengthening of the internal audit and legal directorates; (iii) development of a workflow tool to monitor judicial cases; (iv) forming of a special group to audit special regimes (*maquilas, zonas francas*); (v) creation of an anti-smuggling committee; and (vi) introduction of an electronic customs manifest for air cargo. Other contemplated measures are summarized in the next paragraphs.

4.28 Looking forward, *fundamental actions* to improve transparency of tax data and effectiveness of registration, assessment and collection functions, will be to: (i) continue expanding the coverage and information content of the taxpayer account, including accurate identification of outstanding debt;⁶² (ii) aggregate that information so as to enable better reporting on declared and assessed taxes, including well-classified and reconciliated data on arrears (e.g., age profile, amounts in dispute, bad debts); and (iii) clear up the NIT and RUT databases (assisted by data cross-checks), make penalties for non-compliance more effective, and strengthen the risk-based focus of audits.

4.29 More specifically, key actions to help control evasion will be to: (i) make electronic filing mandatory above certain thresholds; (ii) prepare specific programs for data cross-checks (e.g., with customs and large/medium taxpayer data provided by *Asiste Libros*); (iii) establish well-focused regimes for VAT retention and advance payments; (iv) create a special unit for the differentiated control of medium-size taxpayers; (v) pursue legal reforms to expand SAT's access to third-party information; (vi) consolidate integrated (customs and internal tax) audit teams; (vii) establish specific programs for control of stop-filers, and allow tax filers to declare debt even if payment is not immediate due to liquidity reasons; (viii) compensate automatically tax arrears against tax reimbursements; (ix) toughen the business closing sanctions; and (x) suspend certain faculties of taxpayers in non-compliance status.

4.30 In customs, the SAT should aim at raising collections while reducing processing times and costs, with actions to: (i) develop a comprehensive anti-smuggling strategy; (ii) reduce the number of physical inspections but perform them under a risk profile system; (iii) extend the electronic customs manifest to all ports and airports; (iv) harmonize customs declarations with neighbouring countries; (v) streamline processes for large importers with good compliance record; (vi) maintain a reference price database to help detect sub-valuations; and (vii) execute audits tailored to special regimes.

4.31 In terms of its internal operation, the SAT should: (i) enhance its performance monitoring system; (ii) create a special unit to investigate allegations and presumptions of corruption; and (iii) consider transferring the vehicle license plate administration, which disproportionately consumes SAT resources, to another government agency. The judiciary, in

⁶² Among others, the taxpayer account should differentiate between the non-filing status (not showing any amount in this case, but indicating lack of compliance), the debt that is not in arrears status (a debt that has been declared or assessed for which payment is not yet due), and the arrears status (an overdue debt).

turn, should consider the development of specialized courts (and thus prosecutors and judges) for tax and customs matters.

4.32 Budget execution. One particular issue in the operation of the budget execution system at the moment of the review was the simultaneous (and sometimes late) recording of commitments and accounts payable in certain entities, thus generating incomplete information of total expenditures incurred, debt and payment arrears. This issue, which can constitute a form of non-transparent financing, and can affect fiscal discipline and increase cost of works, goods and services, could be addressed with two *fundamental actions*:

4.33 Proper recording of commitments and accruals should be enforced, e.g. by issuance of certifications to providers of goods and services linked to the entry in SICOIN. At the same time, executing entities should be provided with higher degrees of certainty and flexibility in executing their budgets, e.g. by eliminating monthly accrual quotas and concentrating the fiscal control on the quarterly commitments (always keeping emergency options to deal with unexpected cash flow problems).⁶³ The latter action could also improve predictability in resource flows to service delivery units, which could therefore plan and use those resources in a more timely and efficient manner –a matter of particular importance in light of the recent introduction of results-based agreements for budget management. The MFP has noted that actions of this kind should be made consistently and preceded by serious training efforts. It is necessary to upgrade, for example, the technical level of UDAF officers in charge of preparing financial quota requirements, so that their financial programs be more reliable. In parallel, it is necessary to strengthen the capacity of DTP analysts to undertake deeper financial analyses. Finally, training on the linkages between financial requirements and physical programming is needed.

4.34 While SICOIN has been successful in standardizing budget execution accounting practices, there is still certain degree of fragmentation and complication in internal administrative systems and procedures within executing entities that can ultimately affect efficiency in the use of public funds. Most notable are the diverse modalities for personnel contracting, each with specific procedures for administration and payment, which in part reflects the deficient and fragmented civil service framework (see Chapter II)⁶⁴. But similar issues are true for the administration of assets and inventories, procurement management and monitoring, and other administrative tasks. In this sense, the ongoing development of SIAF modules for payroll, procurement, and management of fixed assets and inventories, is a *fundamental action* that should nevertheless be framed in a comprehensive strategy that takes into account the need to re-structure and streamline procedures within executing entities.⁶⁵

⁶³ The MFP since January established since January 2006 implementing quarterly commitment limits and monthly cash flow and accrual limits, facilitating in this way the timely recording of each expenditure. On the other hand, as part of SIAF's procurement management module, commitment recording will be facilitated by an automatic entry when a purchase order is prepared.

⁶⁴ Partially has been addressed through the implementation in 2006 of a internet based payroll system (Guatenómina).

⁶⁵ For successful consolidation of the new payroll administration system (Guatenómina), with a view of creating a comprehensive public sector database based on adequate information standards, it is imperative that duplication of efforts be avoided with entities that have developed, or are in the process of developing, human

4.35 With the development of the public investment program monitoring system still in the works, key attention should be paid to the pending link between SICOIN and SNIP for project financial monitoring, to ensure that executing entities are not required to enter financial information into different systems. In general, the Government should pursue the development of IT policies that discourage the proliferation of different or incompatible applications and databases across and within executing entities.

4.36 **The municipal level.** Even though SIAFMUNI is rapidly being expanded, that does not necessarily signify that the system is in use on a comprehensive and timely basis. The objectives of efficiency and transparency that the system pursues could be jeopardized if the effort is concentrated solely on its installation. This should be part of a comprehensive process that naturally requires an intensive technical assistance and training support. Thus, the ad hoc alliances that have been fostered between government entities and cooperation agencies to ensure complementary strengthening of individual municipalities, should lay the ground work for a uniform sector-wide strategy under which the various sources of funds to enhance the administrative capacities of municipalities are efficiently allocated.

4.37 The categorization attempts initiated under the SIAF Project and the Presidency's Coordination and Strategy Secretariat (SCEP) should be made compatible and serve as the basis to adopt the most effective implementation approach.⁶⁶ As with SIAF, system installation should continue together with analysis and simplification of internal administrative procedures. At the central level, the Government could consider moving gradually (e.g., as part of an incentive system and taking into consideration the legal implications) to more periodical releases of transfer funds (from the current two-month practice). This could help avoid, though not guarantee, costly and risky short-term borrowing on the part of the municipalities.

4.38 In all these efforts, a clear line should be drawn between responsibilities for the normative administration of the municipal financial management system (which should be led by the MFP as the normative body of public finances), and the technical assistance leadership (which could be exercised by INFOM).⁶⁷

4.39 Treasury. The MFP exercises good management and control of the Government's cash position, an achievement based on three main features: a single treasury account system (common fund) that captures, with some exceptions, all government revenues; a reliable revenue forecasting and monitoring capacity; and the use of effective legal instruments to deal with temporary cash shortages. However, in large part as a reflection of the insufficient budget comprehensiveness mentioned earlier, many entities and programs are exempt from the common fund direct payment system to providers of goods and services.

resource management systems (e.g., Ministry of Education), and concentrate efforts on the set up of efficient interfaces –taking into consideration compatibility of database structures– between the two systems. Other key aspects are the timely inventory and organization of posts and personnel data for easier incorporation into the system and, looking forward, the implementation of payroll audit systems.

⁶⁶ For example, the MFP is realizing that some municipalities may benefit better from SICOINWEB, others from SIAFMUNI, and others should remain solely with SIAFITOMUNI.

⁶⁷ In accordance with the Municipal Code, the MFP is the normative body of the municipal integrated financial management (AFIM) systems.

4.40 The exemptions include the transfers to –and own revenues generated by– decentralized and autonomous entities (which are mostly of a noncommercial nature), to social and other fund administrators (e.g., trust funds, NGOs), and to projects funded by external loans and grants. Such a system can produce idle funds, increase transaction costs, and reduce transparency. In parallel with the proposal made earlier to expand the coverage of the General Budget, *a fundamental action* should be to significantly expand the common fund payment system (which is efficient and transparent) to all central government noncommercial entities (with due consideration to legal implications).

4.41 **Donor funds.** External financing is comprehensively incorporated into the budget execution system, but not always on a timely basis and usually under parallel administration arrangements. The Government and donors should pursue opportunities to benefit from potential economies of scale in planning sectoral (as opposed to project-specific) external assistance, and from making larger use of UDAFs and SICOIN (as opposed to project-specific implementation units and systems) in the financial management of that assistance.

4.42 **Debt records.** MFP's central government debt databases seem complete (with the exception of non-guaranteed debt of decentralized and autonomous entities) and well used to introduce data into the budget formulation, execution and accounting systems.⁶⁸ The MFP, with the help of INFOM, is also developing a database of municipal debt –but the information is incomplete and thus cannot be yet relied upon. While the implementation of SIAFMUNI is expected to help with this issue, there are a number of inconsistencies in municipal debt legislation that need to be addressed. INFOM could contribute to strengthened fiscal transparency by publishing information of municipal indebtedness to the institute.

4.43 Although debt management capacity was not assessed by this report, and noting that – at around 21 percent of GDP– public sector debt is among the lowest in the region, the MFP could still introduce continuing programs for skills development in this highly specialized area, so as to turn the DCP into an active debt manager that undertakes systematic debt sustainability and risk analyses to minimize borrowing risks and costs. This would be a medium-term effort requiring strong coordination with BANGUAT.

4.44 Other areas for improvement are the control of non-guaranteed public sector debt and the collection and analysis of data on contingent liabilities.

4.45 **Internal controls.** The internal control norms are generally sound, but their introduction in the absence of a formal implementation plan, has probably made little difference –by itself– in the quality of government controls. There is, however, a fair amount of information to build upon. The institutional assessments carried out under COPRE's leadership, together with the specific findings reported in internal and external audit reports, should be the basis for the *fundamental action* of developing internal control strengthening plans in the budget executing entities. By enhancing controls of expenditure processes, the

⁶⁸ The CGC identified, in its 2003 audit report on General Budget Execution and Financial Statements, a difference between SIGADE and SICOIN balances originated in the exchange rate used by SICOIN. The deficiency was subsequently solved.

opportunities for corrupt practices, leakages and patronages that affect operational efficiency can be reduced.

4.46 The mentioned internal control plans should consider the adoption of risk-based approaches (particularly in light of further decentralization of financial management tasks to “third-level” executing entities), and be accompanied by monitoring systems to assess progress. Internal controls should also include a strong focus on procurement processes and value for money.

4.47 **Internal audits.** The legal mandate of the internal audit function provides a sound foundation to build its legitimacy and empowerment. However, UDAs have in general been constituted without technical studies or objective criteria to justify their size or budget. They usually lack sufficient numbers of professional and experienced staff, do not conduct their work under a risk-based approach, and do not produce statements on their overall assessment of the entities’ internal control system. It seems that coordination with the CGC to prevent duplication of efforts is weak, and there is no effective quality control system: while the CGC is responsible for internal audit evaluations, these evaluations are not formally and systematically reported back to the internal auditors.

4.48 Recognizing that the institutional weaknesses cannot be solved in the short term, certain ***fundamental actions*** at the technical level, such as preparing an internal audit manual, providing UDAs with tools from the government audit information system (SAG—discussed in Chapter VI), developing a system of training and certification of internal auditors, and improving the coordination with the CGC, could serve to gradually strengthen the internal audit function.

V. PROCUREMENT MANAGEMENT

Strategic Planning

5.1 The Government is implementing framework contracts for certain items and is very interested in improving procurement efficiency and economies of scale.⁶⁹ However, there has not been any review of the current supply strategy and market structure to identify inefficiencies and opportunities for cost reduction by better packaging and more effective purchasing approaches. These market reviews are particularly important in the absence of a strong governance environment, because procurement arrangements such as framework contracts and reverse auctions have a potential for producing savings, but may also result in further market concentration⁷⁰. In order to avoid perverse consequences, these arrangements and the conditions for their use should be clearly defined in the law or the regulations.

5.2 The CFAA/CPAR team carried out a high level assessment of the procurement strategy of the Government of Guatemala and made a first estimation of the potential savings which could be achieved in the short-term by better streamlining it. This study is based on an analysis of selected examples of recent acquisitions in different categories across governmental entities⁷¹.

5.3 The government of Guatemala currently procures goods, services, and civil work through over 628 governmental entities (including municipalities). The total amount spent in 2004 was about 8,629 million Quetzales (approximately US\$1,112 million), including procurement by the Central Government and all major decentralized entities. Procurement expenditures are expected to increase in 2005 by over 40%, according to the current budget, which might still change during the remainder of the year. Figure 3 visualizes an overall assessment of the procurement strategy in Guatemala, as compared to international best practices.

5.4 The major conclusions of this preliminary analysis, based on the concrete examples reviewed and experiences in other similar environments, suggests:

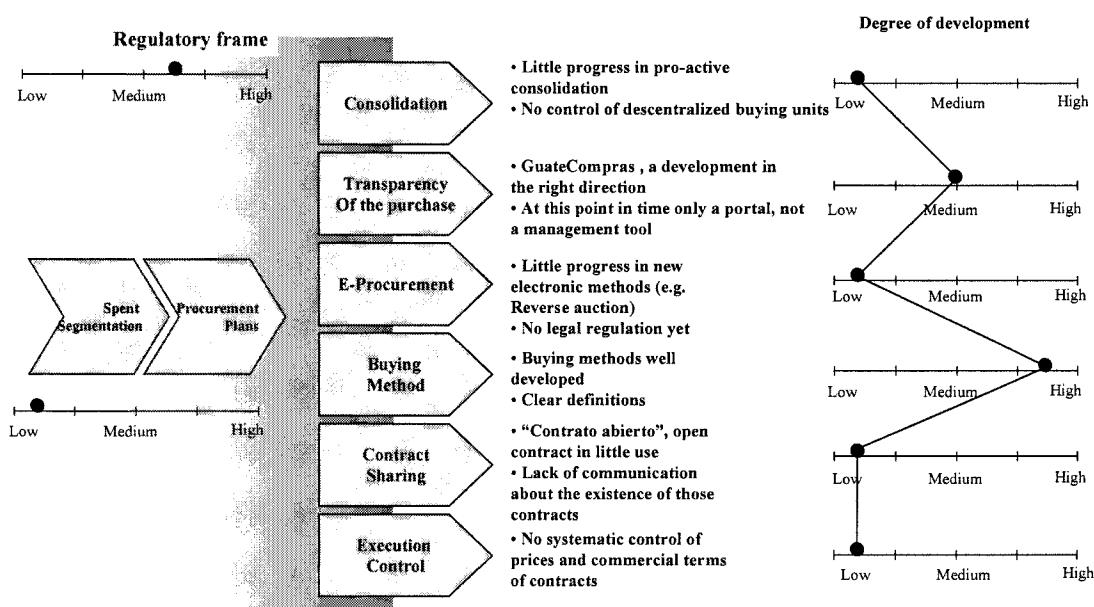
- A lack of consolidation in demand across procuring entities;
- A highly fragmented supplier base, including only local suppliers;
- A lack of standards and benchmarks leading to over-specifications and additional costs; and
- Lack of control in consumer patterns leading this to over-consumption and a higher spent.

⁶⁹ Framework contracts are currently utilized for procurement of drugs for the Ministry of Health and medical equipment, but could potentially include any kind of global purchases such as stationery and spare parts. These contracts cover an 18-month period, and can be used when two or more government units request them.

⁷⁰ Unbalanced bids (i.e. prices which the suppliers cannot afford to offer and are not sustainable) is another possible negative outcome due to the cost-driven nature of these methods.

⁷¹ See Annex IV.

Figure 3: Current Status of Guatemala's Procurement Strategy

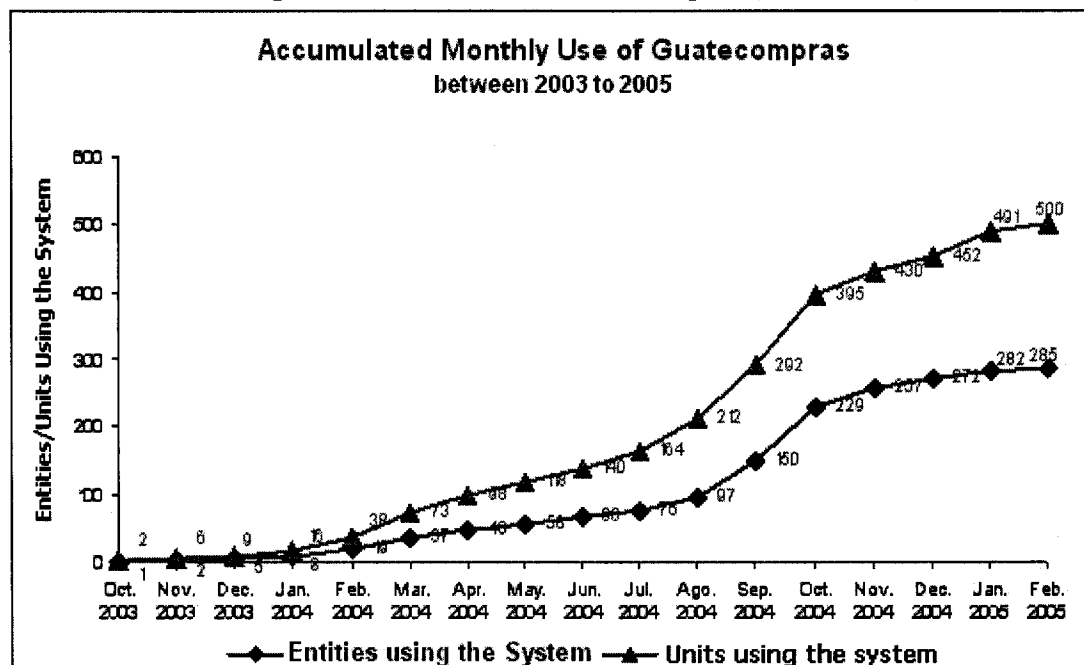


E-Procurement

5.5 The current administration considers electronic government procurement as one of its most important tools to increase efficiency and combat corruption. While the Contracting and Procurement Information System (*Guatecompras*) is at the initial stage of implementation, the Government's efforts have been well directed and are already having an important impact, particularly in terms of improved perception of transparency. These efforts have the potentials for further important progress, with the caveats discussed below. *Guatecompras* consists of a single website for the publication of procurement information, including a simple format for procurement notices.⁷² The responsibility for the system, including further development and implementation of operating rules and functionalities, were appropriately assigned to the MFP (through the DNCAE), underscoring the importance of the tool for public resources management and the high level of political support for this initiative.

5.6 In addition to rules and regulations, information published in *Guatecompras* includes all procurement plans and notices for locally and externally financed procurement. As of 31 August 2005, *Guatecompras* is being utilized by 122 public sector agencies and around 251 municipalities (76% of the existing 331). In total, 693 procuring units were using the system 31 August 2005 (Figure 4). Among the reasons hampering a fuller implementation are the lack of comprehensive standards and procedures and, in some cases, capacity and clear understanding of its benefits.

⁷² <http://guatecompras.gob.gt>

Figure 4: Trends in use of *Guatecompras* (Source MFP)

5.7 While the e-transparency phase of *Guatecompras* can be generally considered a success and the Government is fully committed to continue the implementation of the subsequent transactional phases, the latter involves greater risks and complexity –thus requiring a more rigorous planning process. The following risks have been identified:

- **Consistency with current procurement practices.** There has been a proliferation of practices in various institutions due to little clarity and obsolescence of the regulatory framework. The low level of coherence is partly a consequence of the lack of coordination between the present regulatory environment and the electronic procurement system. *Guatecompras* should be an important tool to standardize and improve the applied procedures if it continues to be developed and applied in a consistent manner in all public entities. Clearly, a reform to the procurement law is important to introduce modern procedures and integrate better all those aspects related to electronic procurement.
- **Leadership and utilization of the system.** While responsible in MFP for policy making and supervision of the consistent application of the legal procurement framework by public entities, the DNCAE is merely a system operator and has no capacity to generate consistent policies and standards to further regulate its continuous development. In addition, the DNCAE has not developed the capacity nor the tools to make a proper use of the wealth of procurement information generated by *Guatecompras* for market analysis, monitoring implementation of management of procurement by public entities and incorporating lessons learned into policy making.

- **Due process.** Module 6 of *Guatecompras*, Inconformities, was launched in June 2005. As of 27 September 2005, 82 inconformities were received. All inconformities are signed electronically by the people who present them.. Bidders have so far used the module correctly. However, there is a risk of unfounded allegations were due process may not be followed. Moreover, the procedure to follow up is not clear.
- **Overreaching.** Module 7 in *Guatecompras* which was launched in June 2005, allows the private sector to utilize *Guatecompras* for its own procurement. As of 27 September 2005, a total of 29 not for profit private entities have used the system. Out of the 82 non-conformities received, 3 were against private sector entities and in all cases none were of a serious nature. While there are potential benefits with respect to corporate governance and further developing the electronic market place, it is important to avoid potential misuse over which the Government would have little control, but may undermine the credibility of the system.
- **Strategic planning.** The lack of strategic planning may lead to incomplete and insufficient design of the system, leaving many important unresolved issues, such as the lack of catalogues codifying buyer and supplier products, which in turn could compromise the sustainability of the system.
- **Introduction of new procurement procedures.** The Government is very interested in increasing its utilization of reverse auctioning, but has limited experience in this procedure. There have been no detailed studies of the implications of an unrestricted use of this method which, in absence of proper market conditions, may impact negatively both the government and the private sector. *Guatecompras* has a module on reverse auctioning foreseen in its road map. Eventually, it will be important to consider the peculiarities of the market in Guatemala and build on the experience of countries that are already using this method as the case of Brazil and of those that have recently incorporated it in their procurement legislation as the case of Peru, Costa Rica and Paraguay.
- **System demand.** Entities are still utilizing different procedural requirements (e.g. some entities even request payment in kind, such as computer diskettes, for participation in the bidding process), and many are not fully convinced of the system's benefits. *Guatecompras* may remain just a parallel system unless the requirement that all public entities utilize its single portal is enforced and the transparency and transactional phases implemented in a consistent manner, because its growth may slow down and demand for it may dwindle, particularly among municipalities. The module on electronic bids is planned to be launched during 2007. The General Budget Law of Fiscal Year 2006 has incorporated a norm so that all entities that receive resources from the State have to use *Guatecompras* in all purchases exceeding Q30,000.

Procuring Units

5.8 Central government. Most procurement processes are undertaken directly by the executing entities, some of which have established specialized procurement units to that

effect.⁷³ In other agencies, procurement is carried out by user departments. Overall, there is no significant procurement-specific capacity in executing units. For example, lack of formal procurement planning is reflected by very limited spending at the beginning of the fiscal year, followed by a rush to use the budget towards the end, sometimes by fractioning contracts and utilizing other shortcuts. In general, there are no clear links between annual operating plans (POAs) and procurement planning, which is generally ad-hoc and not built around the synergies of the entities' objectives and targets. Thus, procurement plans do not provide the budget process with time related information on financial resources required throughout the year to meet institutional objectives.

5.9 However, some good initiatives are being launched to streamline processes and strengthened procurement units. On the heels of COPRE's institutional assessments, some line ministries initiated programs to improve procurement processes and are very committed to continue with their internal reforms. These include the Ministries of Education, Health, and Communications, which together implement over 30 percent of the General Budget.

5.10 **Case studies in the Ministries of Education and Health.** An assessment of these two ministries showed that internal controls related to procurement management are generally weak. There is no procurement monitoring system and record management is poor. Other issues generally mirror systemic shortcomings with respect to procurement planning and management. Problems with evaluation and award practices as well as concerns expressed by the private sector about transparency largely reflect the low quality of the regulatory framework, which is generally complied with by the two ministries.

5.11 While the Ministry of Health has a central procurement unit whose capacity is overstretched⁷⁴, the Ministry of Education has no specialized unit and only one experienced procurement staff. Some priority actions would be to: (i) develop and implement a procurement monitoring system (physical and financial); (ii) complete the procedural manual for the ministry and its decentralized units, including standard bidding documents for all methods of procurement; (iii) add capable procurement staff; (iv) develop and implement a training program; (v) strengthen internal control systems; and (vi) strengthen procurement planning and link it better to financial management processes.

5.12 **Other Implementing Entities.** Decentralized and autonomous entities are subject to the law and many are utilizing *Guatecompras*. However, the current scope of application of the procurement law does not include social funds, such as FIS and FONAPAZ, trust funds (Fidecomisos), and NGOs contracted by municipalities to procure goods and works, which cumulatively represent a significant amount of the total procurement volume (estimated at between US\$42 and 2 billion per year.) There are no significant differences between these procuring entities and the average central government agency with respect to procurement capacity. However, some social funds, trust funds, and NGOs are currently being investigated for alleged mismanagement and appropriation of public funds and control organs expressed concerns about the Government's ability to monitor effectively that public resources channeled through these entities are utilized transparency and effectively.

⁷³ In 2003, 48 percent of procurement procedures followed public bidding, 24 percent direct contracting, 15 percent framework contracts, and 13 percent shopping.

⁷⁴ Each of its 6 staff oversees procurement of 14 executing units.

5.13 UNDP is the main procurement agent of the Government and is currently implementing 7 of 12 active World Bank Projects and various IDB projects, in addition to procurement financed by other sources for a total of approximately US\$300 million.

5.14 **Municipalities.** Guatemala's 331 municipalities are currently subject to the procurement law with respect to transfers from the central Government. Typically, procurement is the responsibility of the treasury department which only in the case of some of the larger municipalities includes a procurement unit. The Integrated Municipal Financial Management System (AFIM) includes detailed procurement and supply management procedures. The vast majority of contracts for goods and works awarded by municipalities is below Q. 900,000 (around US\$116,000) and is procured following shopping procedures.

5.15 A sample assessment⁷⁵ confirmed the consistent feedback received from various Government agencies involved in implementing the decentralization process that local procurement capacity is generally very weak. Typical problems are similar to those affecting central government agencies and include lack of objective contract award criteria, low capacity of staff due to frequent rotation, incomplete records, and fractioning of contracts to avoid open bidding. DNCAE launched a training program in 2004 in collaboration with INFOM which focuses primarily on legal aspects and the utilization of *Guatecompras* (more from a system user than a procurement practitioner point of view.) However, training resources are scarce, the impact of this approach generally limited, and the usefulness of attempting to conduct a massive training effort in all municipalities dubious.

5.16 While 278 municipalities have at least one computer with the capacity to connect to the Internet, only 185 currently utilize *Guatecompras*. A public debate ensued from statements made by some mayors to the press during a meeting of the National Municipal Association (ANAM), to the effect that *Guatecompras* infringes upon local autonomy and, because of the large digital divide between companies based in Guatemala City and local suppliers, may negatively affect the economic development of local communities. However, many mayors, leading representatives of social society, and part of the press responded vigorously by pointing out that while e-procurement has significantly enhanced transparency and has the potential for large savings, it has not eliminated the possibility of participating in the procurement process through traditional means. No clear disadvantages in adopting *Guatecompras* at all level of government are evident, provided that next phases of its implementation are based on an appropriate strategy, as discussed above.

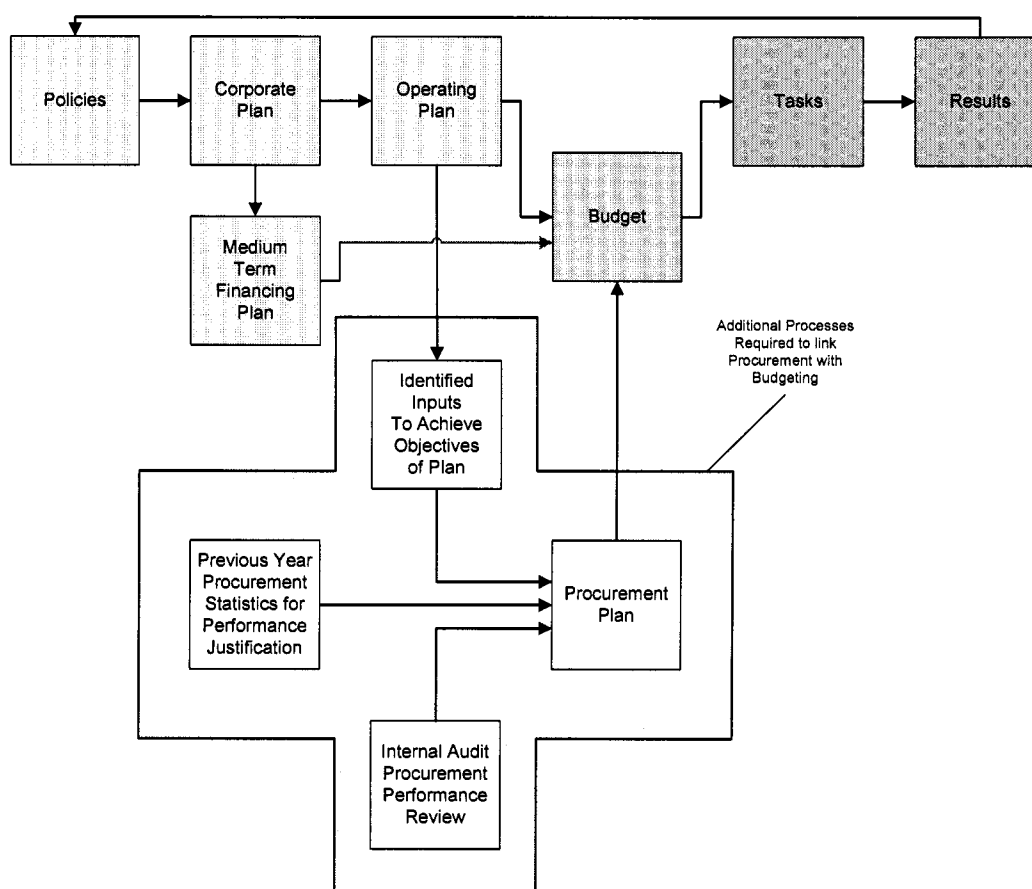
Analysis and Recommendations

5.17 **E-procurement.** The successful launch of *Guatecompras* can be considered a good step towards public expenditure transparency. As a *fundamental action*, further development of the system should take place in the context of a comprehensive strategic plan for e-procurement, focusing in particular on a better interface with SIAF modules, product classification and information standards, and use of data for procurement planning. The government is working in that direction. The integration with SICOIN is planned to be carried out in 4 stages. The first two stages have been implemented. At present, *Guatecompras* counts with a catalog with 14 categories that may be changed or modified whenever needed.

⁷⁵ 15 municipalities of different sizes, in 5 of the 22 departments of the country.

5.18 Procurement planning. As part of the overall budget reform, another *fundamental action* will be the institutionalization of procurement planning and monitoring. The lack of procurement planning and integration with financial management processes (particularly, with budget planning) remains a particularly serious problem which may require further additional training efforts. This deficiency is due mainly to the lack of a more strategic linkage of these two planning areas with the institutional objectives of each public entity. Without procurement plans, POAs and budgets cannot adequately reflect operational needs. As a result, the transparency and economy of procurement processes and often the quality of the goods, works or services procured is negatively impacted, and the institutions' capacity to implement their programs efficiently is seriously impaired.

5.19 POAs should clearly define strategies for achieving performance standards against outputs, which, in turn, should reflect priority policy outcomes. They should include details of the costs of the activities that will be carried out throughout the year, linked to the underlying procurement and contracting processes, so as to assess the time and cost efficiency implications. Previous years' procurement statistics and more risk and value for money-oriented internal audit would undoubtedly enhance the quality of procurement plans and their usefulness and consistency with POAs. Figure 5 proposes a framework that would facilitate integration of procurement planning into strategic and budget planning.

Figure 5: Integrating Procurement and Budget Planning**Incorporating Procurement Planning in Annual Operational Plan Process**

5.20 Cost reduction strategies. In carrying out institutional procurement planning, due consideration should be paid to potential economies of scale in volume consolidation, e.g. through enhanced use of framework contracts.⁷⁶ At a strategic level, this *fundamental action* could be facilitated by in-depth market studies and a review of the Government supply processes for identification of cost saving opportunities. Such studies should include analysis of the market structure, expenditure profile and current purchasing arrangement, and selection of the procurement item groups which present the greatest prospect for savings.

5.21 A conservative estimate of the overall savings which could be achieved by addressing the problems with the Government's procurement strategy highlighted above is approximately 500 million Quetzales per year (approximately US\$64.5 million.) A more aggressive cost reduction program could lead to potential savings in the order of 800 million Quetzales per

⁷⁶ Currently, most goods and services are acquired independently by each executing entity. The problem is compounded by over-specification in goods, lack of service contracting standards, and lack of consumption controls.

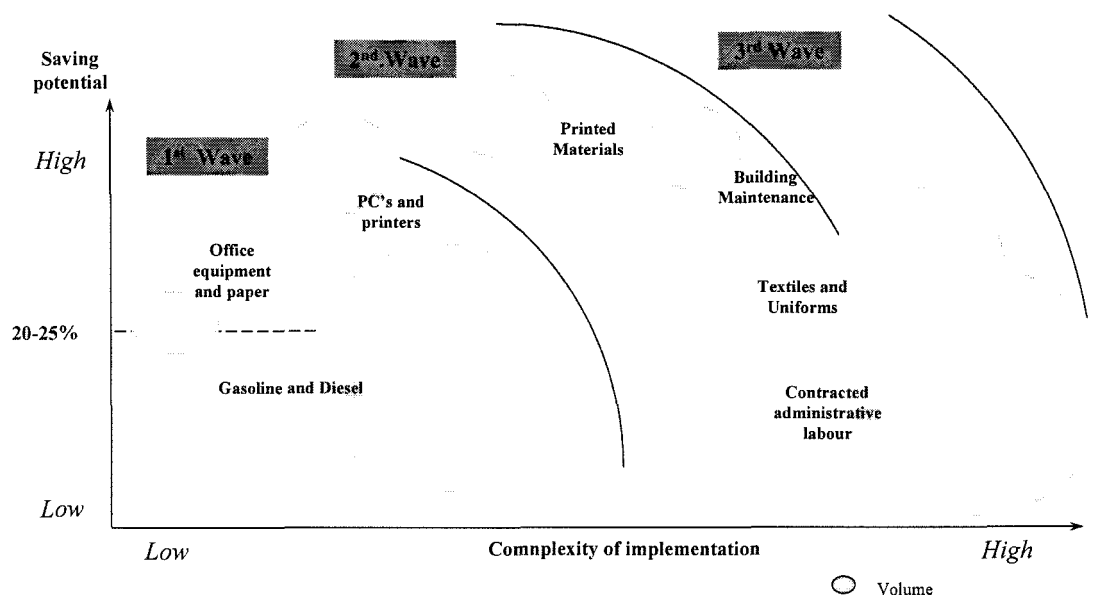
year (approximately US\$103 million.) Furthermore, this estimate does not include savings that might potentially result from decentralized procuring units. In order to be able to achieve these savings, a cost reduction program needs to be launched at a very high level of Government. The current legal framework is adequate to execute a program of this magnitude and capture these savings. However, additional executive acts in the form of governmental agreements (“acuerdos gubernativos”) are likely to be needed in order to generate more reliable volumes for the procurement processes. It is recommended to initiate pilots through implementation phases, as shown in Figure 6, starting with commonly used items with low technical complexity and standard specifications.

Figure 6: Savings Potentials of Streamlining Strategy

Planned Purchasing volume— 2005 [Qmill/año]*		Savings potential 2005/2006 [Q Mill/year]			
		%		Values	
		Conservative	Aggressive	Conservative	Aggressive
Spend Category	Total				
Contracted temporal labour	980	5%	8%	49.0	78.4
Services	2325	10%	15%	232.5	348.8
Products and Supplies	1680	15%	20%	252.0	336.0
Equipment	208	15%	20%	31.2	41.6
Total	5193*	11%	15%	564.7	804.8

* Excluding procurement of infrastructure 2005

5.22 An implementation of this strategy by phases would facilitate more systematic feedback and allow the introduction of progressive improvements, while delivering a solid platform of continuous savings, as exemplified in Figure 7.

Figure 7: Phases of Cost Reduction Strategy

5.23 Other Procuring Entities. The Government should reassess its procurement outsourcing strategy and consider reducing its use of international financial agents as more resources are invested in building the capacity of procuring entities and these demonstrate to be able to manage procurement efficiently and transparently. Current providers of administration services and technical assistance could gradually begin shifting their focus to building procuring entities' capacity to operate independently and successfully.

VI. FISCAL REPORTING AND EXTERNAL OVERSIGHT

Financial Reporting

6.1 The MFP is required by the Constitution to submit to the CGC, within three months after the end of the fiscal year, the annual budget execution report. The CGC is required, in turn, to submit to Congress its report and opinion within two months of receipt from the MFP. The Congress has the responsibility to approve or disapprove the budget execution report. The entities that do not form part of the General Budget are required to subject their budget execution reports to the same process.

6.2 The LOP and its Regulations establish an integrated government accounting system, and assign to MFP's State Accounting Directorate (DCE) the responsibility to set accounting norms for the NFPS, record public sector transactions, and issue budget execution reports and financial statements. While the entities that do not form part of the General Budget, including municipalities, are required to submit their data to the DCE for consolidation purposes, an actual consolidation has never been done. This is in large part because the cut-off date for submittal to the DCE coincides with that in which the DCE must issue the financial statements (March 31).

6.3 **In-year reporting.** The integrated accounting system (SICOIN) allows the MFP and executing entities to monitor General Budget execution on real time. Given the parametrical matrix that is at the core of SICOIN, single journal entries (CURs) affect simultaneously the budget execution and accounting records. Budget execution information aggregated under various classifications is uploaded on a monthly basis to MFP's Fiscal Transparency Portal webpage, where customized reports can be prepared.⁷⁷ The Portal also contains detailed information on debt balances and debt service.

6.4 The Constitution requires that the MFP presents to Congress analytical budget execution reports covering four-month periods. In large part because of SICOIN capabilities, the MFP is able to comply with the 30-day time limit for presentation of these reports to Congress (the reports are also posted on MFP's website). The central government entities that do not form part of the General Budget are required by the Regulations to the LOP to submit their budget executions, for the same time period, to the MFP - but, again, this information is not used for consolidation purposes.

6.5 **Annual reporting.** In order to fulfill its constitutional mandate, the MFP prepares an annual report on General Budget execution and government financial statements within the timeframe stipulated in legislation.⁷⁸ The report, which is also made available on MFP's website, presents the revenue and expenditure execution against the budget in effect, under

⁷⁷ As of 2006, the Municipal Transparency and Fiscal Transparency Portals started operations and make information available on municipal budget and transfers to recipient entities by accessing the web site <http://www.minfin.gob.gt>.

⁷⁸ The financial statements are prepared on an accrual basis, in accordance with the Accounting Manual. The manual explains the chart of accounts, but cannot be considered a set of accounting standards.

different classifications. Additional disclosures include some aggregate data presented on a comparative basis with the previous fiscal year, the constitutional and social fund transfers, public debt service by loan, and the aggregate financial situation (determination of the deficit and its financing). The individual annual budget execution and financial statements of decentralized and autonomous entities can be found in CGC's annual audit report.

6.6 Municipalities. As noted previously, a basic budget execution recording system (SIAFITOMUNI) is installed in almost all (321 of 331) municipalities, which have been provided with means to make that information public through a Municipal Transparency Portal.⁷⁹ The extent of reporting is, however, limited and untimely.⁸⁰ The annual budget execution reports are required to be submitted by March 31 of the succeeding year to: Congress and CGC, per the Constitution; MFP and SEGEPLAN, per the LOP and the Municipal Code; and INFOM per the Municipal Code. Compliance is generally low, with the clear exception of reporting to INFOM, since the information in this case is used as input to the calculation of next year's constitutional transfer and tax shares.

6.7 Central Bank. BANGUAT has not subscribed to the IMF's Special Data Dissemination Standard (SDDS), but it does make monthly and annual aggregate fiscal sector information available on a timely basis. The published figures are based strictly on data provided by the MFP –i.e., no attempts are made to quantify data for entities that do not form part of the General Budget.⁸¹

The External Audit Function

6.8 The Constitution grants the Office of the Controller General of Accounts (CGC) the power to exercise fiscal control (*fiscalización*) of revenues, expenditures and other financial matters of state bodies, municipalities, decentralized and autonomous entities, and other recipients of public funds (including public work contractors). Its Organic Law (2002) establishes its functional, administrative and technical independence, and confers it a minimum annual budget allocation of 0.7 percent of ordinary revenues, as well as rights to revenues from its imposition of sanctions (*fondos privativos*).

6.9 With a two-third majority, the Congress elects the Controller General for a four-year term, from a short list proposed by a committee integrated by representatives from the universities and the association of professionals of the economics field. The Controller General cannot be re-elected, can only be removed by Congress in case of negligence, crime or ineptitude, and has to report to Congress as required –but at least twice a year. However, the CGC is not a branch of Congress.

6.10 In line with its Organic law, the CGC is organized in two areas, each headed by a Sub-Controller. The Public Expenditure Quality department is in charge of the audit function

⁷⁹ <http://siafmuni.minfin.gob.gt>

⁸⁰ As of January 2005, 60 percent of municipalities had reported their budget execution for the first quarter of fiscal year 2004, 49 percent for the second quarter, and 26 percent for the third quarter.

⁸¹ Financial operations of certain large entities (e.g., the social security institute, the port authorities and two major municipalities), are integrated « below the line » in the context of consultations with the IMF (hence the statistical discrepancy in Table 1), but not for BANGUAT publications.

(organized by “state institutions”, municipalities, “special entities”, and public infrastructure), and the Probity department is in charge of handling patrimonial declarations, as required under the Law of Probity and Responsibilities of Public Employees. Without prejudice to the judicial prosecution of criminal acts, the CGC has authority to impose pecuniary sanctions to public employees and others who incur infractions, in accordance with ranges of fixed amounts established in its Organic Law.

6.11 Audits. Reform of the CGC’s audit function has been based on the development of the Government Auditing System (SAG). The SAG has comprised the modernization of CGC’s law and regulations, and correlated activities: issuance of manuals and standards (including Government Auditing Norms consistent with standards by the International Organization of Supreme Audit Institutions–INTOSAI), execution of training activities, development of human resource management and other administrative tools, provision of technical assistance to UDAs, and implementation of management information systems. The latter include modules for planning, execution, and communication of audit results, as well as a tool tailored to municipal audits (SAGITO). As opposed to SIAF, however, the implementation and impact of SAG has been slower. This is in part due to questionable leadership (corruption charges have been presented against the two previous Controllers), and an insufficient base of professionals.⁸²

6.12 In accordance with its constitutional and legal mandate, the CGC issues annual audit reports on the budget execution and financial statements of NFPS central government entities, within five months after the end of the fiscal year.⁸³ The report covers departmental development councils, but not municipalities.⁸⁴ The audit opinion, internal control and compliance observations are reported on a consolidated and individual basis for General Budget entities, and separately for each one of the other NFPS entities. As summarized in Table 9, a significant number of qualified (as opposed to “clean”) audit opinions were issued for 2003; however, the inclusion of many qualifications seems questionable in terms of their relative materiality. On the other hand, there is not a consistent approach to valuing the internal control and compliance observations (i.e., in many cases the total amount of the correlated account, operation or contract is reported, rather than the actual specific problem), making it difficult to assess the actual damage to state resources.

Table 9: Summary of 2003 Audit Results

Entity	Audit opinion	No. internal control and compliance observations
General Budget entities - Consolidated <i>Per entity</i>	Qualified: 60 qualifications <i>16 clean opinions</i> <i>17 qualified opinions</i> <i>1 disclaimer of opinion</i>	190
Non-General Budget Entities <i>Per entity</i>	76 qualifications <i>16 clean opinions</i> <i>16 qualified opinions</i> <i>4 adverse opinions</i>	204

⁸² The CGC has around 1,000 employees, only half of whom are assigned to operational work. Of these, 40 percent do not bear a professional title.

⁸³ The 2003 audit report did not cover 11 of the 78 NFPS entities (excluding the CGC itself).

⁸⁴ During 2004, the CGC performed audits to 65 percent of municipalities.

Departmental Development Councils	Qualified: 93 qualifications	138
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Source: Own calculations using CGC (2004)

6.13 Probity. The CGC has the responsibility to collect, record, and verify the veracity of sworn patrimonial declarations of public employees. The declarations are in line with international practice and a database management information system has been developed to keep records up-to-date. In general, however, the CGC lacks human and technical resources to undertake effective verifications and investigate cases of suspected embezzlement.

Legislative Oversight

6.14 The Congress has the responsibility to approve or disapprove the budget execution report, and does so based on CGC's audit reports.⁸⁵ In general, however, the congressional scrutiny of public finances is incipient and limited to a handful of legislators and themes (in line with specific interests of certain legislators). The legislature's Public Finance Committee does have a supporting Budget Analysis Unit (UAP), but it is staffed by only three individuals, it does not have legal basis or operational techniques and procedures.

Monitoring by Civil Society

6.15 While there are constitutional provisions that guarantee the citizens' right to request information and provide for public accessibility to administrative acts, the absence of specific legislation and regulations on how to exercise this constitutional right affects its enforceability. There are no rules on what information should be considered confidential, no conflict resolution mechanisms (including no independent authority responsible for enforcement), and unclear accountability for public officials.

6.16 In spite of the mentioned limitations, the country has witnessed a growing participation of civil society organizations (CSOs) in initiatives to monitor public expenditure matters, including social audits (Box 10) and budget analyses.⁸⁶ These tend to focus much more on public investment, particularly at the local level, and to a lesser extent in other budgetary analyses.

Box 10: Some Recent Social Audit Initiatives

- **Acción Ciudadana:** *Observatorio Ciudadano* (monitoring of access to information); municipal social audit project; congressional training and monitoring project; audit of the Anti-Corruption Prosecutor Office; monitoring use of *Guatecompras*.
- **Centro de Investigaciones Económicas Nacionales (CIEN):** Project of budget monitoring during the government's last year in power.
- **Acción Ciudadana, Cámara de Comercio, CIEN:** *Coalición por la Transparencia* (projects for strengthening of control bodies, strategic transparency commitments, analysis of budgetary transfers)
- **Gran Campaña por la Educación:** Audit of delivery of school meals, supplies and texts.

⁸⁵ In case of disapproval, Congress is required to instruct the CGC to impose the pertinent sanctions and, when applicable, put the case forward to the Public Ministry. Since the CGC is required to do so in the first place, the disapproval is in practice just a moral sanction.

⁸⁶ CSOs that have undertaken budget analyses include the Asociación de Investigación y Estudios Sociales (ASIES), Centro de Investigaciones Económicas Sociales (CIEN), Coordinadora ¡Sí, Vamos por la Paz!, Grupo de Apoyo Mutuo, and Organismo Naleb.

- **Red de Mujeres por la Construcción de la Paz:** Monitoring of health expenditure.

Source: Maul (2005), using information by Ricardo Puerta.

Analysis and Recommendations

6.17 Financial reporting. The accounting function has been institutionalized and shows sophisticated advances, most notably the accrual base of recording, the single journal entries that affect simultaneously budget and accounting records, the timely issuance of monthly, four-monthly and annual fiscal reports, and the availability of information through the internet.

6.18 However, a significant shortcoming can be found in the lack of consolidated NFPS and general government financial statements, a problem that the MFP could seem likely to solve by the expansion of SICOIN's coverage to decentralized and autonomous entities, and of SIAFMUNI/SIAFITOMUNI to municipalities.⁸⁷ Nevertheless, for all the significant advances in financial transparency, certain non-General Budget accounts are not properly disseminated, reflecting that expansion of the cited systems have contributed to internal management and standardization, but not yet to consolidation and publication of fiscal information. These circumstances reduce the availability of evidence that is required for comprehensive and effective oversight of the use of funds, and could provide the opportunity for operational efficiency breaches and increased fiscal risks.

6.19 At this point, the issue seems to be one of enforcement and oversight rather than information system capacity, and thus *fundamental actions* should encompass: (i) a combination of actions to comply with the legally-required consolidation of public sector budget execution and (eventually) financial statements;⁸⁸ and (ii) strengthening MFP's capacity to assess and monitor fiscal risks associated with the financial performance of decentralized and autonomous entities.

6.20 The mentioned efforts should be coupled with a program to modernize the DCE in the current context of decentralized accounting entries. Certain transactional activities that the DCE still executes should be phased out and substituted by strengthened capacities for financial and budgetary analyses, consolidation and customization of financial data, and administration of SICOIN. An analysis of gaps with respect to the International Public Sector Accounting Standards (IPSAS) should serve as basis for a gradual adoption. In a shorter term,

⁸⁷ The DCE does publish "consolidated central administration balance sheets" by recording, a year after the fact, the annual net asset variation of decentralized and autonomous entities. The process, however, is far from compliant with international standards for financial statement consolidation and adds little value to the information available. The MFP expects that, once SICOIN-WEB is implemented in all decentralized entities, budgetary and accounting consolidation will be made at the level of individual accounts.

⁸⁸ The CGC issued recently a directive mandating that the 2004 municipal budget execution reports be generated by one of the systems developed by the MFP (SICOIN, SIAFMUNI or SIAFITOMUNI). This requirement is likely to increase the capacity to aggregate municipal budgetary data, and should be complemented with a requirement to unify budget reporting to MFP, CGC and INFOM.

both DCE and DBE should complement the development of SIAF's asset management module with the preparation and issuance of a property, plant and equipment manual.⁸⁹

6.21 With respect to fiscal reports already being published, the Government is in position to enhance their presentation and substance with additional *fundamental actions*: (i) the composition of large accounts (notably the groupings for "state obligations" and "secretariats and other dependencies"), as well as of execution at the program level, should be disclosed; (ii) the detailed budget execution reports could include comparative data for the previous fiscal year and correlated explanations of variances; (iii) timely reconciliation of suspense accounts and advances should lead to a reduction in the amount of uncleared balances brought forward; and (iv) the arrears portion (if applicable) of the known payables could be clearly identified, and an effort could be made to disclose known contingent liabilities.

6.22 There is also room for improvement in the notes that provide narrative descriptions or more detailed schedules of figures in the financial statements, as well as in additional information to assist users in assessing the Government's performance (correlated to the process of use of result indicators to inform budgeting), its stewardship of assets (financial, fixed and others), and the allocation of resources.

6.23 The DTP and SEGEPLAN could also contribute to strengthened transparency and accountability by making public summaries of their evaluations of budget and PIP execution, for which technical training to the pertinent personnel is necessary.

6.24 **External audits.** Based on legislation that provides it with adequate independence and room to exercise its external audit function, the CGC has made commendable efforts to increase its coverage of financial audits and issue its reports on a comprehensive and timely basis. Granted, those reports should be improved by making better use of judgment when assessing the materiality of qualifications to financial statements, and of accuracy when costing the extent to which internal control and compliance deficiencies have affected public finances.

6.25 The major challenge that the CGC faces is the overhaul of its staff structure, shifting resources for a more efficient ratio of administrative to technical staff, and ensuring the latter are increasingly composed of qualified professionals. A merit-based selection, employment and promotion system, including aptitude tests and standards for certification of government auditors, periodic staff evaluations, and career prospects disconnected to political cycles needs to be developed. At the same time, the CGC should make more extensive use of its legal power to use work of private auditors, under an efficient quality control framework.

6.26 The SAG information system is well designed, yet its implementation has been tardy and incomplete, thus limiting its potential to enhance efficiency in audit execution.⁹⁰ In the

⁸⁹ A manual is needed to set uniform procedures to control and record costs, revaluations, depreciation, movements, sales and disposals, custodial responsibilities, registries, physical inventories and reconciliations of the Government's assets (property, plant and equipment).

⁹⁰ The administrative support tools of SAG are in use, as well as the audit reporting module. The execution module is incomplete (e.g., tools for statistical sampling based on risk assessments have not been acquired), and only used partially. The planning module, though complete, was not in use as of 2004.

short run, *fundamental actions* should be taken to utilize and validate available SAG modules, complemented with better use of risk assessment techniques to develop the annual audit work plan and to plan individual audits, so as to adhere to international standards and focus on significant and systemic issues (this may require international technical assistance). By enhancing external scrutiny, these actions could influence operational efficiency through increased accountability for efficient and rule-based management of resources and enforcement.

6.27 Similarly to SIAF, the SAG is still managed as a project and thus a gradual absorption within CGC's institutional structures should be planned.⁹¹

6.28 As normative body of the internal control framework, the CGC should monitor the extent of implementation and performance of the internal control norms. The ongoing initiatives to enhance coordination with the Public Ministry (state prosecutor) should be reinforced. Finally, the CGC should enhance the quality and timeliness of its statistics and the monitoring of its own performance indicators, and be subject to regular external audits.

6.29 **Probity.** The capacity of CGC to analyze and verify patrimonial declarations, and accordingly carry out investigations, should be built on the basis of qualified technical assistance and an adequate code of conduct. This effort, however, would be limited in the absence of certain basic concepts in criminal law (e.g., offering and soliciting of bribes, political interference, and conflict of interest/illicit enrichment).

6.30 **Legislative oversight.** Despite its responsibility to approve or disapprove budget execution, the ability of Congress to scrutinize budget execution and audit reports, and public finances in general, is generally constrained. The Budget Analysis Unit (UAP) should be strengthened, e.g. through external cooperation, and fiscal oversight themes and tools should be better disseminated among the legislators.

6.31 **Civil society oversight.** In terms of fiscal transparency, the ability of all stakeholders, including CSOs and the private sector, to interpret information and monitor the PFM system's outputs is as important as the public institutions' capacity to generate reliable data and make it widely available. In that regard, a particular concern in Guatemala is the absence of legislation and regulations on public access to information, which makes the interpretation of the constitutional right subjective and its compliance largely arbitrary.

6.32 The emergent participation of CSOs in budget analyses and social audits is a good basis to build certain foundations to facilitate and sustain the process. In addition to regulating the right of access to information, the Government (e.g., through the MFP) could organize events with CSOs to gather main informational needs. On that basis, outputs at different level of complexity depending on the prospective user could be designed. Both the CGC and the Congress (e.g., through the UAP) could open channels to process information received from CSOs in connection to social audit initiatives. Similarly, a feedback mechanism could be established to communicate actions taken by the Executive and others in relation to social audit findings.

⁹¹ A particular IT concern is the insufficient system design documentation, which may complicate future maintenance and adjustments.

6.33 A couple of specific areas where there is room to enhance transparency are: (i) the availability of key documentation prior to budget approval (e.g., budget policy, ceilings, investment project approval); and (ii) the implementation of an effective bid protest mechanism, which could generate data on the type and frequency of problems affecting the procurement process and the response from procuring entities.

VII. CONCLUSIONS AND MAIN RECOMMENDATIONS

7.1 The financial management reform process, initiated in the mid-1990s under the umbrella of public sector modernization, has produced improvements in the performance of budget management institutions. The implementation of the integrated financial management system (SIAF), built upon a good normative framework and facilitated by a modern technological platform, has contributed to efficiency in executing financial transactions and to the production of opportune information on most government finances. The underlying accounting system (SICOIN) operates in most government entities and a version tailored to municipalities (SIAFMUNI) is rapidly being expanded⁹². All in all, the formal norms are progressively generating a culture of accountability and fiscal prudence in officials responsible for PFM.

7.2 The financial management methodologies and processes are well documented and normally followed. The Government is able to track revenues and expenditures on a timely basis and under a broad classification system. Effective controls of its cash position, including an efficient common fund system and rather complete central government debt records, are in place. Both the annual budgets and financial reports provide considerable government financial data that is publicly available. Similarly, transparency of procurement operations has benefited from the initial stage launch of the electronic government procurement system (*Guatecompras*), which is already showing impact by its extensive use.

7.3 The external auditors have independence and room to exercise their functions, including timely annual reporting to Congress on fiscal information. Furthermore, leading civil society organizations with good technical and convening capacity have been engaged constructively in social audit initiatives and integrity pacts. Still, important obstacles remain, as summarized in the following paragraphs.

7.4 **Procurement.** Efforts to modernize public procurement have not been as significant as in other areas. The public procurement system has advanced to a certain degree but has not achieved the desired level of transparency, competition and predictability. While transparency has benefited from the initial stage launch of an electronic government procurement tool (*Guatecompras*), systemic deficiencies restraint enforcement and reduce the efficiency of budget execution and the government's ability to deliver public services.

7.5 Procurement planning, management and monitoring are not quite adequate because of various factors that can be improved. The public procurement regulatory framework is outdated and inefficient, includes some barriers to competition that limit transparency and economic results. Unduly onerous requirements and the lack of procedural guidance and standard bidding documents have fostered a proliferation of arrangements which lead to system fragmentation and further compound the regulatory shortcomings.

⁹² The accounting registry system was completed in 2006 and the financial statements of the municipalities are generated through SIAFMUNI

7.6 Because there is not a effective public procurement policy nor the mechanisms for policy oversight, a clear, unifying vision of the objectives of public procurement and its role within the PFM system is missing. There is also limited capacity to monitor the system's performance and effectively utilize the feedback for policy development, procurement planning, and control. As a result, capacity building initiatives are not well coordinated, the development of key implementing tools (e.g. bidding documents) is lagging, and there have been no in-depth assessments of the government's procurement strategy or the supplying markets that foster the introduction of new contracting approaches and the implementation of cost reduction programs.

7.7 At the executing entity level, most procuring units have a limited capacity and there is no strategic planning clearly linked to the entities' budget processes and institutional and developmental objectives. The Commission for Public Sector Modernization (COPRE) is undertaking a modernization of the legal framework and is expected that this initiative may provide , there is no clear leadership for a sustained national dialogue and a focused effort to coordinate the procurement reforms.

7.8 **Financial management.** While a formal budget formulation process is in place, and the Ministry of Public Finance (MFP) is strengthening it with clear plans for adoption of a medium-term/performance based expenditure framework, the high incidence of constitutionally and legally mandated earmarked funds and fixed-type costs limits the room for the re-allocation of funds in the budget planning process. Similarly, the incomplete information on municipal budgets and investment projects prevent a comprehensive sectoral planning. On the other hand, the unrestricted legal capacity of Congress to introduce changes to budget plans (particularly the public investment program), and of the Executive to modify the budget during the fiscal year through transfers, can affect the credibility of budget formulation and its results.

7.9 Regarding budget execution, on one hand the flexibility of some entities is restricted by the monthly periodicity of the system of quotas; on the other, many entities and programs operate out of single treasury account payment system, an exemption which can produce idle funds, increase transaction costs, and reduce transparency. And, whereas budget execution accounting practices have been standardized, there is still certain degree of fragmentation in internal administrative systems and procedures. At the time of preparing this report, this was evident in personnel and payroll management, which got complicated by the variety of disconnected regimes and practices used for hiring and compensation, in a way similar to what happened with procurement and contracting practices, as mentioned above. In part this was resolved with the implementation as of 2006 of a payroll system operated in the Internet (Guatecompras).

7.10 In terms of fiscal reporting, at the time of conducting the assessment the simultaneous (and sometimes late) recording of expenditure commitments and accruals generated incomplete information on total expenditures incurred and floating debt, carrying the potential risk of generating payment arrears. However, as of January of 2006, MFP implemented a system by which 4-month commitment quotas and monthly payments are approved all of which enable their registry in a timely and separate manner. On the other hand, the lack of consolidated government financial statements restricts the capacity to undertake

comprehensive analyses of budgetary performance, financial position, and fiscal risks –which are not performed in a systematic manner.

7.11 Finally, the independent assurance on the reasonableness of fiscal data (i.e., financial statements) is constrained by capacity limitations of the Office of the Controller General of Accounts (CGC), particularly those related to its low numbers of qualified professionals. The problem is compounded by the weaknesses that make the internal audit function ineffective.

7.12 **Other aspects.** The Office of the Commissioner for Transparency has a good vision, but insufficient resources to carry out its mandate effectively; similarly, the capacity of Congress to scrutinize budget execution and audit reports, and public finances in general, is limited. The civil service outdated and fragmented institutional framework is the most visible transversal institutional weakness that could restrain continuing PFM modernization.

Leveraging Opportunities to Move Forward

7.13 Several converging elements suggest that, after a dim recent governance environment, there is a renewed window of opportunity to accelerate PFM and transparency reform. The Government's strategy is fundamentally sound and its implementation teams capable and committed. Moreover, there is remarkable consensus between civil society, the private sector, and the executive on the need for and objectives of the reform.

7.14 The expansion of SIAF, SIAFMUNI and *Guatecompras* shows the strong Government commitment to increased transparency. The MFP and four major ministries are undertaking a credible plan to renovate the budget planning process. COPRE is carrying out a comprehensive plan of institutional assessments. Some key procuring units are in the process of developing strategies to streamline procurement processes and improve procurement management capacity. The Government has also shown strong interest in identifying ways to reduce costs through better economies of scale, and is already utilizing contractual instruments that –provided appropriate information is available– can facilitate achievement of these objectives.

7.15 Notwithstanding the political division, there is general consensus that an improved communication strategy could enhance the prospects of passage of key pending legal reforms.⁹³ While legislative reform to support modern and efficient PFM institutions and systems remains an important objective in the medium term, the overall strategy should also be designed to demonstrate rapid progress and help build momentum and support for the reform. There are several actions that do not require legal changes, may be supported by current capacity building projects, and can produce improved outputs in the short-term. These could help shift focus from process to outcomes and make it harder for the Government to fail to make further progress if the innovations are functioning.

7.16 Pilot programs in line ministries that are responsible for the majority of the budget (i.e. Infrastructure, Health, and Education) provide opportunities to accelerate strengthening of

⁹³ In the particular case of procurement legislation, an additional external driver is to ensure consistency with CAFTA public procurement provisions.

procurement and financial management processes, including internal controls. As the pilots produce measurable results, they could be expanded throughout the public sector.

Suggested Fundamental Actions

7.17 The analyses in the preceding chapters lead to the conclusion that, building on the achievements of the last decade, the budget management institutions can envision further enhancement of their performance to increase efficiency and effectiveness in the administration of public funds, and to positively influence the governance environment through improvements in transparency. This is of particular importance given the currently limited level of revenues –and as validation to increase those revenues–, and the need to expand public investments in key sectors.

7.18 The suggested actions found in this report are largely consistent with the Government's own plans, and are supposed to be put into practice under proper sequencing arrangements. Available external cooperation could support their implementation when technical assistance or physical investments are needed. Selected ***fundamental actions***, driven primarily by operational efficiency implications, are recapitulated in the following paragraphs.

7.19 **Budget planning.** The Government has designed a good plan to adopt a results-based and multi-annual approach to budgeting. To validate and sustain what is by nature a long-term endeavour, a cautious and gradual approach is encouraged.

7.20 In the short to medium term, the approach should be expanded to a sectoral level (e.g., incorporating social and other funds) and broken down to a programmatic level. Cost sectoral strategic plans should be developed as the catalytic documents for policy assessment and reconciliation of the top-down and bottom-up multi-year budget planning. The public investment program (PIP) should be based on those plans, with due consideration to recurrent cost implications. These actions, for which institutional strengthening and definition of methodologies are required, could bring about more meaningful discussions over operational efficiency in the use of resources, an orderly review of budgetary implications of existing and new policies, and better planning of the recurrent costs of investment decisions.

7.21 **Revenue administration.** The Superintendence of Tax Administration (SAT) is already heading in the right direction with its comprehensive strategic plan. Accordingly, and with a view of improving transparency of tax data and effectiveness of registration, assessments and collections, some key actions to be implemented are to: (i) continue expanding the coverage and information content of the taxpayer account, including accurate identification of outstanding debt; (ii) aggregate that information so as to enable better reporting on declared and assessed taxes, including well-classified and reconciliated data on arrears; and (iii) clear up the registration databases, make penalties for non-compliance with tax obligations more effective (as pertinent, through modifications to the Tax Code), and strengthen the risk-based focus of audits.

7.22 **Budget execution.** In the short term, proper and timely recording of expenditure commitments and accruals should be both enforced and enabled (e.g., moving from monthly accrual quotas to quarterly commitment limits –always keeping emergency options to deal

with unexpected cash flow problems). These actions could help prevent payment arrears, a form of non-transparent financing that can affect fiscal discipline and increase cost of works, goods and services. They could also improve predictability in resource flows to service delivery units, which could therefore plan and use those resources in a more timely and efficient manner—a matter of particular importance in light of the introduction of results-based agreements for budget management. This recommendation was implemented upon effectiveness of the authorization of four-month commitment quotas and monthly payment quotas

7.23 Treasury management. In the medium term, the Treasury's common fund payment system should be significantly expanded to all central government noncommercial entities, taking into consideration the respective legal implications, so as to prevent idle funds, reduce transaction costs, and increase transparency.

7.24 Procurement policy and management. In the short-term, a plan to clearly assign procurement policy formulation and oversight functions, separating them from operational tasks (e.g., management of framework contracts) and ensuring proper leadership and resources for a successful implementation of the public procurement system reforms should be developed soon for a medium-term implementation.⁹⁴ At a strategic level, the Government could benefit in the short term from in-depth market studies and a review of its supply processes for identification of cost saving opportunities. Further development of *Guatecompras* should take place, in the short term, as part of a comprehensive strategic plan for e-procurement, focusing in particular on a better interface with SIAF modules, product classification and information standards, and use of data relevant for procurement planning.

7.25 At the executing entity level, starting with pilot ministries, intensive support should be provided in the short term to implement modern procurement processes (including planning methodologies linked to budget and annual operational plans, manuals, documents, monitoring and evaluation, internal controls based on comprehensive risk prevention strategies and management processes, contract administration, and capacity building programs.) This action could be undertaken immediately with the support of existing operations of the participating Banks and could provide models to be later replicated in all line ministries—and eventually throughout the system and adopted as Government policy. As these ministries' operations are already substantially decentralized, they would also represent excellent vehicles to strengthen capacity and controls at the local level and pilot approaches which are likely to be more effective than massive capacity building efforts.

7.26 In the medium term, the efforts at the executing entity level should be properly linked to cost reduction strategies such as potential initiatives to take advantage of economies of scale in volume consolidation. These could include enhanced use of framework contracts under clear arrangements for awarding and management.

⁹⁴ The policy unit should coordinate ongoing efforts, monitor implementation of the entity-level reforms, develop key tools building on these experiences, and facilitate replication of success stories and consistent applications of tools and policies throughout the public sector. The policy office should also develop and implement comprehensive capacity building programs and coordinate closely with COPRE to ensure that civil service reform incorporate effective measures to professionalize the procurement function.

7.27 Internal controls. The institutional assessments carried out under COPRE's leadership, together with the specific findings reported in audit reports, should be the basis to develop in the short term internal control strengthening plans in the budget executing entities –again, starting with pilot ministries. On the other hand, recognizing that the internal audit institutional weaknesses cannot be solved in the short term, certain technical actions can be undertaken, e.g. preparing an internal audit manual, providing internal auditors with tools from the government audit information system (SAG), developing a system of training and certification, and improving the coordination with the CGC.

7.28 By enhancing controls of expenditure processes, the opportunities for corrupt practices, leakages and patronages that affect operational efficiency can be reduced.

7.29 Financial management systems. The ongoing development of SIAF modules for personnel registry and payroll, procurement, fixed assets and inventories, should be framed in a medium-term comprehensive strategy that takes into account the need to re-structure and streamline procedures within public entities. With regards to payroll controls, the continued implementation of decentralized payroll preparation in ministries should be complemented with efficient interfaces between the human resource management systems and SIAF's cited module, and with a system of periodical payroll audits.

7.30 In general, operational efficiency can be improved if the control rules and procedures are relevant, widely understood, and cost effective.

7.31 Transparency of fiscal reporting. The expansion of SICOIN's coverage, complemented as needed with other actions to enforce compliance and the pertinent support of the CGC, should serve in the short term to disclose budgetary and financial information of entities (including municipalities) that do not form part of the General Budget. Similarly, an effort should be made to begin disclosing with greater detail the composition of certain large accounts (notably the groupings for “state obligations” and “secretariats and other dependencies”), identifying the arrears portion of the known payables, disclosing the nature and fiscal significance of known contingent liabilities and quasi-fiscal activities (an area which requires previous work, particularly to create technical capacity in the normative entities), and disclosing local government indebtedness to the Municipal Development Institute (INFOM) and others. In 2006, both the Municipal Transparency and Fiscal Transparency Portals became operational and information on municipal budget and fund transfers to recipient entities is published in the web site www.minfin.gob.gt.

7.32 In the short to medium term, the MFP should strengthen its capacity to assess and monitor fiscal risks associated with the financial performance of decentralized and autonomous entities, and should develop consolidation methodologies and begin applying them to the central and general government. The actions summarized in these two paragraphs would increase the availability of evidence required for comprehensive and effective oversight of the use of funds, thus reducing the opportunity for breaches in fiscal discipline and operational efficiency.

7.33 External oversight. In the short term, the CGC should make an effort to utilize and validate available SAG modules, complemented with better use of risk assessment techniques

to develop the annual audit work plan and to plan individual audits –so as to adhere to international standards and focus on significant and systemic issues. By enhancing external scrutiny, these actions could influence operational efficiency via increased accountability for an efficient rule-based management of resources; and norms enforcement.

7.34 In the medium term, the CGC should address the overhaul of its staff structure, shifting resources for a more efficient ratio of administrative to technical staff, and ensuring that the latter are increasingly composed of qualified professionals. At the same time, the CGC should make more extensive use of its legal power to use work of private auditors.

7.35 **Municipalities.** The ad hoc alliances that have been fostered between government entities and cooperation agencies to strengthen local government administrative capacities, should lay the ground work for the short-term preparation of a uniform sector-wide strategy, under which the various sources of funds available are efficiently allocated. Further implementation of SIAFMUNI and access to *Guatecompras* should continue, but with due consideration to the mentioned strategy. The latter should also continue to contemplate opportunities to simplify internal administrative procedures, to address ambiguities and contradictions in municipal debt legislation, to further facilitate associations of municipalities to take advantage of potential economies of scale, and to carry out market analyses to identify room for cost saving mechanisms. The module of municipal accounting registry was completed and implemented in 2006 and the financial statements by municipalities are generated via SIAFMUNI. Currently, all municipal governments have access to *Guatecompras* and 95% of them use it.

7.36 **Legal framework.** The Government, mostly through COPRE, is sponsoring key reforms to civil service, public access to information, procurement, and concessions laws. In this regard, country circumstances (e.g., a highly divided Congress that makes it difficult to shepherd major legal reforms) demand –in the short term– a strategic approach to legislators and opinion makers, so as to ensure due technical and public debate, and achieve reasonable compromise to generate wide-based support.⁹⁵ Passage of the mentioned legislation should then be sought in the short to medium term.

7.37 Improvements to the procurement law should aim at ensuring a more streamlined and transparent process and consistency with DR-CAFTA. Other important objectives are to ensure consistent application of the procurement law to all entities utilizing public funds and provide firmer legal basis for *Guatecompras*. Finally, consistency with established international practices may facilitate greater utilization of local rules under operations financed by external donors. In terms of concessions and PPI initiatives, a clear strategy should be developed.

7.38 Financial management legal enhancements (taking into account possible constitutionally restrictions) should contemplate making the Public Investment Program (PIP) assessment process mandatory, and putting certain limits on the legislature's capacity to

⁹⁵ COPRE could facilitate topical workshops to explain objectives and practical implications of the proposed reforms to legislators and develop a joint strategy with CSOs to generate support from politicians, the media, and civil society. The CFAA/CPAR participating Banks could support the workshops by contributing lessons learned from established practices in comparable environments.

dictate budget allocations and composition of the PIP, as well as to the executive's capacity to modify the budget during the fiscal year through transfers. These actions could lead to increased credibility of the budget process, which in turn would help avoid shifts across expenditure categories that could affect operational efficiency of service delivery.

7.39 Monitoring PFM reform. An element that the Government could use to monitor performance of PFM systems is the periodical assessment of certain performance indicators, developed by the Public Expenditure and Financial Accountability (PEFA) program. Once the indicators are validated with Government officials, these may need refinement, customization and additions (e.g., establishing links with the indicators developed under the SIAF Project).

Other key reforms that affect PFM

7.40 Efforts to modernize PFM should not take in place in isolation, but be complemented by other key public sector and governance reforms, such as modernizing civil service, establishing key legal precepts to help the fight against corruption and strengthen probity controls, and strengthening judicial systems that guarantee the rule of law.

7.41 In the short term, COPRE should continue its plans to modernize civil service legislation aiming at, among others, consolidating the institutional framework, creating a civil service career plan, merit-based selection and promotion, introducing annual evaluations and salary reviews, and revising the system of civil service categories.

7.42 In the short to medium term, the Office of the Commissioner for Transparency should introduce changes in its reform approach, be better staffed and resourced to further develop and implement more effectively the anticorruption strategy. That office should focus on policy and coordination rather than investigation and enforcement. During a similar timeframe, legislation concerning public access to information, together with actions to further enable social audits, should be pursued. At the end of 2005, the Government approved a Governmental Decree with regulations on free access to public information that mandates central government public officials, amongst other aspects, to submit an annual accountability report on the precedent fiscal year

ANNEXES

Annex I *Plan of Action Recommended*⁹⁶

Actions and Timeframe ⁹⁷	Responsible	Basis ⁹⁸	Technical Assistance required? ⁹⁹
Budget planning and content			
<ul style="list-style-type: none"> Establish coordination mechanisms for compliance with SNIP norms relative to evaluation of projects before their incorporation in the investment budget. These actions should be based on a SNIP capacity assessment in order to meet with all assessments in a timely fashion. [ST-MT] 	MFP/ SEGEPLAN	ADM	YES
<ul style="list-style-type: none"> Establish coordination mechanisms in MFP and SEGEPLAN for efficient monitoring of financial execution in investment projects (link SNIP-SICOIN).[ST-MT] 	MFP/ SEGEPLAN	ADM	YES

⁹⁶ This Plan of Action follows up on the original version included in the "Country Financial Accountability Assessment and Procurement Assessment Review" report issued by the Inter-American Development Bank and the World Bank in June 2005. It was revised and updated in a workshop conducted in March 2006 with the participation of high-level staff from the Ministry of Public Finance (MFP) and the Controller Office and General Accountant, and specialists from the Inter-American development bank (IADB) and the World Bank (WB). A next review will be performed before end of 2007.

⁹⁷ ST = Short term (could be largely implemented in a 12-month time. MT = medium term (could be implemented within a period of 1-5-year time). ST-MT = Short to medium term (some aspects but not all could be implemented in a 12-month time); LT = Long term (could be implemented after a 5-year time)

⁹⁸ ADM = Administrative action. LEG = action requiring change in legislation.

⁹⁹ NO = Does not require further technical assistance (could be implemented with current available capacity); IC = could be implemented with current available capacity, complemented with an exchange international expertise. YES = additional technical assistance could be required

Actions and Timeframe ⁹⁷	Responsible	Basis ⁹⁸	Technical Assistance required? ⁹⁹
<ul style="list-style-type: none"> Develop technology to consolidate NFPS's budget [done] Analyze and make a decision on the use of database of decentralized and autonomous entity database Ander MFP supervision for consolidation of non-financial public sector fiscal accounts [ST] Publish (on web page) government agreements on NFPS budgets [ST] Lacking consolidation by SICOIN, produce manually annual budget consolidations of NFPS (on an ex-post basis for information purposes) [MP] 	MFP	ADM	NO
<ul style="list-style-type: none"> Publish in a web page the governmental agreements (acuerdos gubernamentales) for approval of bi-monthly budget transfers [done] Formalize the above-described procedures.[ST] 	MFP	ADM	NO
<ul style="list-style-type: none"> Technical Assistance (TA) to strengthen budget exercises in the mid-term and result-based management [ST-MT] Prepare exercises for assessment of indicators [MT] 	MFP	ADM	YES
<ul style="list-style-type: none"> Technical Assistance (TA) for improvement of quality of budget documents (in terms of the Fiscal Budget Code) and creation of capacity to manage contingent arrears and sustainability and risk analysis [ST-MT] 	MFP	ADM	YES
Budget execution			

Actions and Timeframe ⁹⁷	Responsible	Basis ⁹⁸	Technical Assistance required? ⁹⁹
<ul style="list-style-type: none"> Establish a management system that enables the linkage Guatecompras-SICOIN via e-purchase order [done] Perform a thorough analysis to manage registry of commitments and accruals, including key topics such as periodicity of quotas, execution through global budget lines (transfers), and the issuing of commitment certificates to suppliers [ST] Take action to resolve the adequate register of commitments and accruals [MT] Take action to reduce execution via global budget transfers [MT] Complement actions above by providing training to executing agencies [ST-MT] Implement a contract management module to follow-up on SIAF. contracts [MT] 	MFP MFP MFP MFP MFP MFP	ADM ADM ADM ADM ADM ADM	NO YES YES YES YES YES
<ul style="list-style-type: none"> Implement a payroll and registry system of SIAF staff at the central administration level (except for the Education Sector) [ST] 	MFP	ADM	NO
<ul style="list-style-type: none"> Establish a contingency plan for SIAF's IT system (including an analysis of a high-availability back-up site [ST]) Establish mechanisms to secure the institutional sustainability of SIAF as far as the IT system administration and the municipal component [MT] Strengthen cooperation with the Office of the Controller and Accountant General for municipal compliance with register of transaction in SIAFMUNI and SIAFITO-MUNI [ST-MT] Keep on training strategy for capacity building in municipalities [ST-MT] 	MFP MFP MFP-CGC MFP	ADM ADM ADM ADM	NO NO YES YES
Treasury, registry of debt and accounting			

Actions and Timeframe ⁹⁷	Responsible	Basis ⁹⁸	Technical Assistance required? ⁹⁹
<ul style="list-style-type: none"> • Update of trust fund commitment manual [done] • Perform a study on use of trust fund procedures and options to improve the manual and making it mandatory [ST] • Perform a thorough legal study to analyze the feasibility of incorporating non-entrepreneurial central government agencies to the payment system through the single treasury account [ST] • Perform a study for incorporation of loan-financed projects and grants to the payment system through the single treasury account [ST] 	<p>MFP</p> <p>MFP</p> <p>MFP</p> <p>MFP</p>	<p>ADM</p> <p>ADM</p> <p>LEG</p> <p>ADM</p>	<p>YES</p> <p>YES</p> <p>NO</p> <p>YES</p>
<ul style="list-style-type: none"> • Implement SIAF-MUNI in 110 municipalities by end of 2005 and prepare a template SIAFITO-MUNI to capture outstanding municipal debt balance [done] • Establish an agreement with INFOM for a systematized flow of information in order to improve data collection process on municipal debt [ST] • As part of TA on municipal indebtedness policy, analyze the risk management regulations for bank credits as related to municipalities [ST] 	<p>MFP</p> <p>MFP-INFOM</p> <p>MFP</p>	<p>ADM</p> <p>ADM</p> <p>ADM</p>	<p>NO</p> <p>NO</p> <p>YES</p>
<ul style="list-style-type: none"> • Produce assets auxiliary registries (based on the relevant SIAF module) for the central government administration [ST] • Prepare a proposal of Governmental Agreement (Acuerdo Gubernativo) on accounting regulations and policies applicable to NFPS (adapting some NICSP), performing a prior review of budget implications [ST] • Improve quality of presentation (e.g., content of explicative notes, dis-aggregation at the program level) of annual budget liquidation reports [ST-MT] • Expand the level of detail of annual transfer liquidations. [MT] 	<p>MFP</p> <p>MFP</p> <p>MFP</p> <p>AFP</p>	<p>ADM</p> <p>ADM</p> <p>ADM</p> <p>ADM</p>	<p>NO</p> <p>YES</p> <p>NO</p> <p>NO</p>
Management of Procurement			

Actions and Timeframe ⁹⁷	Responsible	Basis ⁹⁸	Technical Assistance required? ⁹⁹
<ul style="list-style-type: none"> Implement a training program for institutional procurement units (it requires staff strengthening and equipment supply) [MT] Provide TA for the development of procurement management tools (procedural manual, guidelines on key aspects of procurement) [ST] 	MFP	ADM	YES
<ul style="list-style-type: none"> Provide TA for the establishment of a strategic vision in procurement (considering the linkage with the budget system) [ST] Provide TA for the establishment of a baseline for performance indicators and the methodology of oversight [ST] 	MFP	ADM	YES
<ul style="list-style-type: none"> Provide TA for the preparation of standard bidding documents Provide TA for the preparation and merging of goods and service catalogues [MT] 	MFP	ADM	YES
<ul style="list-style-type: none"> Provide TA for the preparation of a government procurement strategy (pursuant the objectives of consolidated purchases) [ST-MT] 	MFP	ADM	YES
Legislation on financial management and procurement and contracting			
<ul style="list-style-type: none"> Give consideration to update of the laws based on the recommendations delivered in the CFAA/CPAR report and the ROSC report on Fiscal Transparency [MT-LT] 	MFP	LEG	YES
Auditing and external monitoring			
<ul style="list-style-type: none"> Expand the basis for auditors (approximately 300 auditors and 200 assistant auditors) [done] 	CGC	ADM	NO
<ul style="list-style-type: none"> Auditors to comply with legal requirements of professionalization [ST] 	CGC	ADM	YES
<ul style="list-style-type: none"> Provide TA for the performing of a study for the creation of Central American Auditing Institute (for the strengthening of auditor's capacity) [ST] 	CGC	ADM	YES

Actions and Timeframe ⁹⁷	Responsible	Basis ⁹⁸	Technical Assistance required? ⁹⁹
<ul style="list-style-type: none"> • Provide TA for the development of risk assessment techniques for audit planning [ST] • SAG's development substantially ready for use in budget audits [ST] • Implementation of SAG in a majority of budget audits [MT] 	CGC MFP-CGC MFP-CGC	ADM ADM ADM	YES YES YES
<ul style="list-style-type: none"> • Issuing of an agreement on municipal accountability (scheduling of reports) [ST] • Continue to follow up (and enforcement of sanctions for non-compliance) on the registry of transactions in SIAFITOMUNI / SIAFMUNI [ST-MT] 	CGC CGC	ADM ADM	NO NO
<ul style="list-style-type: none"> • Advertise yearly and twice-yearly reports via webpage [ST] 	CGC	ADM	NO
<ul style="list-style-type: none"> • Keep up implementation of training programs for UDAs [ST-MT] 	CGC	ADM	NO
<ul style="list-style-type: none"> • Implement and agreement with Coalición por la Transparencia for strengthening of the Controller's Office and General Accounts [done] • Carrying out dissemination sessions to 110 Social Audit Committees (COAS) in 2006 [done] 	CGC CGC	ADM ADM	NO NO
<ul style="list-style-type: none"> • Ensure coordination with MFP for the modernization of official documentation (i.e., caja fiscal, inventory books) based on SIAF's technological tools [MT] 	CGC-MFP	ADM	NO

Annex II Background Papers and Persons Interviewed

List of Background Papers

Acción Ciudadana (February, 2005). Guatemala: Notes on the state of Public Procurement Systems.

Arias, Luis (February, 2005). Guatemala: Notes on Municipal Financial Management.

Bermejo y Asociados (February, 2005). Guatemala: Notes on the State Procurement Law.

De Baquero, Patricia (February, 2005). Guatemala: Notes on PPI.

Fanta, Enrique (February, 2005). Guatemala: Notes on Tax Administration.

Forero, Henry (February, 2005). Guatemala: Notes on SIAF/SAG information technology.

Guardiola, Ulises (February, 2005). Guatemala: Notes on Internal and External Auditing.

Guzmán, Marcela (February, 2005). *Sistema de Control de Gestión y Presupuesto por Resultados: La Experiencia Chilena*. Presentation given to officials of the Government of Guatemala.

Maul Rivas, Hugo (April, 2005). Guatemala: Notes on the Functions of Congress vis-à-vis Government Budgeting and the Participation of Civil Society Organizations in Budget Analysis.

Palladino, Carmen (February, 2005). Guatemala: Notes on Government Accounting.

Pflucker, Hernán (February, 2005). Guatemala: Notes on Management Information Systems (SIAF, Ministry of Education, Ministry of Health, and Ministry of Communications).

Plangemann, Kathrin (March, 2005). Guatemala: Note on Public Employment and Civil Service Administration. Background paper for the Public Expenditure Review.

Prada, Luis (February, 2005). Guatemala: Assessment of the Ministry of Education Capacity to Implement Procurement Applying Country Systems.

Prada, Luis (February, 2005). Guatemala: Assessment of the Ministry of Health Capacity to Implement Procurement Applying Country Systems.

The Guatemalan Consulting Group (May, 2005). *Guatemala: Evaluación de alto nivel de las Compras Gubernamentales*.

Veiga Malta, Joao (February, 2005). Guatemala: Notes on e-Government Procurement.

List of Persons Interviewed

NAME	POSITION	ENTITY
Aarhus, María	Deputy Chief Development and Standards	State Accounting Department – Ministry of Public Finance
Alfaro, Roberto	President	Guatemalan Congress
Anders, Glenn	Director	USAID
Andrino, Jorge Mario	Modernization Coordinator	COPRE
Archila, Romeo Augusto	Chief of Public Finance	Central Bank
Arévalo, Gustavo	Budget advisor	MINFIN
Arias M., Luis Alberto	Executive President	INDE Consultants
Asmus, Lucrecia	Coordinator for External Financing	Municipal Development Institute
Avila G., Edgar R.	Director of Internal Audits	CGC
Barreda, Orlando	Advisor	CGC
Barrera, Luis	Sub-Director of Financial Administration, UDAF	Ministry of Education
Barrera, Novato	Treasurer	Municipality of Siquinalá
Bolaños, Federico	Technical Advisor	Ministry of Communications
Bolaños, Lisardo	Economic Coordinator	CIEN
Bonilla, María Antonieta de	Minister of Finance	Ministry of Finance
Bonilla, María Isabel	Legal Director	Centro Investigaciones Eco. Nacionales
Bran Reyes, Juan Rodolfo	Accountant	Municipality of Sta. Lucía Cotz.
Brou de Nolte, Claudia	Finance coordinator	COPRE
Camey, Edgar	Director of Finance	CGC
Carranza, Víctor	Telecommunications	SAG Project
Castañeda Arana, Miriam	Vice-Minister of Education	Ministry of Education
Castillo, Manuel Eduardo	Minister of Communications	Ministry of Communication
Chacón de Pernillo, Aura M.	Sub Director of Accounting Dep..	State Accounting Department – Ministry of Public Finance
Chavac, Alfredo	Accountant Manager	State Accounting Department – Ministry of Public Finance
Chen, Zoyla	Unit of Budget Analysis	Guatemalan Congress
Chuy, Daris	Chief Budget Execution Department	State Accounting Department – Ministry of Public Finance
Colindres, Mario Rene	General Manager	Ministry of Public Health
Colop De León, Miguel	Planning Consultant	Ministry of Public Health
Coronado, Marco Tulio	Modernization Department	Guatemalan Congress
Corzo, Herbert	Security Expert	SIAF
Coyoy E., Erick	Advisor for the Minister	Ministry of Public Finance

Coyoy Echeverría, Erick	Advisor to the Minister	Ministry of Public Finance
Cuc Zeten, Luissa	Cashier	Municipality of Sololá
Dávila, Rusel	Jefe Depto. Desarrollo y Normativa	State Accounting Department – Ministry of Public Finance
De León Barrios, César Augusto	Director of Quality of Public Debt	CGC
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De Leon Hernandez, Jorge Estuardo	Director of Planning	Ministry of Education
De León, Anabella	Deputy	Guatemalan Congress
De León, César	Director	Controller's Office
De León, Werner	IT Manager	Ministry of Public Finance
De Mata Bran, Edgar Leonel	Accountant	Municipality of Escuintla
Díaz López, Dora	Financial Specialist of Public Debt	Ministry of Public Finance
Díaz, Jorge	Payroll Team Leader	SIAF
Domínguez, Alicia	Depto. de Desarrollo y Normativa	State Accounting Department – Ministry of Public Finance
Donnis Aquino, Freddy	Director	International Coop., Office of Auditor General
Durán, Eduardo Wagner	President	Guatemalan Chamber of Commerce
Escobar, Oscar	Head of Internal Audit	Ministry of Communications
España Pinzón, Jorge Rolando	Chief of Cashier Operations	Ministry of Public Finance
Estrada, Luis	Head of Internal Audit	Ministry of Education
Farfán Alvarez, Oty Aixa	Human Resources Consultant	SIAF-SAG, Ministry of Public Finance
Figuroa Duarte, Noelia	Director of Human Resources	CGC
Figuroa, Werner	Head of Management Information System (SIGSA)	Ministry of Public Health
Fión, Ramón Antonio		AGIP
Flores España, Joaquín	Comptroller	CGC
Florido, Juan Luis	Fiscal General	Public Ministry
Fonseca, René	Consultant	MINFIN
Forkel, Hugo	Head of IT	Ministry of Communications
Fun Yaxon, Santa Isabel	Receiver	Municipality of Sololá
Funes, Luis Arturo	Treasurer	Municipality of Sololá
García, Alfredo	Director of Financial Administration	Ministry of Education
García, Lazaro	Responsible for preparation of budget, UDAF	Ministry of Education
Garrido, Eduardo	Intendente	Banks Superintendence
Girón Sapón, Edilzar Robert	Head of Budget	Municipality of Sololá
Girón, Carlos Enrique	Director	Public Goods Department – Ministry of Public Finance

Gómez Cal, Angel Francisco	Bank Conciliation	State Accounting Department – Ministry of Public Finance
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Gonzáles Castillo, Eduardo	Secretary	Secretariat of the Presidency
Gonzáles Mérida, Noemí	Chief of the Public Debt Department	MINFIN
Granados, Carlos	Director of Municipal Strengthens	INFOM
Granja, Richard	IT Analyst	SAG Project
Guerrero R., Myriam	Consultant, USAID Support Unit	CGC
Guzman C., Luis A.	National Audits Consultant, SIAF-SAG	Ministry of Finance, CGC, World Bank, PNUD
Hernández Figueroa, Raúl		Agricultural Chamber
Herrera Flores, Elsin Noel	Bank conciliation	State Accounting Department – Ministry of Public Finance
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Herrera, Rolando	Head and Accountant, UDAF UE Superior Directorate	Ministry of Communications
Huargax, Cruz	Head of Accountings	Municipality of Sololá
Lavarreda, Jorge		Coalición por la Transparencia (NGO)
Layton, Richard W.	Comptroller, Finance and Business Management	USAID
Lechuga Chicas, César		Fundemop
Lee, David	Comptroller, UDAF	Ministry of Education
Lemus, José Francisco	Director of Sub-Controllership of Probity	CGC
Lemus, Rubén	Budget Director	Ministry of Public Finance
Leyton, Richard	Comptroller	USAID
Lima Mejía, Ana Lucrecia	Sub Coord. of Municipalities	Ministry of Public Finance
López Armas, Jorge Luis	Bank Conciliation	State Accounting Department – Ministry of Public Finance
López Molina, Juan Manuel	Treasurer	Treasury Directorate
López Velasquez, César Roberto	President	Guatemalan Institute of Public Accountants and Auditors
Lopez, Ana Maria	Director, UDAF	Ministry of Public Health
López, Ovidio	Chief of Income Section	State Accounting Department – Ministry of Public Finance
Marin, Berta Lidia de	Vice-Minister of Communications	Ministry of Communication
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Martínez, Luis	Budget Depart.	MINFIN
Mazariegos, Violeta	Executive Director	Transparency Commission
Méndez Jeréz, José Raúl	Director	SEGEPLAN

Méndez, Anabella	Sub Director of Financial Administration	INFOM
Mendez, Jorge	Deputy	Guatemalan Congress
Mendez, Raúl	Director	SEGEPLAN
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Montaván, Marco Antonio	National Coord. for Municipalities	MINFIN
Montenegro de Rodas, Celia	Human Resources Consultant	SIAF-SAG, MINFIN
Monterroso, Jorge	Planning Director	Ministry of Public Health
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Morales, Lorena	Treasurer, UDAF	Ministry of Education
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Pérez, Verónica	Consultant	Office of Public Goods System
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Ponciano, Eddie	Internal Sub-Auditor	Ministry of Communications
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Salguero, Janet	Accountant, UDAF	Ministry of Public Health
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Spross, Verónica		Maratón del Lápiz
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Whitbeck P., Harris H.	Presidential Commissioner	Presidential Commission for the Reform, Modernization and Strengthening of the State, COPRE
Zepeda Herman, Alvaro	President	Guatemalan Chamber of Construction

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MAP SECTION

