



Guatemala

Performance Report on Public Expenditure and Financial Accountability (PEFA)

REPORT ON PUBLIC EXPENDITURE
AND FINANCIAL ACCOUNTABILITY (PEFA)



Final Report

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Preface

This report on the Public Expenditure and Financial Accountability (PEFA) for the Republic of Guatemala was completed by the technical team that is comprised of Team Leader Antonio Blasco, World Bank officials Álvaro Larrea and José Eduardo Gutiérrez Ossio, and consultants Karla González, Claribel Acosta, Ulises Guardiola, and Hernán Pflücker. All the required information for the analysis of the indicators was obtained and evaluated by the members of the technical team in close collaboration with government officials. The information used in this report was collected between April 13 and October 18, 2009. In January and February 2010, the Government and members of various international aid agencies submitted comments on the preliminary report presented on December 10, 2009, and these comments have been taken into consideration in the preparation of the final report. The report has been produced through the initiative of the Government of Guatemala with the support of numerous international aid agencies. Its objective is to support the reform and modernization

efforts of the government with regard to financial administration through the application of an integral methodology of evaluation, providing inputs to further advance and plan for future reforms. This evaluation was financed by the World Bank, the Inter-American Development Bank, and the European Commission. The authors of the report are responsible for the contents. The report does not necessarily reflect the opinions and points of view of the World Bank, the Inter-American Development Bank, the European Commission, the Government of Guatemala or the PEFA Secretariat, entities who submitted comments on the preliminary report. The members of the technical team wishes to thank the authorities, officials, and staff of the public entities, the representatives of the international organizations, and all the individuals who contributed to the completion of this evaluation for their availability and constructive collaboration. In addition, they acknowledge the unfaltering assistance, support, and collaboration by the Government of Guatemala.

List of abbreviations

AECID (in Spanish)	Spanish Agency for International Development Cooperation (Agencia Española de Cooperación Internacional al Desarrollo)
BANGUAT (in Spanish)	Bank of Guatemala (Banco de Guatemala)
CABEI	Central American Bank for Economic Integration
CAUCA (in Spanish)	Central American Uniform Customs Code (Código Aduanero Uniforme Centroamericano)
CGO	Comptroller General's Office (Contraloría General de Cuentas-CGC)
CIDA	Canadian International Development Agency
COPEP (in Spanish)	Budget Planning and Execution Committee (Comité de Programación y Ejecución del Presupuesto)
CPI	Consumer Price Index
CTFP (in Spanish)	Technical Commission of Public Finances (Comisión Técnica de Finanzas Públicas)
DAEF (in Spanish)	Directorate of Fiscal Analysis and Evaluation (Dirección de Análisis y Evaluación Fiscal), Ministry of Public Finance
DCE (in Spanish)	Directorate of State Accounting (Dirección de Contabilidad del Estado), Ministry of Public Finance
DNACE (in Spanish)	Normative Directorate of State Contracting and Procurement (Dirección de Normativa de Adquisiciones y Contrataciones del Estado)
DTP (in Spanish)	Technical Directorate for Budgeting (Dirección de Técnica de Presupuesto), Ministry of Public Finance
EAP	Economically Active Population
EC	European Commission
FAU	Financial Administration Unit (Unidad de Administración Financiera-UDAF)
GAS	Government Auditing Standards
GDP	Gross Domestic Product
GFS	Government Finance Statistics Manual of the IMF
GUATECOMPRAS	State Procurement and Contracting System
GUATENOMINA	State Payroll Registry and Administration System
HEA	Highest Executive Authority
IAU	Internal Audit Unit (Unidad de Auditoría Interna-UDAI)
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
IGSS (in Spanish)	Guatemalan Social Security Institute (Instituto Guatemalteco de Seguridad Social)
IMF	International Monetary Fund
INFOM (in Spanish)	Municipal Development Institute (Instituto de Fomento Municipal)
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
MAGA (in Spanish)	Ministry of Agriculture, Livestock, and Foods (Ministerio de Agricultura Ganadería y Alimentación)
MICIVI (in Spanish)	Ministry of Communications, Infrastructure and Housing (Ministerio de Comunicaciones, Infraestructura y Vivienda)
MINEDUC (in Spanish)	Ministry of Education (Ministerio de Educación)
MINFIN (in Spanish)	Ministry of Public Finance (Ministerio de Finanzas Públicas)
MINGOB (in Spanish)	Ministry of Interior (Ministerio de Gobernación)
MSPAS (in Spanish)	Ministry of Public Health and Social Assistance (Ministerio de Salud Pública y Asistencia Social)
NGCI (in Spanish)	General Standards of Internal Control
NIT (in Spanish)	Tax Identification Number (Número de Identificación Tributaria)
NT	National Treasury (Tesorería Nacional-TN), Ministry of Public Finance
ONSEC (in Spanish)	National Office of the Civil Service (Oficina Nacional del Servicio Civil), attached to the Presidency of the Republic
PFM	Public Financial Management
RTU (in Spanish)	Unified Tax Register (Registro Tributario Unificado)
SAT (in Spanish)	Superintendency of Tax Administration (Superintendencia de Administración Tributaria)
SEGEPLAN (in Spanish)	Secretariat of Planning and Programming (Secretaría de Planificación y Programación) of the Presidency of the Republic
SICOIN (in Spanish)	Integrated Governmental Accounting System (Sistema Integrado de Contabilidad Gubernamental)
SIAF (in Spanish)	Integrated Financial Management System (Sistema Integrado de Administración Financiera)
SIAF_MUNI (in Spanish)	Integrated Municipal Financial Management System (Sistema Integrado de Administración Financiera Municipal)
SNIP (in Spanish)	National Public Investment System (Sistema Nacional de Inversión Pública)
USAID	United States Agency for International Development
WTO	World Trade Organization

Note: Abbreviations that are specific to Guatemala will remain as those used in the country, such as the Ministries and other government institutions and systems.

Assessment summary

The PEFA evaluation is based on an analysis of the six principal dimensions of public financial management with the objective of measuring their quality by comparison with good international practices. The analysis consists of the measurement of the state of 28 high-level indicators, which are evaluated objectively using standardized procedures. This allows for the monitoring of the performance of the diverse parameters through time. The PEFA is only an assessment of the indicators, and although it detects some aspects that may suggest incipient

development, it does not constitute a diagnostic for public financial management. The possible weaknesses identified during the assessment must be subsequently analyzed in order to determine the causes, the benefits in strengthening them, and the most feasible way to overcome them. The PEFA assessment can provide useful inputs to the reform managers with the objective of strengthening and improving the state of the initiatives and reforms, as well as the consolidation of the six dimensions of public financial management.

I. Principal results of the PEFA assessment

A detailed evaluation of the PEFA indicators reveals that the public financial management (PFM) performance in Guatemala for the analyzed period (2006–2008 and a part of 2009 for some indicators) contains various points of strengths and weaknesses. The most relevant strengths and weaknesses are listed in the following table.

Table ER.1 Principal strengths and weaknesses identified in the PFM

Indicator	Most relevant strengths
ID-1	The differences between the aggregate expenditure and the approved budget were not significant.
ID-3	Collection of internal tax covered the budget provisions.
ID-10	Public access to key fiscal information is widespread, simple, and without restrictions.
ID-12	Adequate monitoring of public debt and the existence of a multiannual system of budgetary planning based on sectoral strategies and plans.
ID-13	Taxpayers have easy access to information on tax and administrative procedures. The administrative resources for tax administration function efficiently with transparency and independence.
ID-14	The Registry of Taxpayer permanently maintains updated data and the fiscalization system such as the tax audit operate with annual plans based on risk criteria.
Most relevant weaknesses	
ID-2	Institutional budgets were modified in significant amounts during the period of analysis.
ID-4	Payment delays were observed in the entities, the amounts of which could not be determined confidently.
ID-5	The budgetary classification does not satisfy the minimal conditions of quality established by good international practices.
ID-7	The level of spending not reported in the fiscal reports exceeded 10% of the national budget.
ID-8	Information submitted to the municipalities about the allocation of funds is extemporary. Municipal fiscal information is not consolidated with the rest of the information for the non-financial public sector ² .
ID-9	No consolidation and information management of the finances of the non-financial public sector exist with the objective of fiscal risk analysis.
ID-18	No personnel database and classifier of updated posts and functions in the public sector exist. Audits are not verified with the personnel systems.
ID-19	No clear State preference exists for the use of procedures for open competition, due to the diversity of valid legal exceptions to not use the procedures that would ensure competition.
ID-20	CGC reports reveal that failure to comply with regulations and internal control is frequent.
ID-24	The information in SICOIN on registered budget execution shows evidence for weaknesses that affect the quality of information, impacting the lack of effectiveness in the decision-making with regard to financial administration.
ID-25	Financial statements of the central government contain significant omissions in the reporting of expenditures, revenue, and ledger account balances.
ID-28	Congress has neither made pronouncements on the budgetary liquidations of the Executive Branch nor has it given recommendations about them.

² The consolidation of budgetary accounts of the non-financial public sector -in its first phase without local governments- is functioning since mid-2009

Guatemala has developed a financial administration reform process that, over the last fifteen years, has made very important advances in almost all the aspects of public financial management. These advances are not adequately reflected in the present report, primarily due to the fact that, in the period analyzed, a combination of special circumstances and a state of national emergency affected the management of the Government, negatively impacting various aspects of management, and consequently, some of the PEFA indicators. The year of 2006 was a year

of reconstruction in response to the damages caused by hurricane Stan, which obligated the Government to reassign its budgetary priorities. The budget of 2007 was not approved by Congress because the budgetary parameters had to be compared with the approved figures of 2006. The year of 2008 marked the beginning of a new administration that had to operate with a budget formulated by the previous administration which did not necessarily correspond to the priorities of the new administration.

The primary conclusions on the principal dimensions of the PEFA methodology are presented below.

Credibility of the budget.

In the period of study, analysis of the official figures showed an adequate fiscal performance. A disarticulation was revealed, however, between budget management and sector necessities. Additionally, in the official reports the total expenditure and revenue approved by Congress were reasonably respected. However, the budgetary re-allocations at the institutional level were significant, modifying the original sectoral budget and distancing themselves from the partial amounts approved by Congress. This circumstance was aggravated by the periodic occurrence of budget execution in such a way that Congress would not approve the corresponding budget according to the

anticipated schedule, leaving the previous year's budget current for the following year. Another fact that unfavorably impacts the material and credibility of the budget was the presence of significant levels of non-registered, floating debt as well as the lack of instruments to quantify it. The official figures did not completely show the reality of execution, and the link between institutional management and budget was found to be weak. Thus, the credibility of the budgetary figures of expenditure in the period analyzed was low. In terms of the revenue, however, the measurements indicate that they were predictable during the study period and permitted the compliance with the budgetary estimates approved by Congress.

Comprehensiveness and transparency.

The budgetary information, in its diverse presentations, does not facilitate adequate monitoring of expenditures. Some elements of the budgetary classifier -applied to the 2008 budget- created divergences from good international practices³. Certain valid budgetary practices in the 2008 analysis permitted a significant volume of operations to not be adequately or appropriately registered, or to remain excluded from the budgetary proceedings and reports of 2008. These practices consisted of execution through trusts and agreements, transfers to Development Councils, USAC and certain

practices of the generation of floating debt. In this way, the informational instruments of SIAF lost efficacy in their function to control and make management transparent. The procedures to transfer funds to municipalities did not facilitate the provision of reliable and timely information so as to be able to adequately formulate their budgets. Access to information registered in the SICOIN and GUATECOMPRAS systems was complete and simple, allowing the public and civil society institutions to obtain updated, official information about budget execution and State contracting.

Policy-based budgeting.

The budget formulation process takes into account clear norms and procedures that are well understood and respected by the public institutions. Moreover, it is a participatory process that allows the timely presentation of the draft budget to Congress. Although a multiannual budget is prepared, it is not binding for the definition of the institutional budgetary threshold. These circumstances lead to the conclusion that the

links between fiscal and sectoral policies as well as spending priorities and institutional plans of action are weak. Administration of public debt, on the other hand, brings about continuous monitoring and its sustainability. The lack of approval of certain annual budgets affects developing links between resources and policies for the period under consideration.

Predictability and control in budget execution.

In terms of the revenue, compliance of the Congress-approved budgetary goals of collection was verified. The analyzed information indicates that a normative framework concerning tax issues exists, which were found to be adequate. On the other hand, the management of the national treasury included programming procedures which generated uncertainty to compromise spending by the institutions and which resulted in little transparency⁴. The administration of the State's human resources presented various administrative and operative weaknesses, determining that they were inefficient and compromising, in some cases, the timely payment to public servants, whose payroll was never audited. In this way, the classification of posts was

distorted, and the administration and integrity of the workers' employment history was compromised. The use of State procurement and contracting systems was limited for a significant part of the public spending due to the use of trusts and agreements, in which procurement rules are not applicable⁵. Moreover, the procurement system is affected by the weaknesses of the normative framework that make it less clear and permissive in the contracting processes and less impartial in the solution of disputes. The systems of internal control and audit were not effective in expenditure control. In general, the normative framework and control of the budget execution for the years 2006, 2007, and 2008 were ineffective in financial administration procedures.

³ The transfer of the valid classifier to internationally accepted classifiers constitute a gradual process that exceeds the duration of a fiscal year. The government is progressively implementing them.

⁴ The Government anticipates implementing changes in the management of the national treasury that will permit budgetary programming to be conducted in accordance with financial availability estimates.

⁵ Recent modifications to the Law of State Contracting establish as obligatory the use of the system GUATECOMPRAS for purchases and procurements that are realized with resources from trusts (Article 54 Law of Contracting)

Accounting, recording, and reporting.

For the study period, a growing tendency was perceived to execute the budget through alternate systems to the State systems or through delayed recording. This causes a significant part of the public funds to be transferred to accounts outside of the Treasury's control⁶. The accounting records also do not adequately reflect the reality of the spending in due course. A significant part of the primary units of service providers do not register their transactions directly, but rather through procedures of accounting with sectoral or regional units. This is

due to the limited monitoring of the management of aforementioned primary units, and their information becomes outdated and difficult to separate out. Given the exposed problems, the intermediate budgetary reports do not adequately reflect the real expenditures or they were simply omitted. Although prepared punctually and the presentation formalities to Congress and the Comptroller fulfilled in a timely manner, the financial statements of the central government reflected only the registered information and not the totality of the execution.

External scrutiny and audit.

Although the external audit function satisfied some formal aspects, such as the timely presentation of the annual reports on budget settlement, effectiveness was reduced due to the following factors. The governmental auditing norms were partially applied, focusing principally on transactional audits. In addition, weakness and lack of effectiveness was evidenced in the sanctions applied to the findings base of the aforementioned reports. Legislative scrutiny of the budget bill satisfied the clear

and adequate legal formalities, but lacked in the appropriate technical procedures because their revision did not always reach conclusions. That is, the budgets for the years 2004 and 2007 were not approved. The legislative scrutiny of the external audit has been, for Congress, a non-prioritized function that was executed only at the Commissions level without producing any opinions, comments, or recommendations from the Legislative Assembly.

Donor practices.

A significant number of donors exist who, as a whole, have provided disbursements for budgetary support within the limits of the budget provisions. This is contrary to the case of direct support, as evidenced by the lack of information on the predictability of financial programming on the part of international aid, which impacts the budgetary predictability and increases the probabilities of subsequent budget modifications. Direct support makes limited use of national systems overall. The budget system to record

expenditure is predominantly employed, while the national system of procurement is hardly used. In no case does the Comptroller intervene for external audit requirements. In addition to the potential to use national systems, there exists a variety of execution norms and requirements associated with each donor that increases the transaction cost for the Government, constituting an opportunity to come into accordance with the expressed objectives of the Paris Declaration and Accra Agenda for Action.

⁶ Although the Budget Execution Manual, established through agreements, outlines the rules for budget execution, the Government is searching for mechanisms to remove incentives for this form of budget execution so as to eliminate it entirely.

II. *Evaluation of the impact of the PFM weaknesses*

Aggregate fiscal discipline.

The budget formulation process is framed within clear and stated principles of fiscal discipline. However, in the study period, budget execution has been affected by the generation of undeclared floating debt, which turned out to be a significant amount. In view of these results, it is evident that the budget estimates proved to be disconnected from the executions of the

sectoral entities, affecting the principles of fiscal discipline. Yet, at the aggregate level, the principal macroeconomic indicators showed adequate behavior. Thus the PFM did not constitute a problem for macroeconomic stability due to the low levels of public debt, but at the same time, the public debt did not help with the quality of public spending.

Strategic allocation of resources.

The analysis of budgetary allocations to institutions from 2006 to 2008 shows that the original estimates were significantly modified during budget execution. The sectors principally involved in the provision of primary services such as education, health, and security among others, saw their budgets reduced significantly during budget execution. Such reduction

indicates disconnection between the processes of formulation and budget execution, in addition to showing that the initial priorities of the government do not necessarily coincide with those applied in the budget execution. This made it difficult for the operative management of sectors, consequently affecting the quality of the sectoral service provisions.

Efficient provision of services.

Although some sectors have organizational structures that adequately promote operative decentralization, such as the education and health sectors, the applicable administrative procedures -in particular, those linked to payroll spending- resulted in cases of delinquent and inefficient accounts. This aspect of management, though not involving a significant amount, turns out to be critical to sectoral management, given

that in large part the primary services provision is linked to the management of individuals involved directly with the provision of services, including teachers, doctors, auxiliary health personnel, and police. In some cases, these individuals received their pay checks after several months of delay, which negatively affects the productivity of such sectors.

III. Perspectives on reform planning and application

The institutional structure of the public sector adequately identifies the sectors' set of problems, suggesting a decentralization system that facilitates the treatment of specific sectoral themes. There is recognition for the historical fact that reform processes, which are normally complex and face limited success in other countries, have been implemented adequately and relatively rapidly in Guatemala. Given this background, the implementation of SIAF at various levels including the central government and sub-national

governments has been possible. Yet even though the management systems are implemented with relative ease, the procedures of control and supervision that must accompany the reformed management were not carried out with the same facility. The lack of proper implementation indicated that the reformed processes were not applied as they had been conceptualized. This weakness, coupled with a debilitated penal system, reduces the effectiveness of the reforms and contributes little to an improved PFM.

Evaluation of indicators

Indicator	Concept	Scoring
A. PFM Outturns: Credibility of the budget		
ID - 1	Aggregate expenditure out-turn compared to original approved budget	A
ID - 2	Composition of expenditure out-turn compared to original approved budget	C
ID - 3	Aggregate revenue out-turn compared to original approved budget	A
ID - 4	Balance and monitoring of expenditure payment arrears	D
B. Key Cross-cutting issues: Comprehensiveness and transparency		
ID - 5	Classification of the budget	C
ID - 6	Comprehensiveness of information included in budget documentation	A
ID - 7	Extent of unreported government operations	C+
ID - 8	Transparency of inter-governmental fiscal relations	C
ID - 9	Oversight of aggregate fiscal risk from other public sector entities	C
ID-10	Public access to key fiscal information	A
C. Budget cycle		
<i>c.i) Policy-based budgeting</i>		
ID-11	Orderliness and participation in the annual budget process	B
ID-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	B
<i>c.ii) Predictability and control in budget execution</i>		
ID-13	Transparency of taxpayer obligations and liabilities	A
ID-14	Effectiveness of measures for taxpayer registration and tax assessment	B+
ID-15	Effectiveness in collection of tax payments	N/S
ID-16	Predictability in the availability of funds for commitment of expenditures	C+
ID-17	Recording and management of cash balances, debt and guarantees	B+
ID-18	Effectiveness of payroll controls	D+
ID-19	Competition, value for money and controls in procurement	D+
ID-20	Effectiveness of internal controls for non-salary expenditure	D+
ID-21	Effectiveness of internal audit	D+
<i>c.iii) Accounting, recording, and reporting</i>		
ID-22	Timeliness and regularity of accounts reconciliation	B+
ID-23	Availability of information on resources received by service delivery units	C
ID-24	Quality and timeliness of in-year budget reports	D+
ID-25	Quality and timeliness of annual financial statements	D+
<i>c.iv) External scrutiny and audit</i>		
ID-26	Scope, nature, and monitoring of external audit	C+
ID-27	Legislative scrutiny of the annual budget bill	C+
ID-28	Legislative scrutiny of external audit reports	D+
D. Donor practices		
D-1	Predictability of direct budget support	N/S
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D+
D-3	Proportion of aid that is managed by use of national procedures	C

1. Introduction

This section describes the process and methodology in the preparation of the PEFA Report⁷ with the goal of facilitating the understanding of the

presented information, the context in which the report was developed, and the scope of the public financial management (PFM) assessment.

Objective of the report

The report has been prepared through the initiative of the Government of Guatemala. Its objective is to support the Government's reform and modernization efforts concerning financial administration through the application of an integral methodology of evaluation, providing inputs to further advance and plan for future reforms.

The report presents the results of the analysis of the

financial administration, comprised of the processes and institutions that cross-cut systems. Moreover, by comparing the results with the best international practices, areas of improvement are identified. Thus, the Government agreed to apply the complete PEFA framework⁸. The Government has also shown interest in an in-depth dialogue concerning the state of the financial administration based on the priorities and results of the assessment process.

Objective of the report

The PEFA assessment was financed and conducted by the World Bank in conjunction with the European Commission and the Inter-American Development Bank, members who constitute the technical team. On the part of the Government, the leadership of the mission was assumed by the Office of the Vice Minister of Financial Administration, who facilitate all the institutional contacts in the government, making it possible that the technical team and its respective counterparts in the government work together to accomplish the analysis of the PFM.

With the aim to ensure that the measurements adequately reflect the current situation of the financial administration, the following agreements

were made with regard to the institutional character and management of the PEFA study:

- the formation of a Monitoring Committee⁹ comprised of representatives from the Government and the donors, whose principal responsibility was to ensure the quality of the products;
- the formation of a technical team, whose principal responsibility was to carry the assessment mission through to completion, apply the PEFA methodology, establish the measurements of the indicators, and work on and present the PEFA report. The leader of the technical team was a World Bank specialist in Financial Administration who was based in Guatemala.

⁷ This report is named the Performance Report on Public Financial Management.

⁸ In accordance with the good practices outlined in the Performance Measurement Framework (PEFA Secretary, 2005), the application of the complete PEFA framework refers to the measurement of 28 high-level indicators, as described in the Framework and the present PEFA report. Partial application is strongly discouraged due to existing interrelations between systems, processes, and institutions, which can only be reasonably evaluated applying the integral elements of the complete PEFA framework.

⁹ The Monitoring Committee was comprised of the following institutions represented by their respective officials: EU, Pedro Henríquez, Rodrigo Romero Van Cutsem, Antonio Dal Borgo, Franck Porte; IDB, Débora Sprietzer, Andrés Suárez, José Villatoro; World Bank, Antonio Blasco; and the Government of Guatemala, Edwin Matul, Marco Antonio Gutiérrez.

Coordination of the meetings and full participation by high-ranking officials and their technical teams was made possible by the active involvement and full cooperation in the preparation of the mission by the Government through its representative on the Monitoring Committee.

The process in producing the report started with a preparatory phase which was initiated in November 2008, culminating in the launching of the first field mission carried out from April 12 to April 24, 2009. In this first phase, the scope and methodology of the work was established, formalizing the Concept Note on February 24. In addition, a work plan was prepared, which included the schedule, the principal counterpart of the execution, a preliminary program of meetings, and a list of complementary documentation. For each counterpart, guides for analysis and conversations were also prepared, which contained the primary questions that should be raised during the meetings.

The second phase was characterized by several field missions in Guatemala City. This phase started with the aforementioned mission in April, in which a workshop was conducted with officials and technical experts from the public administration and donors. Fieldwork by means of countless meetings that was carried out throughout this phase focused on obtaining information and evidence necessary to address the indicators that comprise the assessment (see Section 3). During this phase of collecting and analyzing information, the members of the Technical Team executed various field missions, receiving information and evidence from the government, which culminated on October 18, 2009. At this time, to start the writing phase, a preliminary version of

the PEFA Report was prepared, which was presented on August 13 and discussed with the Government in a workshop during the third week of September. During the workshop, the analysis, findings, and conclusions on public financial management were reviewed and validated. On November 4, 2009, a new version of the Report that incorporated the comments received during the workshop with the addition of new evidence provided by the Government was presented. The Report was reviewed by the Minister and the Directors of the Ministry of Public Finance who made final comments.

Through the initiative of the Ministry of Public Finance, the PEFA Technical Team presented the conclusions of the Report to the President of the Republic, the Ministers, and the Secretaries of State in a General Cabinet session on November 17. On November 18, a workshop was conducted which was presided over by the Minister of Public Finance and in which all the Directors of the Ministry and representatives of the international aid community were present. At the workshop, the weaknesses of management identified by the PEFA Report were validated, corrective actions were determined, and the need for additional corrective measures was discussed.

The writing phase concluded on November 30, 2009 when the draft of the PEFA Report was completed. The draft was then presented to the Government and donors for review and final comments.

During the completion phase that ended on March 18, 2010, the comments were integrated into a final draft, which was submitted for review to the PEFA Secretary and the World Bank internal system of review.

Methodology in the preparation of the report

With the aim of ensuring ownership on the part of the Government officials and quality of the products during the assessment process, the following activities were carried out:

- A half-day executive orientation workshop was conducted with the objective of orienting and training the key actors in Government in the PEFA methodology and its advantages as a diagnostic and assessment tool;

- Two assessment missions were carried out with the purpose of collecting information, interviewing the counterparts, and issuing preliminary evaluations. Individually, the members of the Technical Team made subsequent visits to the different institutions, obtaining additional evidence such as clarifying specific aspects of the evaluation;
- The results of the assessment were presented to the counterparts in the workshops for comments and to validate the measurements;
- The Monitoring Committee was informed of the results from the workshop, so that the committee members could approve the draft version of the report and delegate the completion of the final report to the technical team; and
- Through the Monitoring Committee, the authorities of the Government were informed of the assessment results in order to obtain approval to distribute and publish the report. In the analysis and evaluation of the collected

information, the following were applied: (i) PEFA assessment framework; (ii) the orientations on the scope of the assessment and the required sources of information; and (iii) the clarifications published by the PEFA Secretary.

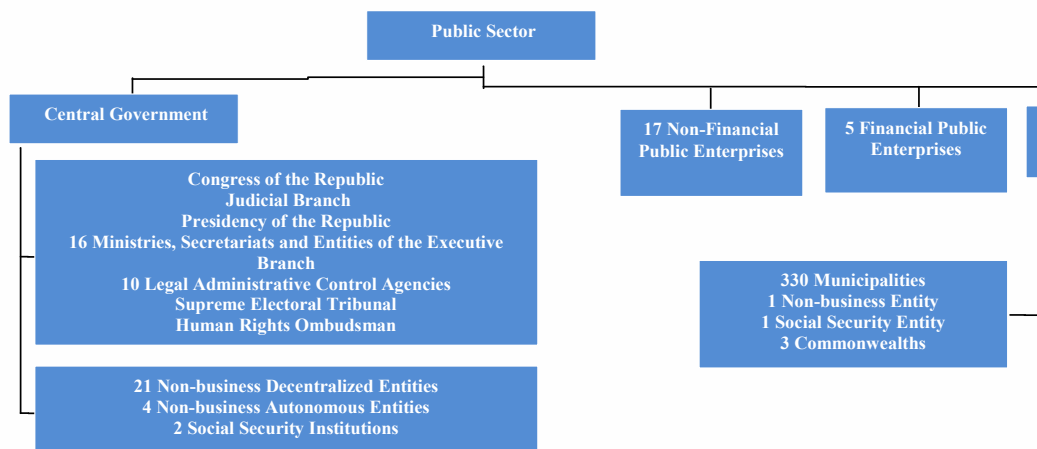
The process of collecting information and evidence for the assessment of the PEFA indicators followed a sequence of activities: (i) organization of information sessions and a training workshop with the principal speakers to familiarize them with the project; (ii) meetings with authorities and technical officials from public institutions, donor representatives, and analysts from civil society; (iii) consultations with the information systems of SIAF and web sites of the public institutions; (iv) compilation of statistics and relevant data for the fiscal years 2006, 2007, 2008, and 2009; and (v) verification of consistency in the data obtained.

Scope of the assessment

The analysis, as agreed upon by the Government, focused on the management of the central government during the years 2006, 2007, 2008, and in some specific aspects, 2009.

The public sector, as noted in the Government Finance Statistics Manual of 2001 of the International Monetary Fund, is defined as the institutional structure of the central government including the decentralized bodies. The Institutional Budgetary Classifier of the Government classifies the bodies of the central government into four

groups: the Central Administration with 29 entities that consist of the Executive Branch, the Legislative and Judicial Branches, and the legal and political governing bodies; the 21 decentralized entities; the 4 non-business, autonomous institutions; and the 2 institutions of social security. The integrated system of financial administration of the government also reports on the budgetary management of 17 non-financial public firms. In the present study, management of the member entities of the four groups identified by the budgetary classifier is included.



Annex A1.11 shows a diagram of the entire structure of the Guatemalan public sector according to the budget classifier.

Table 1.1.1 Distribution of aggregate expenditure among the public sector entities (2009)

Institutions	No. of entities ¹⁰	Aggregate public expenditure	
		in millions GTQ	in %
Central government (including transfers and excluding decentralized institutions)	29	49,723	72%
Decentralized institutions (including transfers received from the central government)	44	18,917	28%
Total central government expenditure	73	68,640	100%

Source: Fiscal Transparency (MINFIN)

¹⁰ According to the institutional grouping defined in the Budget Classifier.

2. Country background information

This section provides general information and describes fundamental characteristics of the Republic of Guatemala. The goal is to facilitate the understanding of the PEFA study (Section 2 and Assessment Summary) and the context of the

reforms in progress (Section 4). The information utilized comes from the analysis on the country's economic situation, the fiscal and spending policies, the legal dispositions, and other pertinent documents.

2.1. Description of the economic situation

Context of the country¹¹

Guatemala is a country with an estimated population of 13.3 million (2007)¹². It encompasses an area of 108,889 km² and is located in Central America between the Atlantic and Pacific Oceans, bordered by Mexico to the north, Belize to the west, and Honduras and El Salvador to the south. Its economy is the largest in Central America with a Gross Domestic Product (GDP) calculated at 32,900 million dollars.

With the signing of the Peace Accords in 1996 that put an end to the 36 years of civil war, the country initiated a period of progress that witnessed a sustained growth in the GDP, which has been maintained in recent years.

Guatemala has a solid background in the prudent management of macroeconomic policies and structural reforms that have contributed to the economic stability in recent years. The real GDP growth rate is estimated at 4 % in 2008, which is a decline from the 6.3 % growth rate in 2007 and 5.4 % in 2006¹³.

The GDP per capita was estimated to reach US\$2,470 in 2007 (World Bank). The poverty and inequality index remain high with relatively low social indicators compared to other medium income economies. Poverty has declined from 56 % to 51 % between 2000 and 2006, while extreme poverty (measured by income or consumption below the poverty line) has slightly declined from 13.1 % to 12.7 % in the same period.

Other indicators of development show that, in 2007, life expectancy was 70 years, infant mortality levels were 31 for every 1000 births (over the average of 22 in Latin America), net enrollment ratio in primary education was 118 % for boys

and 109 % for girls; adult literacy rate was 75 % in men and 63 % in women; and access to potable water sources was 95 % of the population.

The economic structure¹⁴ has changed substantially since the 1980s due to a more diversified agriculture-based economy -dominated by the production of coffee- with an increase in the relative weight of commerce, tourism, and financial services. The commercial and services sectors together generated 34 % of the GDP in 2008, followed by industrial manufacture which totaled 19 % of the GDP and agriculture which represents 11 % of the GDP. In 2004-2008, the transportation/communication and financial services sectors saw the most growth, followed by tourism, energy, and commerce. In terms of employment, commerce and financial services increased their participation with 20 % of the formal employment, followed by the industrial and agricultural sectors with 16 % and 14 %, respectively. Consumption continued to be dominated by the private sector -89 % of the GDP-, supported in part by the rise in the remittances from abroad that continuously increased until 2008, decreasing in 2009. Consumption of the public sector remains small at 9 % of the GDP.

Economic growth has been relatively stable compared with the rest of Latin America. Since 1960, the GDP growth rate per capita in Guatemala averaged around 1.4 %, close to the regional average in Latin America as a whole, but the volatility of Guatemala has been less than half of the regional average. Guatemala recuperated from a period of four years of negative growth in the GDP per capita to 2.7 % in 2004 and 3.2 % in 2005.

¹¹ The information collected in this section stems from publications prepared by the Ministry of Finance, SEGEPLAN, IMF, and World Bank.

¹² According to the census of 2002 and the projections by INE, the estimated population for 2010 is 14.3 million.

¹³ Source: Information Note IMF (2008)

¹⁴ Source: World Bank (2009)

A large part of the relative stability of Guatemala can be attributed to the prudent macroeconomic policies that have maintained inflation and public

debt to manageable levels, while avoiding fiscal imbalances that are common in the region.

Table 2.1.1 Gross Domestic Product, 2001-2008
(in millions of quetzals and percentage variation)

Year	Based on 2001 prices		Based on prices from each year	
	Value	Variation	Value	Variation
2001	146,977.80	2.4%	146,977.80	10.2%
2002	152,660.90	3.9%	162,506.80	10.6%
2003	156,524.50	3.9%	174,044.10	7.1%
2004	161,458.20	3.2%	190,440.10	9.4%
2005	166,722.00	3.3%	207,728.90	9.1%
2006	175,691.30	5.4%	229,836.10	10.6%
2007 p/	186,704.90	6.3%	261,129.40	13.6%
2008 e/	194,226.10	4.0%	294,663.50	12.8%

Source: BANGUAT *p/ Preliminary figures; e/ Estimated figures*

Healthy macroeconomic management has allowed Guatemala to capitalize on favorable external conditions in the recent years. Despite Guatemala's susceptibility to natural disasters, such as Hurricane Stan in 2005, impacts of the financial market (e.g., the collapse of two commercial banks in 2006-2007), and impacts of commercial exchange (e.g., the coffee crisis of 2003-2004 and the food and gas cost crisis of 2006-2007), the economy grew at a steady rate during the period 2004-2007, the GDP reaching 6.3 % in 2007, the highest percentage in three decades.

The reforms to improve the climate for investment and reduce the debt contributed to the acceleration of private sector consumption and investment. The high flows of remittances and favorable external conditions helped to create a strong demand for exportations from Guatemala and to stabilize the financing of balance of payments.

Since 2003, Guatemala has achieved substantial progress in improving the climate for businesses, though significant challenges still exist. As such, Guatemala can be considered one of the most

reformed countries in the last three years. Economic integration has been accomplished through the Central American customs process with the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) going into full effect in 2006 in addition to the new free trade agreements ratified with Colombia and Panama, to come into effect in 2009. Congress is currently considering the ratification of a free trade agreement with Chile¹⁵. Since CAFTA-DR went into effect, exportations and importations have increased more rapidly than in the previous years. Direct external investment has more than tripled between 2004 and 2008 in terms of nominal dollars, which is one GDP percentage point. The sovereign risk of Guatemala has also improved. For example, S&P assigned a bond credit rating of BB, Fitch assigned BB+, and Moody's assigned Ba2, all with stable outlooks. Such growth has taken hold despite the current economic crisis and the rating decreases seen in other countries.

Inflation has been maintained at an average of 7.6 % since 2000, having reached a maximum of 14 % during 2008 and 9.4 % toward the end of 2008.

15 Ratified on November 16, 2009.

Table 2.1.2 Consumer price index (CPI)

Year	Amount	Variation %
2000	100	5.1%
2001	108.91	8.9%
2002	115.8	6.3%
2003	122.58	5.9%
2004	133.89	9.2%
2005	145.36	8.6%
2006	153.78	5.8%
2007	167.23	8.7%
2008	182.95	9.4%

Source: INE

Table 2.1.3 Selected economic indicators
(Annual percentage variation)

	2003	2004	2005	2006	2007	2008*
Revenue and national costs						
GDP at constant prices	2.5	3.2	3.3	5.2	5.7	4.8
Consumer prices (end of period)	5.9	9.2	8.6	5.8	8.7	6.2
Monetary sector						
Private sector credit	6.8	14.6	13.3	23.7	23	16.3
Private sector liability	11	11.4	14.5	16.8	12.4	16
External sector						
Exportations	8.1	10.8	12.9	14.1	20.8	8.5
Importations	6.3	16.2	14.1	15	16.7	8.7
Terms of trade (-) denotes deterioration	-2.5	-0.4	-0.2	-1.9	0	-2.1
Actual effective exchange rate 1/	-1.5	2.1	7.9	3.2	0.1	...

Source: IMF, Information Note 2008 * Projected value

Global program of public sector reform

The Government has continuously implemented modernization and reform programs that address the basic elements of resource management of public institutions and systems. The implementation of the Integrated Financial Management System (SIAF) and the electronic system of contracting, GUATECOMPRAS, constitutes central elements in the advances achieved to date. In terms of transparency and governance, important advances made recently include the creation of the International Commission against Impunity in Guatemala (CICIG) in 2007, its approval, and put into effect through Decree 57-2008 of the Congress of the Republic, Law of Access to Public Information, which establishes new standards of scope and availability of information to citizens.

Although the reform strategy of the public sector is not expressed specifically in any document, the successive administrations have continued the process of strengthening resource management, integrating it into the agendas of the administrations of the Government of Guatemala.

Among the achievements concerning the reform of public fund management, coverage of the SIAF was expanded based on web technology to operate in all the central governmental agencies as well as municipal governments. The GUATECOMPRAS system, which operates to record contracting processes, is available to the public. In addition, a system to settle payroll was developed, GUATENÓMINA, which processes the salaries of public sector employees.

2.2. Description of the budgetary outcomes

Fiscal performance

The successive governments of Guatemala, in general, have been prudent in the management of fiscal, monetary, foreign exchange, and credit policies, maintaining them at adequate levels of clarity and stability. For the years under study, it was noted that the government was concerned with the formulation of fiscal policies oriented to strengthening tax revenue, promoting discipline and austerity in spending, controlling the budgetary deficit, and limiting public indebtedness.

For the period 2006-2008, unfavorable special circumstances affected the implementation of fiscal policies. At the end of 2005, Hurricane Stan wreaked havoc in Guatemala, affecting numerous infrastructural works and the private sector production in various regions of the country. This translated into the need to execute emergency programs of reconstruction. Because the budget of 2007 was not approved by Congress, in applying the constitutional mandates¹⁶, the approved budget of 2006 automatically continued to be effective. In addition, 2006 was election year, which meant that the remaining reconstruction projects from the previous year were executed. In these circumstances, infrastructural investments are authorized due to excess of budgetary provisions. In this process, a floating debt not registered with the MICIVI was

generated, estimated to be the equivalent of 0.8 % of the GDP¹⁷. The start of 2008 also marked the start of a new government, which had to execute the formulated and approved budget from the previous administration, though its priorities and plans of action were different. Moreover, it was effectively committed to the aforementioned floating debt.

In effect, these special circumstances circumscribed the budget execution, as seen in the budgetary management figures shown in Table 2.2.1. It is noted that the years 2007 and 2008 required a high level of budgetary modifications¹⁸ and increases in the budget amount, as the final executed amounts greatly exceeded the original, voted budget amounts. It was not possible to execute the entire modified budget amount.

In this operational environment, both the previous and current government could maintain a certain level of operational costs, which did not exceed 9.5 % of the GDP, according to the official figures¹⁹. In 2005, due to the natural disasters, the operational costs decreased to 9.1% of the GDP. In 2008, due to the international financial crisis, this value continued to drop up to 9.2% of the GDP. Table 2.2.2 shows how the budgetary expenditure has had a tendency to decrease from a maximum of 15.1% of the GDP in 2003 to 13.7% in 2008.

Table 2.2.1 Budget execution for 2006, 2007, and 2008

Central government budget execution ^(*) (as a percentage of GDP)					
	Voted	Modified	Accrued	Actual execution	
				Voted	Modified
Fiscal Year 2006	16.4%	16.4%	15.9%	96.7%	96.7%
Fiscal Year 2007	14.4%	15.4%	15.1%	104.9%	98.4%
Fiscal Year 2008	14.4%	14.9%	14.5%	100.3%	97.1%

Source: *Budget Liquidation of the State Revenues and Expenditures, Fiscal years 2006* (MINFIN.DCE, 2007), *2007* (MINFIN.DCE, 2008), and *2008* (MINFIN.DCE, 2009)

(*) Total values including debt service (amortization, interest, and costs)

16 Article 171.b. This article defines that a new budget is not prepared for the year, but rather the approved budget for the prior year is still valid in the new year, and modifications can be made following budgetary procedures established in the Organic Budget Law.

17 Starting in 2009, a module of contracts will be put into effect in order to organize the programming of infrastructural works. This module validates the budgetary allocation before allowing the approval of a new contract.

18 The budgetary modifications are realized by requests from each institution. However, in the government's opinion, it is important to understand the culture of financial programming within the implementing units to avoid frequent budgetary modifications. The years 2007 and 2008 were fiscal years in which resources were changing due to Hurricane Stan and the subsequent budgetary readjustment that were realized in response to the international financial crisis.

19 The official figures do not include the floating debt generated in 2007 and 2008, the latter of which has not been completely identified.

Table 2.2.2 Historic behavior of budget management by the government

Comparison of tax revenue with public spending ^(*) (as a percentage of GDP)								
	2001	2002	2003	2004	2005	2006	2007	2008
Total tax revenue	10.8%	11.9%	11.7%	11.5%	11.2%	11.9%	12.1%	11.3%
Total budgetary expenditure	14.5%	13.9%	15.1%	13.4%	13.7%	14.7%	14.3%	13.7%
Operational costs	10.5%	9.7%	10.1%	9.2%	9.1%	9.4%	9.5%	9.2%
Capital expenditure	4.0%	4.2%	5.0%	4.2%	4.6%	5.3%	4.8%	4.5%

(*) Public spending does not include amortization of public debt. It refers to registered and reported figures in the annual liquidations of the budget.
Source: BANGUAT WEB, preliminary figures of GDP for 2007 and 2008

The strengthening of the Tax Administration has been the government's priority in the last few years. The normative framework was strengthened through the Legal Dispositions for the Strengthening of the Tax Administration (Decree 20-2006 of the Congress of the Republic), making it possible to reach the goals of tax collection. The tax revenues show a generally stable tendency, though with a tax pressure of 12.1%²⁰, which is relatively low compared to other countries in the region²¹. Despite showing a tendency to remain stable over 11.2% of the GDP in the last few years, there exists sensitivity to impacts related to natural disasters (2005) and more recently the international financial crisis (2008). The tax system markedly prioritizes indirect taxes that almost constitute three-quarters of the tax collection with the value added tax comprising the largest percentage overall. This tax reaches an equivalent value of 6% of the GDP, which is very close to the Central American average (MINFIN.DAEF, 2008, page 13). The tax reforms that have been launched in recent years have increased the impact of direct taxes, though they still remain relatively low. Table 2.2.3 summarizes the tax structure for fiscal years 2006, 2007, and 2008.

Maintaining a low level of budgetary deficit has been a concern for recent administrations. The previous government established a multi-annual budgetary framework (2004-2007) that determined goals of

maximum deficit, an equivalent of 2% of the GDP, which were formally respected in the budgetary process. Although the official figures show that such goals were met, the reality in fact shows different values for 2007 and 2008. This is due to the significant amounts of floating debt that were identified, increasing the real aggregate deficit, and as a result, exceeding the maximum values. Table 2.2.4 contains a brief description of the budgetary results.

Supervision by Congress in the contracting of public debt by the government is very strict and has been decisive in maintaining a low level of indebtedness, generating a favorable financial position. The difficulty of the Government to obtain approval by Congress with regard to indebtedness reached a point where part of the financing proposed in the budget of 2008 was not approved, generating a budgetary disequilibrium of 1,500 million Quetzals. The low level of indebtedness, together with a continued prudent fiscal behavior and a good history of compliance to international obligations to repay debt, has brought about the maintenance of high risk country qualifications. Similarly, the exchange rate is maintained relatively controlled through the issuance of treasury bonds in local currency, which also diminishes the risk associated with the debt portfolio. Table 2.2.5 summarizes the state of the public debt as of December 31, 2008.

20 Source: SAT for 2007

21 Nicaragua 18%, Honduras 16.4%, Costa Rica 15%, El Salvador 13.4%, Panama 10.9% (Source: SAT)

Table 2.2.3 Structure of tax revenue

Structure of tax revenue (as a percentage of the total collected)			
	Fiscal year 2006	Fiscal year 2007	Fiscal year 2008
Direct revenue	27.64%	27.48%	29.12%
<i>Income tax and other taxes on income and assets</i>	27.61%	27.44%	29.07%
<i>Property tax</i>	0.03%	0.05%	0.05%
Indirect revenue	72.36%	72.52%	70.88%
<i>Importation tax</i>	9.56%	8.41%	7.28%
<i>Tax on industrial and primary products</i>	12.77%	11.88%	12.14%
<i>Value added tax</i>	46.32%	48.75%	48.43%
<i>Internal tax on services</i>	1.79%	1.63%	1.14%
<i>Registration tax on vehicles</i>	1.18%	1.12%	1.20%
<i>Departure tax</i>	0.73%	0.73%	0.68%
<i>Other indirect taxes</i>	0.01%	0.00%	0.01%

Source: (MINFIN) WEB Fiscal transparency

Table 2.2.4 Budgetary results 2006, 2007, and 2008

Budget of the central government (as a percentage of GDP)			
	Fiscal year 2006	Fiscal year 2007	Fiscal year 2008
Aggregate revenue	12.7%	12.9%	12.1%
- <i>Own income</i>	12.6%	12.7%	11.9%
- <i>Donations</i>	0.2%	0.2%	0.2%
Total expenditure	14.7%	14.3%	13.8%
- <i>Non-interest-related expenditure</i>	13.3%	12.8%	12.3%
- <i>Interest-related expenditure</i>	1.4%	1.5%	1.5%
Aggregate deficit (donations included)^(**)	-1.9%	-1.4%	-1.7%
Primary deficit^(**)	-0.6%	0.0%	-0.3%
Net financing	1.9%	1.4%	1.7%
- <i>External</i>	1.2%	1.2%	0.3%
- <i>Internal</i>	1.1%	1.0%	0.7%
- <i>Other sources^(*)</i>	-0.4%	-0.7%	0.8%
GDP (Nominal in millions of Q)	229,836.1	261,129.4	294,663.5

Source: Liquidación del Presupuesto de Ingresos y Egresos del Estado, Ejercicios fiscales 2006 (MINFIN.DCE, 2007), 2007 (MINFIN.DCE, 2008), and 2008 (MINFIN.DCE, 2009)

(*) Other sources are constituted by surplus^(*) or deficits^(*) of cash, for example, non-utilized balances of loans or donations, or financing obtained by other means.

(**) These figures do not include the floating debt amounts.

Table 2.2.5 Management of public debt

Public debt balance ^(*) (US\$)			
	Fiscal year 2006	Fiscal year 2007	Fiscal year 2008
Total public debt	6,605,793,584	7,390,351,061	7,745,981,685
Total public debt (as a percentage of GDP)^(**)	21.8%	21.6%	20.5%
<i>External debt</i>	3,958,228,835	4,225,854,607	4,382,431,359
<i>Internal debt^(*)</i>	2,647,564,749	3,164,496,454	3,363,550,326
Public external debt	3,958,228,835	4,225,854,607	4,382,431,359
<i>Of the central government</i>	3,878,648,014	4,149,876,409	4,285,328,542
<i>Autonomous entities</i>	79,580,821	75,978,198	97,102,817
Public internal debt expressed in US\$^(***)	2,647,564,749	3,164,496,454	3,363,550,326
<i>In Quetzals</i>	15,979,989,223	20,459,428,832	23,534,119,628
<i>In US Dollars</i>	543,868,900	483,405,900	339,217,300

Sources: WEB Fiscal transparency (MINFIN); *Liquidation of the Budget of State Revenues and Expenditures, Fiscal years 2006* (MINFIN.DCE, 2007), 2007 (MINFIN.DCE, 2008), and 2008 (MINFIN.DCE, 2009)
 (*) The values refer to registered debt and do not include possible floating debt that is estimated to be over 0.8% of GDP
 (**) GDP values in millions of Quetzals published by BANGUAT: 2006: 229,836.1, 2007: 261,129.4, 2008: 294,663.5
 (***) Values converted on December 31 of each year, according to the exchange rates published by BANGUAT: 7.59615 (2006), 7.63101 (2007), and 7.78159 (2008)

Table 2.2.6 Sectoral allocation of budgetary resources

Actual budgetary allocations, by sectors (as percentage of total expenditure)			
	Fiscal year 2006	Fiscal year 2007	Fiscal year 2008
Ministry of Education	13.5%	13.7%	13.6%
Ministry of Communications, Infrastructure and Housing	11.0%	12.7%	10.0%
Public Debt Services (amortization)	7.5%	5.5%	4.6%
Secretariats and Other Dependencies of the Executive	6.0%	5.2%	5.5%
Ministry of Public Health and Social Assistance	6.1%	6.4%	6.3%
Ministry of Governance	4.6%	4.4%	5.4%
Judicial Branch	4.0%	4.4%	5.2%
Ministry of Agriculture, Livestock, and Foods	4.3%	3.6%	2.7%
Ministry of National Defense	2.7%	2.6%	3.0%
Legislative Assembly	0.9%	1.0%	1.0%
Ministry of Culture and Sports	0.7%	0.7%	0.6%
Ministry of Public Finance	0.6%	0.6%	0.5%
Ministry of Foreign Affairs	0.6%	0.7%	0.7%
Ministry of Economy	0.5%	0.5%	0.8%
Comptroller General's Office ^(*)	0.4%	0.5%	0.0%
Presidency of the Republic	0.4%	0.4%	0.4%
Ministry of Labor and Social Security	0.2%	0.3%	0.6%
Ministry of Energy and Mines	0.1%	0.1%	0.1%
Ministry of Environment and Natural Resources	0.1%	0.1%	0.1%
Attorney General's Office	0.1%	0.1%	0.1%
Other obligations of the State in charge of the Treasury	27.0%	26.7%	28.6%
Public Debt Services (expenses and interest)	8.7%	9.8%	10.2%

Source: *Budget Liquidation of the State Revenues and Expenditures, Fiscal years 2006* (MINFIN.DCE, 2007), 2007 (MINFIN.DCE, 2008), and 2008 (MINFIN.DCE, 2009)
 (*) In 2009 the budget of the CGO passed to form part of the Budget Item "Obligations of the State in the Charge of the Treasury"

In 2008, changes were produced in the political sectors, which in turn generated changes in the classification of the expenditure, as shown in Table 2.2.7. For example, in MINEDUC, diverse changes were made, one of which concerns the payment of some 11,000 contracted teachers that was carried out through transfers to the school

boards that operate autonomously. With the new political sectors, these contracted teachers were paid by the Government without changing their contracting system. The transfer amount was reduced and these payments began to be registered in the budget as expenditure in goods and services.

Table 2.2.7 Resource allocation by economic category

Actual budgetary allocations, by categories of economic classification <i>(as percentage of total expenditure)</i>			
	Fiscal year 2006	Fiscal year 2007	Fiscal year 2008
Recurrent expenditure	59.4%	62.7%	64.4%
- <i>Wages and salaries</i>	21.0%	20.8%	21.8%
- <i>Goods and services</i>	10.8%	12.3%	18.8%
- <i>Interest payments</i>	8.7%	9.8%	10.2%
- <i>Transfers</i>	18.6%	19.3%	13.3%
- <i>Other</i>	0.3%	0.4%	0.2%
Capital expenditure	33.1%	31.9%	31.0%
Excludes debt amortizations	7.5%	5.5%	4.6%

Source: Budget Liquidation of the State Revenues and Expenditures, Fiscal years 2006 (MINFIN.DCE, 2007), 2007 (MINFIN.DCE, 2008), and 2008 (MINFIN.DCE, 2009)

2.3. *Description of the legal and institutional framework of PFM*

Legal framework

The principal laws and regulations that govern public financial management are included in Annex A1.18. The most relevant ones are described below.

Political Constitution of the Republic

Second Section, Chapter II of Title IV – Congressional Powers. Article 171, b) and d) respectively, regulate the functions related to the approval or disapproval of the Budget of Revenue and Expenditure of the State as well as its execution, prior to informing the Comptroller General’s Office’s report. Chapter III of Title V – Control and Fiscalization Regime. Articles 232 to 236 regulate the functions of the Fiscal Control exercised by the Comptroller General’s Office (CGO) and the election, requirements, and faculties of the Comptroller. The Comptroller General’s Office is defined as “a decentralized technical institution with functions to fiscalize the revenue, expenditure, and all financial interests of the bodies of the State, the municipalities, decentralized and autonomous entities, as well as any person who receives State funds or who organizes public fundraising.” Chapter IV of Title V – Financial Regime. Article 237 establishes the general framework of the budgetary process as well as its dissemination and access to the citizens. Article 238 establishes the regulatory framework of the Organic Budget Law. Article 240 regulates investment sources and expenditures of the State. Article 241 regulates the annual accountability of the State and Article 257 the annual allocations to the Municipalities in the General Budget of Ordinary Revenue of the State.

Organic Budget Law

This Law details the required rules for the preparation, production, and execution of the nation’s

budget. Moreover, it indicates the domain of the application of the law and the duties of the subject bodies at its disposition. This Law establishes the functions of the Ministry of Public Finance as the governing body of all the units that comply with the functions of the financial administration in each one of the bodies and entities of the public sector. The Law also establishes the role of the Secretariat of Planning and Programming of the Presidency of the Republic (SEGEPLAN) as the Planning Body of the State, responsible for providing technical support to the Planning Units of the Ministries, Secretariats, and autonomous institutions of the public sector as well as the technical units of the Development Councils with regard to the production of their policies, plans, programs, and development projects including those of public investment. The Organic Law has been complemented through the issuance of a Regulation that develops and supports its application. This Regulation establishes the role of the Financial Administration Units (FAU) that performs within each Body to contribute to the decentralization of the Financial Administration System. These Units are responsible for: coordinating the budget formulation; programming the budgetary execution with those responsible for each program; assessment of the budgetary management; and administration of the financial management of the budget, integrated accounting, treasury, and other decentralized financial systems.

General Decentralization Law

This Law establishes the process of decentralization and the gradual form of development to transfer economic, administrative, political, and social competences from the Executive to the municipalities and other state institutions under principles of autonomy, efficiency, effectiveness, solidarity, dialogue, equity, and citizen participation.

The Law establishes that, without prejudice to the integral transfer of the competences, areas of education, health and social assistance, citizen security, environment and natural resources, agriculture, communications, infrastructure and housing, economy and culture, recreation and sports will be given priority.

External Control

The Organic Law of the CGO establishes that the Comptroller is the Governing Body of Governmental Control who permits the implementation of adequate mechanisms that extend beyond financial aspects in order to ensure transparency in the use of State resources, using new technical and technological criteria, to determine the grade of efficiency, effectiveness, and economy in the execution of programs that the public administration develops. The Governmental Control consists of a set of technical and legal activities and actions, exercised by the CGO and the Internal Audit Units (IAU), in order to assess the entire operational, functional, and legal domain of the public entities through modern practices of auditing. The control of the governmental sector aims to inform citizens and other users in a professional manner and independently of the government about the following aspects:

- Whether the planned objectives and goals are reached, and the planned products and benefits are obtained in relation to the utilized amounts in an efficient, effective, and economic form;
- Whether the collected revenue correspond to the projected levels and whether they are adequately registered and presented on the financial statements;
- Whether the public entities have complied with the legal procedures for contracting, procurement, and sales of good and services;
- Whether the environment and structure of internal control offers the necessary security for the recording, controlling, use, and information of assets, rights, and obligations;
- Whether the integrated systems have been designed and are operating according to the international accounting norms;

- Whether the financial statements as well as all financial information have been produced and submitted according to the integrated systems, the international accounting norms, applicable laws to public entities among others;
- Whether the budgetary process complied with all its phases, observing the policies, objectives, plans, and institutional and national programs;
- Whether the executive and operational responsibilities have been developed within a framework that is marked by a sharp and transparent process in order to support accountability at all levels;
- To contribute to the continuous improvement of the administration of public entities, in particular to raise the level of efficiency and effectiveness of governmental management, through recommendations that result from audits.

Internal Control

The CGO has produced the Conceptual Framework of Internal Control for all public entities that comprise the State, complementing the General Norms of Internal Control (GNIC) for each of the systems that functions within the entities.

The Conceptual Framework and the GNIC form the reference framework to organize the environment and structure of the internal control, which each public entity conducts depending on their necessities, operational complexity, and specific circumstances of functioning in accordance with the laws and governmental, institutional, sectoral, and national policies.

The GNIC set the technical and methodological criteria to design, develop, and implement the procedures for the control, record, direction, execution, and information of the financial, technical, and administrative operations of the public sector. It constitutes a technical means of strengthening and standardizing the structure and environment of institutional internal control.

In light of the GNIC, internal control has been defined as a process executed by a high-level collegiate body (Administration Council, Board, etc.), the management, and the personnel of an entity. It is designed to give reasonable security for the compliance of institutional objectives, consisting of one or more of the following:

- Effectiveness and efficiency of the operations;
- Reliability of the financial and administrative information; and
- Observance of applicable laws and rules.

Internal control includes the organization plan and the set of methods and measurements that are adopted to ensure achievement of the objectives, functions, and related tasks with the forecast, monitoring, and control of the economic and administrative activities. It considers the facts and events as well as the acts of the officials who intervene in them.

The elements that comprise the Internal Control are: (i) Control Environment; (ii) Risk Assessment; (iii) Integrated Systems of Accountants and Information; (iv) Control Activities; and (v) Supervision and Monitoring of the control environment and structure.

Institutional framework for PFM

Legislative Power

The legislative authority corresponds to Congress of the Republic, integrated by representatives directly elected by the people by universal suffrage, through the system of national and district list of candidates for a period of four years with the possibility of reelection.

Each one of the Departments of the Republic constitutes an electoral district, for which a minimum of one representative is elected. The law establishes the number of representatives that correspond to each district according to its population. A number equivalent to 25 % of the district representatives will be elected directly as congressional representatives from the national list.

Among the attributions conferred to Congress by Article 171 of the Political Constitution of the Republic of Guatemala is the approval, modification, or disapproval of the Budget of State Revenues and Expenditures. This includes the annual approval or disapproval in whole or in part previous to the report presented by the Comptroller General's Office of the details and justification of all revenue and expenditure of public finance for the previous fiscal year submitted by the Executive Branch.

Executive Power

According to Decree 114-97 of the Congress of the Republic, Executive Branch Law, Article 35.b stipulates that the Ministry of Public Finance formulate the draft of the General Budget of State Revenues and Expenditures, including the presentation to Congress by the central government and decentralized, autonomous entities.

The Executive Branch must send to Congress the draft budget 120 days in advance of the start of the fiscal year. If the General Budget has not been approved by the start of the fiscal year, the budget that was in effect the previous fiscal year will apply, which may be modified or adjusted by Congress.

The General Budget of State Revenues and Expenditures must be approved for each fiscal year, which signifies that it is not possible to order any percentage of the Budget of Ordinary Revenue for a specific purpose by means of an ordinary law, except for the allocations under constitutional order, for example, to the municipalities, Universidad de San Carlos, the Sports Federation, and the Judicial Branch.

The decentralized and autonomous entities, which make available exclusive funds in accordance to the

law, must send annually their budgets to the Executive Branch for their knowledge and integration into the general budget, as they are subject to the controls and fiscalization of the corresponding bodies of the State.

The General Budget of State Revenues and Expenditures and its execution are public documents, and as such, accessible to any citizen.

Ministry of Public Finance

The Ministry of Public Finance, as part of the Executive Branch, is responsible for all matters related to the fiscal and legal regime of the national finance, including the formulation of fiscal policy, administration of fiscal revenues, management of internal and external financing, budget execution, and the recording, control, and administration of goods that constitute the wealth of the State.

Through the Technical Directorate for Budgeting, the Ministry of Public Finance exercises its function as governing body of the budgetary system of the public sector by being responsible for setting standards for, directing, and coordinating the budgetary process as well as analyzing, controlling, and assessing its execution.

Directorate of Accounting

The Directorate of State Accounting is a branch of the Ministry of Public Finance that is responsible for the consolidated registry of the budgetary execution and for administering the Integrated Governmental Accounting System. As a governing body, it enacts accounting norms and procedures, analyzes information, and produces financial statements of the State.

The National Treasury of the Ministry of Public Finance is responsible for the programming and periodic reprogramming of the financial execution of the budget, acting as the governing body of the treasury system under principles of normative centralization and operational decentralization. In addition, it

programs and administers revenue and expenditure flows as well as defines policies and procedures for the efficient use of available cash balance.

The Directorate of Public Credit, also a branch of the Ministry of Public Finance, functions as the governing body of the public credit system in charge of ensuring the efficient programming, use and control of financing resources that are obtained through public credit operations.

Each public entity must have a Financial Administration Unit (FAU) that is responsible for the budget, accounting, and treasury functions. These units are the link to the central normative directorates of the Ministry of Public Finance.

Comptroller General's Office

The Constitution grants the CGO the faculty to oversee the finances of the entire public sector. The organic law establishes that, among other functions, the CGO is responsible for the examination of financial and administrative operations and transactions through auditing practices with an integral focus on bodies, institutions, entities, and other recipients of public funds. Examinations are conducted within the framework of Government Auditing Standards under criteria of probity, effectiveness, efficiency, transparency, economy, and equity. Moreover, the CGO is responsible for issuing the ruling and report of the financial statements, execution, and liquidation of the General Budget of State Revenues and Expenditures and of the Autonomous and Decentralized Entities, and must send the corresponding reports to National Congress. The CGO also has the faculty to establish the norms that govern the internal controls and audits.

In accordance with the organic law, the CGO enjoys functional, technical, and administrative independence across the entire national territory. The organic law is complemented by a regulation that develops established dispositions in the law and its functional-administrative structure.

As the superior entity in overseeing the State and as the governing body of governmental control, the CGO has issued agreements and have approved the General Standards of Internal Control (GSIC), Government Auditing Standards, and Governmental Internal Auditing Standards (Accord No. 09-03) as well as the unification of the latter two into a single document titled Auditing Standards of the Governmental Sector (Accord No. A-57-2006).

The Auditing Standards of the Governmental Sector establish the technical and methodological guidelines to develop the Governmental Auditing process. In addition, the Standards constitute a technical means to strengthen and standardize the professional exercise of the Governmental Auditor and allow for the evaluation of the development and results.

Institutional framework for PFM

Integrated Financial Management System (IFMS) Through the Directorate of Information Technologies (DIT), the Vice Minister of Internal Administration and Systems Development of the Ministry of Public Finance is in charge of coordinating the actions to design, develop, and implement the IFMS in the different public entities, in function of the guidelines defined together with the Vice Ministers of Financial Administration and of Fiscal Transparency and Assessment. The DIT's functions are as follows:

- To provide consultancy on matters related to computing -in the operation and administration of individual and shared computing systems- to the Ministry as well as to entities in the public sector.
- To define the criteria and oversee the compliance of mechanisms of availability, security, and access to information that the Ministry administers.
- To define the standards, establish policies, and administer resources of networks, operating systems, equipment, databases, development of computing systems and communications.
- To develop new applications through the constant analysis of user necessities by means of internal development or coordinating external development.
- To administer internal and external information systems of the assigned public sector.

- To coordinate and develop plans for internal and external training of the internal and external computing personnel.

The IFMS was created in the mid-1990s as part of the Modernization Program of the public sector. The IFMS was introduced to the central government in 1998, operating in real time in the various stages of the budgetary process with the governing bodies and other directorates of the Ministry of Public Finance, ministries, and secretariats, in addition to executive units. These latter bodies and directorates of the Ministry execute the budget directly from the place of origin of the expenditure, as is the case for decentralized and autonomous entities.

In 2004, the server client's technology was replaced by a web-based technology, centralizing the system on a single database for all of the non-financial public sector (NFPS).

Through the IFMS, the budget is formulated by results, establishing physical and financial goals in a decentralized form for each one of the ministries and secretariats. The institutional budget projects are consolidated, with which the General Budget of State Revenues and Expenditures is formulated. The budget is based on a programmatic network by results with a multi-year focus.

Each ministry and secretariat executes its own budget in real time and in a decentralized manner

through the FAUs. Electronic signatures facilitate the process, eliminating physical paper for certain operations such as the supporting documents submitted to the Ministry of Public Finance. These

are no longer required for payment and electronic information that has been processed with the proper security levels of the computing system suffices.

3. Assessment of the PFM systems, processes, and institutions

This section presents the evaluation of the essential elements of the public financial management system of the Government of Guatemala according to the obtained indicators. Some of the reforms in process

or planned reforms are mentioned, which could influence the evaluation on the short term even though they did not affect the measurements of the indicators.

3.1. Budget credibility

ID-1. Aggregate expenditure out-turn compared to original approved budget

This indicator evaluates the capacity of the Government to provide public services, such as commitment to results and plans of action as expressed in policy statements, which serve to formulate the annual budget. Such capacity is measured by the deviation of the actual aggregate expenditure from that approved by Congress.

Assembly, 1985), the Executive Branch had to operate with the 2006 budget, effecting necessary budgetary modifications during the fiscal year. On January 14, 2008, the new administration came into power, and it had to operate with a budget formulated by the previous administration, which had not been based on the plans of action of the new government.

The analysis takes into account the fact that the period of study, fiscal years 2006, 2007, and 2008, was set within special circumstances that affected budget execution. The year 2006 was a year of reconstruction of the country due to the great disasters caused by hurricane Stan²². The budget of 2007 was not approved by Congress, and as such, in accordance with the Political Constitution of the Republic of Guatemala²³ (National Constituent

i) Difference between the actual primary expenditure and the original, budgeted primary expenditure (debt service charges and expenditures on projects that have external financing are excluded)

Table 3.1.1 shows the approved annual aggregate values and corresponding executed values for primary expenditures for the fiscal years 2006, 2007, and 2008, as well as the deviation.

Table 3.1.1 Deviation of the budget execution for 2006, 2007, and 2008 (In Quetzals and percentages)

Year	Voted budget	Executed budget (accrued)	Deviation
2006	34017104685	33,271,198,620	2.19%
2007	34,017,104,685	35,656,669,534	4.82%
2008	38,295,853,527	38,298,583,166	0.01%

Details in Annexes A1.1, A1.2, and A1.3.

Sources:

- *General Budget Bill of State Revenue and Expenditure for fiscal years 2006 (Congress of the Republic. Decree 92, 2005) and 2008 (Congress of the Republic. Decree 70, 2007)*
- *Liquidation of the Budget of State Revenue and Expenditure, Fiscal years 2006 (MINFIN.DCE, 2007), 2007 (MINFIN.DCE, 2008), and 2008 (MINFIN.DCE, 2009)*

Primary expenditure is calculated by deducting from the global expenditure the amounts of the debt service (interests and expenditure but not amortization). Executed expenditure is not included by projects since this is subject to control mechanisms and decisions of the government. In this respect, it is important to point out that, in Guatemala, programs executed with the assistance of international cooperation, be they loans or donations, are registered and executed under the budget utilizing the same procedures employed for public funds. That is, such principle applies to the totality of loans and a significant number of donations, though some donations are executed even if they are out of the budgetary system. The project units, for the most part, are integrated into the administration of the executing institution. These units are in charge of the management of the project, including plans, reports, and supervision, but the execution of funds is integrated into the executing institution's administration. This is because the control that an institution has over its projects is similar to the control it has over other institutional activities. Payments are made from the "Common Fund"²⁴ administered by the National Treasury through budgetary procedures or through direct payment to the provider from the financing entity's accounts, if requested by the executing institution. Thus expenditure control resides in the executor and not in the cooperating body.

Deviation²⁵ of the budget execution is calculated as a percentage in absolute value of "the difference between the budgeted expenditure (the budget initially approved by Congress) and the accrued expenditure in the fiscal year" divided by the "budgeted expenditure." It should be recalled that the Organic Budget Law²⁶ (Congress of the Republic, Decree 101, 1997) allows payment of accrued expenditures with the previous year's budget but not payment of the previous fiscal year, which is regularly carried out in the first months of the new year.

Although the regulatory framework may be adequate,

budgetary practices introduce some distortions in the calculations, which is not possible to quantify. As analyzed in ID-4, it is not possible to establish whether payment accounts are converted at any moment to arrears in the payment, given that the budgetary instruments do not allow such matters to be detected. Nor do widespread rules or practices -commercial, legal, or governmental- exist to qualify the arrears with unique or standard criteria. Additionally, in some institutions it is common practice to retain invoices without accruing or reporting from one fiscal year to another, which cannot be quantified either, given the budgetary record does not strictly control the dates of the payment documents²⁷. The estimates on an accrual basis, though imperfect, constitute the most reliable calculation, and at least reflect the obtained product of the expenditure and formal commitment of payment. In Annexes A1.1, A1.2, and A1.3, detailed information that generated the outturn is presented, in which the administration classification model employed by the government is utilized. Although the three analyzed budget executions were subject to special circumstances, it is noteworthy that the aggregate budgetary amounts were not impacted. The under-execution or over-execution of the budget was, among other aspects, the product of operating limitations on the part of the institutions, limited availability of national treasury, inter-institutional transfers to respond to emergency and other expenses, or difficulties of the Executive Branch to obtain approval of Congress in a timely manner concerning external financing subsequent to budget augmentation.

As mentioned above, the institutional practices of budget execution include diverse modalities to evade budget reporting that make it difficult to properly follow the budget²⁸ because the reported figures of the execution in state account may not adequately reflect the reality. However, a review of CGO reports and the comments received from DTP, NT, and DCE as well as various executing entities suggest that the differences between the

²⁴The Common Fund, constituted in Quetzals, is established and its standards set in Article 237 of the Political Constitution of the Republic of Guatemala, Article 56 of the Organic Law of BANGUAT, Article 55 of the Organic Budget Law, and Article 38 of the Regulations of the Organic Budget Law. Its official designation is "Government of the Republic-Common Fund." For accounts where funds from loans and donations are deposited, whether in Quetzals, Euros, or US Dollars, they are designated as "Unique Loan Accounts" or "Unique Donation Accounts." For the purposes of this document, all of these accounts will be referred to as Common Fund (CF).

²⁵ Deviation of budgetary expenditure, as shown in the indicators ID-1 and ID-2, is calculated through a mathematical model established by PEFA, which is applied in a standard way to all PEFA assessments.

²⁶ Article 37

²⁷ The government has considered modernizing the Treasury System to add the expiration date of invoices to payments. There will be a four-monthly financial programming to allow executors the possibility to declare all their invoices.

²⁸ The budgetary procedures give the institutions total responsibility with regard to their budget execution. The penalty of misuse is applied by the CGO after fiscalization.

actual figures and those utilized in the analysis of the indicator are not enough to elevate the deviation values that would affect the score. Table 3.1.2 shows

the differences that are necessary to reach the actual budget execution amounts to affect the proposed score, which appear unlikely in two of the years.

Table 3.1.2 Necessary variance to exceed the 5 % limit of the budget deviation

Year	Voted budget	Executed budget	Deviation	Amount necessary to reach 5% deviation of actual execution			
				By default		By excess	
	Quetzals	Quetzals	%	%	Quetzals	%	Quetzals
2006	34,017,104,685	33,271,198,620	-2.19%	-2.81%	-954,949,169	7.19%	2,446,761,299
2007	34,017,104,685	35,656,669,534	4.82%	-9.82%	-3,340,420,083	0.18%	61,290,385
2008	38,295,853,527	38,298,583,166	0.01%	-5.01%	-1,917,522,315	4.99%	1,912,063,037

The MINFIN has issued several rules and has implemented numerous procedures to improve the control of the budget execution: implementation of SIGES, registry of contracts, accountability of trusts

and agreements with private institutions on expenditure execution. Such rules and procedures enable quality improvement of the budgetary registry. It will affect the budget execution starting in the fiscal year 2009.

Score A. In none of the three years analyzed (2006, 2007, and 2008) for this indicator has the actual (accrued) expenditure deviate more than 5% of the budgeted expenditure, though it is possible that in 2007 this limit was exceeded.

Indicator	Score	Justification
ID 1	A	Scoring method M1
(i)	A	In no more than one out of the last three years has the actual expenditure deviated from the budgeted expenditure by an amount equivalent to more than 5% of budgeted expenditure.

ID-2. Composition of expenditure out-turn compared to original approved budget

This indicator evaluates how adequate the budget is as an instrument of policy application. The variance in the composition of actual expenditure²⁹ is calculated in comparison with the approved budget. The variance is calculated using the administrative classification of expenditure.

This decision affected the 2006 and 2007 budgets. The disapproval of the 2007 budget by Congress and the change in government in 2008 generated special circumstances in which the government in both years were obligated to execute budgets that were not formulated specifically for the fiscal year or that were not based necessarily on their plans of action.

Similar to the indicator ID-1, the period of reference for the present analysis refers to the years 2006-2008, but in contrast to the previous indicator, the composition of expenditure was affected by the special circumstances of these three fiscal years.

Article 23 of the Organic Budget Law (Decree 101, Congress of the Republic, 1997) establishes the procedures to make budget modifications, which are approved by the Executive Branch and notified to Congress. This means that Congress does not participate in the approval of the modifications, which is the reason why the modified budget is not considered in the current analysis.

Hurricane Stan forced a significant amount of budgetary funds to be spent on assistance in the affected areas and for infrastructure destroyed by the storm.

²⁹ As in ID-1, for the analysis of the present indicator, the accrued values and unpaid values are considered since these better reflect the reality of the execution.

i) Extent in which variance in the composition of primary expenditure has exceeded the global deviation of primary expenditure (as defined in ID-1) in the last three years.

Table 3.2.1 shows the deviation of expenditure for the entities that had the 20 largest budgets during the three years under study. The same model used in ID-1 was applied to calculate deviation. Expenditures that were out of the government's control were excluded, such as payment of interest and commissions for debt and projects not executed by the government. Annexes A1.1, A1.2, and A1.3 present detailed information that generated the outturns using the administrative classification. Table 3.2.1 also illustrates how some of the institutional budgets were affected by the aforementioned circumstances (see ID-1), generating differences between accrued expenditure and approved expenditure.

Diverse factors can affect budget execution and some of the deviations observed in the fiscal years 2006-2008 were due to the following factors:

- During the course of budget execution, social needs to support the government program were identified, as new programs were incorporated into the public budget, including the Program for Economic Support of Senior Citizens of the Ministry of Public Health and Social Assistance, which started in 2007.

- During each fiscal year, budget modifications are made through government accords concerning the budget. This signifies inter-institutional transfers that respond to expenditure priorities or public emergencies.
- New loans of budgetary support are contracted, which can augment the General Budget of State Revenues and Expenditures. An example is the loan BCIE 52-0401-0058 disbursed in 2008 with the objective of rectifying the existing debt of the previous fiscal years by constructed works (Road Conservation Execution Unit -COVIAL in Spanish-).
- During the budget formulation process, there may exist expenditure commitments in institutions which exceed the initial budget ceiling established by the Ministry of Public Finance. These additional expenditure requirements constitute financial pressure for the State, which must be addressed through inter-institutional budget modifications (debit-credit). One notable example is the additional requirement by the Ministry of Economy of Q25.0 million in 2008, destined to complement the census that identified the households that benefited from the Conditional Cash Transfer Program. The requirement was addressed through Government Accord No. 24-2008 of September 26, 2008, for which the secretariats and other dependencies of the Executive ceded the indicated space of Q25.0 million.

Table 3.2.1 Deviation in the composition of budget expenditure: 2006, 2007, and 2008 (Percentages)

Entity	2006	2007	2008
Ministry of Education	5.68%	3.80%	10.88%
Ministry of Communications, Infrastructure and Housing	15.67%	45.69%	41.61%
Public Debt Services (amortization)	7.75%	26.86%	17.48%
Secretariats and Other Dependencies of the Executive	11.30%	16.60%	16.12%
Ministry of Public Health and Social Assistance	7.68%	22.66%	10.52%
Ministry of Governance	16.25%	12.23%	10.98%
Judicial Branch	2.03%	22.00%	11.91%
Ministry of Agriculture, Livestock, and Foods	18.78%	7.68%	6.56%
Ministry of National Defense	10.65%	6.11%	0.52%
Legislative Assembly	1.66%	14.73%	2.17%
Ministry of Culture and Sports	4.91%	4.93%	18.57%
Ministry of Public Finance	9.36%	1.43%	0.14%
Ministry of Foreign Affairs	5.67%	11.59%	11.52%
Ministry of Economy	18.89%	8.85%	47.80%
Comptroller General's Office ^(*)	0.71%	27.00%	
Presidency of the Republic	4.95%	5.92%	2.69%
Ministry of Labor and Social Security	9.02%	57.76%	25.73%
Ministry of Energy and Mines	23.68%	21.25%	1.44%
Ministry of Environment and Natural Resources	6.46%	10.88%	21.78%
Attorney General's Office	5.29%	9.60%	9.70%
Remaining institutions	3.60%	3.30%	0.02%
Deviation of expenditure (ID-1)	2.19%	4.82%	0.01%
Variation in the composition of expenditure	7.98%	13.93%	10.30%
Variation in excess of the total deviation	5.79%	9.11%	10.29%

Details in Annexes A1.1, A1.2, and A1.3. / Sources: General Budget Bill of State Revenues and Expenditures for fiscal years 2006 and 2008. Liquidation of the Budget of State Revenues and Expenditures, fiscal years 2006, 2007, and 2008

In addition to the budget deviations mentioned above in the previous paragraph, this indicator presents evidence of the weakness of some institutions in the following aspects: in the preparation of their sectoral plans that are, in many cases, difficult to implement budget-wise; in strategic matters as sectoral policies can change according to the institutional authority's discretionary criteria; and

in budget formulation as unrealistic budget projects are proposed that must later be reduced, losing their technical criteria. Congress has the attribution to propose sectoral expenditures, and though normally, it is carried out in coordination with MINFIN, there have been cases in which such coordination did not exist, as was the case with the 2009 budget.

Score C. Institutional deviation of primary expenditure, calculated based on the PEFA model, exceeded the global deviation of expenditure by more than 5 percentage points (5.79%, 9.11%, and 10.29%) in the three years under study, and in one of those years, it exceeded over 10 percentage points.

To reiterate what was mentioned for the indicator ID-1, institutional practices of budget execution include diverse modalities that affect the budget records and make it difficult to properly monitor the budget. This is because the actual execution figures do not adequately nor precisely reflect reality. However, the differences between the actual figures and those

utilized in the analysis of the present indicator would not modify the deviation values enough to change the score³⁰. In addition, MINFIN has issued various rules and have implemented several procedures to improve budget execution control, allowing for an improved quality of budget records. This will affect budget execution starting with the fiscal year of 2009.

30 When the expenditure of an institution incorporating its floating debt is increased, the total expenditure of the budget increases as well because the "variation in expenditure" and the "deviation of total expenditure" will increase in equivalent amounts without producing significant alterations in the "variation in excess of expenditure deviation."

Indicator	Score	Justification
ID 2	C	Scoring method M1
(i)	C	Deviation in expenditure composition exceeded the global deviation in one out of the three years by more than 10 percentage points.

ID-3. Aggregate revenue out-turn compared to original approved budget

This indicator evaluates the capacity of the government to obtain sufficient revenue to satisfy its expenditure necessities. The actual revenue of the year is compared with the budgeted revenue established in the annual budget bills. The budget of the Government is rigid in both the revenues and expenditures, as its allocation of funds to institutions is limited. As outlined in the chapter on revenues in the Annual Budget Bill, the rigidity of the budget leaves a mere 10 % of the budget to be freely available. Although the global amounts of expenditure are covered by the revenues, as

concluded in this indicator, the revenues turn out to be predictable at the global level. At the institutional level, allocation of funds proves to be very limited and in some cases insufficient. This level of rigidity also introduces a risk in the institutions' budget predictability, given that any emergency or unforeseen event can cause a redistribution of high-impact expenditures. Table 3.3.1 shows the values presented in the Annual Budget Bill for the fiscal year 2008, showing the rigidity to which the distribution of budgetary funds are subject.

Table 3.3.1 Central Administration – Distribution of current revenues (millions of Quetzals)

Concept	Effective 2007		Allocated 2008	
	Q. millions	%	Q. millions	%
(+) Current revenues (without donations)	30,223.0	100.0%	34,565.9	100.0%
Tax revenue	28,835.4	95.4%	33,083.2	95.7%
Non-tax revenue	1,387.6	4.6%	1,482.7	4.3%
(-) Expenditure commitments	26,484.2	87.6%	31,228.0	90.3%
VAT-Peace	4,841.8	16.0%	6,317.2	18.3%
Constitutional support	3,534.1	11.7%	4,189.2	12.1%
Municipalities (10%)	1,591.9	5.3%	1,887.0	5.5%
Universidad de San Carlos de Guatemala (5%)	796.0	2.6%	943.5	2.7%
Judicial Branch (4%)	636.8	2.1%	754.8	2.2%
Constitutional Court (5% del O.J.)	31.8	0.1%	37.7	0.1%
Federation Sports (1.5%)	238.8	0.8%	283.1	0.8%
Non-federation Sports (0.75%)	119.4	0.4%	141.5	0.4%
School Sports and Physical Education (0.75%)	119.4	0.4%	141.5	0.4%
Other tax revenues with specific destinations	1,521.4	5.0%	1,777.4	5.1%
Entities' own income	677.5	2.2%	643.8	1.9%
Public debt	2,905.5	9.6%	3,252.5	9.4%
Remunerations	7,463.2	24.7%	9,208.0	26.6%
Pension schemes	2,154.6	7.1%	2,392.2	6.9%
IGSS budget	430.5	1.4%	485.3	1.4%
Other contributions with current revenues	2,955.6	9.8%	2,962.4	8.6%
Available/cleared balance	3,738.8	12.4%	3,337.9	9.7%

Source: General Budget Bill of State Revenues and Expenditures for fiscal year 2008 (Congress of the Republic, Decree 70, 2007)

i) Actual internal revenue collection compared to the estimations in the original approved budget.

The reference period for the present analysis consists of the years 2006 through 2008. Since the 2007 draft budget was not approved by Congress, in accordance

with Article 171.b of the Political Constitution of the Republic, the approved budget of 2006 officially becomes effective for the year 2007³¹. Thus, given that the collection goals could not be redefined for 2007, in the present analysis, the approved collection goals for 2006 was considered to be in effect for

31 The constitutional article establishes that the budget from the previous year automatically becomes effective for the entire fiscal year, allowing the Executive Branch to solicit to Congress the approval of budget modifications in the course of the year in order to address management needs. The Constitution does not permit the Executive Branch to present a new budget project.

the fiscal year 2007. The values of actual revenues were obtained from the budget liquidation reports presented by MINFIN to Congress each year.

which the initial revenue goal was achieved. Annexes A1.4, A1.5, and A1.6 detail the values in quetzals and the level of compliance for the principal revenue items.

Table 3.3.2 shows the revenue deviation for the three years under study. Deviation represents the extent to

Table 3.3.2 Deviation in expenditure execution (actual/budgeted) for 2006, 2007, and 2008 (Percentages)

Type of revenue	Deviation		
	2006	2007	2008
Total revenues	99%	110%	95%
Internal revenues	103%	119%	100%
Current revenues	103%	119%	100%
Tax revenue	105%	122%	101%
Contributions to social security and provision	101%	114%	116%
Non-tax revenue	115%	127%	98%
Sale of public administration goods and services	97%	109%	151%
Property income	287%	217%	98%
Current transfers	32%	37%	50%
Other revenues	142%	33%	88%
Revenue derived from Internal and External Financing	87%	82%	68%

Details in Annexes A1.4, A1.5, and A1.6.

Sources:

- *Information provided by DTP*
- *General Budget Bill of State Revenues and Expenditures for fiscal years 2006 (Congress of the Republic. Decree 92, 2005) and 2008 (Congress of the Republic. Decree 70, 2007)*
- *Budget Liquidation of State Revenues and Expenditures, Fiscal years 2006 (MINFIN.DCE, 2007), 2007 (MINFIN.DCE, 2008), and 2008 (MINFIN.DCE, 2009)*
- *Budget Liquidation Audit Reports 2006 (Comptroller General's Office, 2007), 2007 (Comptroller General's Office, 2008), and 2008 (Comptroller General's Office, 2009)*
- *WEB Reports on budget execution 2006, 2007, and 2008 (MINFIN).*

Despite the disapproval of the annual budget, the year 2007 presents high values when actual collection figures are compared to the collection goals of the previous year. Such values are due to the positive effect of tax reform and of the strengthening of the Tax Administration promoted by the government. However, this aspect does not affect the scoring because the revenues obtained were, in reality, higher than previous years. In general, tax management has improved, albeit

moderately in the last years, a product of successive reforms that have been incorporated into the tax framework. This positive tendency in tax management was almost non-existent in 2008 as were tax revenues, due to the impact of the international financial crisis that affected the final months of collection. Overall, revenue management proved to be predictable. Although the international financial crisis did not affect the actual scoring, it is expected that its impact on collection in 2009 will be more serious.

Score A. Actual collection exceeded or reached the collection goals for 2006 (103%), 2007 (119%), and 2008 (100%).

Indicator	Score	Justification
ID 3	A	Scoring method M1
(i)	A	In two out of the three years under study, annual internal revenue collection was higher than the minimum of 97 % necessary for the score.

ID-4. Balance and monitoring of expenditure payment arrears

This indicator evaluates whether, in practice, procedures are given that allow modalities of non-transparent financing to occur, including payment arrears. This indicator attempts to establish the proportion of overdue accounts compared to the total budgetary expenditure and examines whether reliable data exist to quantify them.

The Government has not clearly defined when arrears occur. That is, the central government does not have a rule that clearly defines arrears, although the budgetary regulations³² prohibit the retention of invoices without proper, timely registry in the budgetary or accounting systems. In decentralized entities and public companies, each institution can have their own payment policy, which can vary from payment at sight to payment at 60 days. With regard to the providers, they are not accustomed to recording the expiration date on the invoice, which could be interpreted as if it were payment at submission of the invoice. The Judicial Branch has references showing that the judges' decisions are not necessarily responses to only one criterion. Thus arrears can become clear in certain circumstances but they cannot be identified a priori.

On another note, there are no established criteria to know that an invoice is valid in order to consider accrual and subsequent payment. The institutions, in their management, receive invoices that fulfill the requirements to be accrued and paid, and others that do not qualify. However, in all cases, these invoices have a tax component (VAT³³) that is linked to invoice issuance and not to their payment. Thus it is in the interest of the provider that it be paid or canceled before 60 days from the date the document is issued. Such circumstance could also indicate that an invoice received but not canceled before expiration would be an invoice implicitly accepted. The generation of floating debt is not a new problem for the government since it has been produced since the creation of COVIAL and the program

“Caminos de Oportunidad” (Paths of Opportunity) approximately 10 years ago. Thus the period under study (2006-2008) has not been free of this problem. The year 2007 was election year and some institutions committed to expenditures that exceeded their budget, in some cases, by very large amounts, which occurred with MICIVI exceeding by more than 2,000 million quetzals (5% of the government's budget total). Much of the expenditures converted into arrears and became evident by public complaints and the large number of contractors that demanded adequate payment. These payments had to be partially covered in 2008 through withdrawal from budgetary funds of other entities such as MINEDUC, MSPAS, and MINGOB, which meant the discontinued financing of the management of these entities. This led them to seek non-transparent financing modalities –arrears, transactions and/or non-recorded accruals – to cover their operational needs. In this way, these entities partially transferred their expenditure needs of 2008 to the following year, that is, they initiated the fiscal year 2009 with part of their budget already committed. On the other hand, there is no control over arrears or expenditure records with invoices from prior years, which facilitates the generation of payable accounts that can become arrears.

During the period under study, weaknesses of some management procedures were observed, which have permitted various operational modalities that facilitate the generation of non-registered debt. Currently, SICOIN has accrual record linked with payment record. When an accrual of a transaction is registered and approved, it is understood that this is also the payment order, and for that reason only what can be paid is accrued³⁴. In addition, when an institution receives an “accruable” invoice for a recorded expense as “committed,” and does not have a sufficient budget or a four-month cash availability, the invoice is retained until budget or budget allocation is available, and a non-registered payable account is generated. There have also been cases

32 Decree number 101-97 of the Congress of the Republic, Organic Budget Law (Art. 16), establishes the obligation to record transactions the moment they occur, for moments of commitment, accrual, and payment. Decree number 31-2002, of the Congress of the Republic, Organic Law of the CGO (Art 39.13 y 39.22), establishes sanctions due to the lack of budget record and control.

33 The VAT must be paid by the provider within 60 days of issuance of the invoice.

34 “An expenditure is considered to be accrued when the budgetary credit remains definitively affected once the condition for a payable debt is fulfilled, with the reception of goods and services or when subsidies are available” (Regulation of the Organic Budget Law, Article 12).

in which the institutions contracted or amplified their contracts without sufficient budget³⁵. In such cases, they received invoices that were not able to be recorded in the system until the contract was regularized by the budget. These cases temporally generated non-formalized payable accounts and legally not demandable until their formalization. In contrast, if the institution has sufficient budget or allotment, and records the accrual but NT does not have funds available to make the payment, a registered payable account is then generated.

i) Balance of expenditure arrears (as a percentage of the actual total expenditure for the corresponding fiscal year) and all recent variations of that balance.

The reference period for the analysis of this dimension is 2008. Retaining invoices without registering them or making payments without delay have been practiced frequently by some public institutions. Some have applied these procedures due to administrative difficulties³⁶ through which declared, registered delays were produced, leaving undeclared and non-registered pending payments. On the other hand, when the invoices are registered, the date of receipt, the invoice date, and expiration date are not registered, but rather the date on which the accrual was registered in SICOIN is registered. Thus it is not possible to monitor arrears electronically and there are no strict controls concerning them. With the recent change in FONAPAZ authorities in July 2009, they determined that the previous administration had left 1400 million quetzals of unregistered debt. In the report to the CGO in June 2009, the internal auditor of COVIAL informed that the entity had a floating debt of 2100 million quetzals, of which 810 million had been generated within the first five months of 2009 (“Incidencia Democrática” NGO, 2009).

With regard to accounting, the account of “short-term debts” reported in the budget liquidation of 2007 and 2008³⁷ showed upwards of 59.5 and 45.3 million quetzals, respectively (less than 0.2 % of the government’s budget). These debts, however, do not imply that they are overdue accounts but that they are accrual accounts whose payment should be transferred to the following year. They also do not imply that they comprise the account totals, since the aforementioned CGO reports show that non-registered accounts exist in both the institutions of the central government and the decentralized ones³⁸.

An additional problem occurs when budgetary funds are submitted by the institutions to private entities for their administration³⁹, in which not only is there no control over the arrears that these entities may generate but accountability of the use of these funds are delayed or simply not produced⁴⁰. Execution modalities that are untimely and out of budgetary control, such as trusts, agreements with international entities or NGOs, and revolving funds, have frequently involved significant budgetary amounts.

In the case of MICIVI, construction projects were contracted that exceeded their 2007 budget, leaving a group of contractors unpaid. Thus, in 2008 it was necessary for the Government to destine about 1200 million quetzals for the payment of these contractors⁴¹. This is possibly the only case in which the control of advances and accountability are forms of monitoring or fiscalization, but not of control, given that the government did not decide or intervene at the time of payment. Rather, it learned of the expenditure a posteriori when expenses are rendered. Control over these transactions resides only in the administrator of the fund and not the Government. The arrears have been quantified, although it is possible that the entire amount was not in arrears.

35 The government has initiated a modernization program for the National Treasury, which includes conducting four-month expenditure controls with which this situation will improve. Starting in 2009, a module of contracts will be put into effect to seek order in the programming of infrastructural works. This module validates budgetary allocation before approval of a new contract.

36 For example, according to ONSEC reports, there were some instances of lengthy payroll processing, delaying payment to the workers by several months (see ID-18).

37 Audit Report on the Budget Liquidation of Revenues and Expenditures for the fiscal year January 1 to December 31, 2007 (Comptroller General’s Office, 2008) and the Audit Report on the Budget Liquidation of Revenues and Expenditures for the fiscal year January 1 to December 31, 2008 (Comptroller General’s Office, 2009).

38 The CGO in its audit report conducted in 2007 shows omissions in the registry of invoices and revenues of goods, but this does not imply that arrears were generated in these payments, given that the nature of the negotiation with the provider is unknown.

39 The Budget Execution Manual through Agreements regulates execution through this modality. Other procedures are sought to remove incentives for using this practice.

40 The Government lacks necessary procedures to inform itself of the punctuality of trust account payments. Control over these transactions resides only in the administrator of the funds and not in the Government. When accountability is performed, the trust and other entities mentioned for the indicator report what has been paid with the received budgetary funds but not all that has been paid, remains to be paid, or delayed is reported.

41 There still remain more than 800 million quetzals under investigation or in the process of regularization.

Although it is evidence in the two years under study that arrears in payments have been produced, their exact quantification is not possible. It is also not possible to identify whether these arrears present a growing or diminishing tendency. However, there is sufficient data to establish that in this period, the lack of compliance in on-time payments has been a systemic problem in the financial administration of the Government. The First Report on Fiscal Policy in Guatemala: Diagnosis 2007 and Perspectives 2008 (MINFIN.DAEF, 2008) affirms that the floating debt generated in 2007 is equivalent to 0.8% of the GDP of 2008, some 2400 million quetzals.

The total revenues of 2008 turned out to be less than that expected by some 2000 million quetzals (see ID-3) in their internal and external financing categories, which amounted to 5 % less than the budget availability. This decrease was manifested only in the last months of the year, when the institutions had already committed a large part of their budget. It is expected that such circumstance will have generated new arrears, whose amount could exceed 2% of the budget⁴².

Although it is not possible to quantify the arrears with certainty, there is evidence that they exceed 2% of the budget.

Score D: The existence of arrears whose amount exceeds 2 % of the budget becomes evident. However, it was not possible to determine if the amount reached or exceeded 10 % of the budget, and there is no evidence to discard this possibility, which is the reason why a score C could not be given.

Once the electoral period and the effects of hurricane STAN pass, the pressure of the institutions to generate arrears may have decreased, but with the existing information, it is not possible to measure the extent of the remaining impact in the financial institutions.

In 2009, MINFIN put into operation the module SIGES of the integrated system of financial administration and issued the Procedures Manual for the Registry of Budget Execution of the Central Government (MINFIN.DTP, 2009), in which regulations are set for the registry of revenues and expenditures at the time they are committed and accrued. The module

SIGES allows the registry of transactions from its origin and at the time they are produced, which avoids signing of contracts without proper, timely registry.

ii) Availability of data for monitoring of the balance of expenditure payment arrears.

The reference period for this dimension consists of the years 2007 and 2008.

As mentioned for the previous dimension, there are no reliable data concerning the arrears.

Score D. Information on arrears with the government institutions cannot be determined in a reliable manner.

Indicator	Score	Justification
ID 4	D	Scoring method M1
(i)	D	This dimension called for a Score D, given that lack of evidence to show that the balance of arrears was under 10%, which is the threshold to receive a Score C. However, there was also no evidence that the balance was equal to or exceeded the established limit of 10%. Because there is evidence that the balance exceeded 2%, it is not possible to leave the indicator without a score.
(ii)	D	There are no reliable data concerning the arrears.

⁴² It must be taken into consideration that arrears can be produced in all the budget items, including payroll (see ID-18) and basic operational expenditures.

3.2. *Comprehensiveness and transparency*

ID-5. Classification of the budget

This indicator evaluates whether the budget classification allows for an adequate monitoring of expenditures in their administrative, economic, functional, and programmatic dimensions. The budget classification is compared with practices based on international classification standards, which are outlined in the *Government Finance Statistics Manual (GFSM)* (IMF, 2001).

The reference period for the present analysis is the budget executed in 2008.

The 2008 budget applied the *Budget Classifications Manual for the Public Sector of Guatemala* (MINFIN, DTP, 2008). In January 2008, the fourth version of the manual was published, which introduced changes in the classifiers that included the revision of account descriptions, adjustment of the classifiers by type of expenditure to reconcile it with the economic classification, and incorporation of new expenditure lines. The third version was still compatible with the *Government Finance Statistics Manual* (IMF, 1986), but this last version is compatible with the 2001 GFSM and is gradually being implemented. The institutional classifier was already applied in the budget for fiscal year 2009. In the 2010 budget, the classification will be implemented by purposes and functions. Additionally, technical assistance from IMF will aid in implementing classification by type of expenditure, classification by financing sources, classification by expenditure object, classification of resources by items, economic classification of resources, and economic classification of expenditures.

Classifiers included in both versions of the *Budget Classifications Manual for the Public Sector of Guatemala* are the following: i) Institutional classification; ii) Geographic classification; iii)

Classification by Purposes and Functions; iv) Classification by Type of Expenditure; v) Classification by Financing Sources; vi) Classification of Resources by Items; vii) Economic Classification of Resources; viii) Classification by Expenditure Object; and ix) Economic Classification of Expenditures.

i) The classification system utilized for the formulation, execution, and information of the central government's budget.

The budget classifiers are based on general terms outlined in the 1986 GFSM, but the functional classification of expenditures include only five of the principal functions of the United Nations' *Classification of the Functions of Government*: governmental administration, defense and security, social services, economic services, and public debt. Recently modified functional and institutional classifications of expenditure satisfy the characteristics established in the 2001 GFSM. The institutional classification has been in effect since 2009, but the functional classification will become valid for the 2010 budget.

To date, the compatibility of the Economic Classification of Expenditures does not exist. The government uses the Classification by Expenditure Object, which is compatible with the Economic Account of the 1986 GFSM but not used in the 2001 GFSM. Instead, an economic classification focused on accounting⁴³ is used, for which the current information administered by the budgetary system is inadequate. Thus it becomes necessary to combine accounting categories with budgetary ones. At the moment, such process is out of the SICOIN's characteristics. In reality, to be able to inform the IMF the financial statistics of the government, "Bridge Formats" provided by the IMF are utilized,

⁴³ Economic classification introduces concepts such as "consumption of fixed capital" and "consumption of goods and services" that cannot be obtained from budgetary instruments.

by which accounting and budgetary information of a certain moment is obtained, externally generating compatible information with the 2001 GFSM.

Because all budgetary information is processed by the SICOIN, interaction and alignment between budget and accounting classifiers are automatic and complete.

Score C. Generally, budget classification is based on the 1986 GFSM, but functional classification only utilizes five of the principal functions outlined in *Classification of the Functions of Government*.

Note: The functional classifier changed starting 2010. Treatment is gradual and it is hoped it will be standardized as much as possible to the 2001 GFSM. However, this is a statistical system, not a system of budget or wealth control. Therefore, better practices can be adopted by the system cannot be substituted.

Indicator	Score	Justification
ID 5	C	Scoring method M1
(i)	C	Budget formulation and execution is based on administrative and economic classifications, in which GFSM standards are reflected, or a rule may generate consistent documentation adhering to these rules.

ID-6. *Comprehensiveness of information included in budget documentation*

This indicator evaluates the adequacy and sufficiency of the information presented by the Executive Branch to Congress for analysis, discussion, and approval or disapproval of the draft budget. According to a specified list and described by the PEFA system, the indicator score verifies the number of informational elements that have been presented to Congress together with the proposed budget.

The reference period for the present analysis points to the submitted 2009 budget for the approval of Congress in 2008.

*The Political Constitution of the Republic*⁴⁴ establishes that the *General Budget of State Revenues and Expenditures* include “the estimation of all revenues and details of expenditures and investments to be realized.” However, it does not specify the documentation to support fiscal and budget assumptions that would serve as the base in preparing the government’s budget proposal.

The Organic Budget Law⁴⁵ (Congress of the Republic. Decree 63, 1994) only establishes that the law initiatives must be adequately supported and accompanied by necessary demonstrative documentation.

The Commission of Finance and Currency of the Congress of the Republic is in charge of reviewing and analyzing the technical and economic aspects

of the budget proposal. In their *Ruling of November 17* (Congress of the Republic. Ruling, 2008), “Title II – Considerations of the Commission” concerning the draft budget for fiscal year 2009, they conclude⁴⁶ that the Executive Branch’s proposal satisfies all the constitutional requirements. However, they do not comment on the sufficiency of complementary information attached to the budget document. In the same Ruling, the Commission states: “The budget document presented to Congress by the Executive Branch contains:

- 1) Delivery notes;
- 2) General Statement of Motives;
- 3) Draft Decree of the General Budget Bill of State Revenues and Expenditures for Fiscal Year 2009;
- 4) Quantitative Detail of the Project;
- 5) Summary of the Draft Budget of Investment and its Financing; and
- 6) Multi-year Budget 2009-2011.”

i) Proportion of the information (to be taken into account for evaluation, the specification of the reference parameter must be complied to entirely) contained in the budgetary documentation published most recently by the central government.

Good international practices suggest that budgetary documentation should include at least nine components described in Table 3.6.1, on which the score is based.

⁴⁴ Article 237

⁴⁵ Article 109. “Each initiative whose purpose is to present a bill is required to present in written decree form, separating the preamble from the operative, including an extensive justification as well as technical studies and documentation to justify this bill initiative.”

⁴⁶ “This commission has proven that the law initiative has been presented conforming to Article 237 of the Political Constitution of the Republic of Guatemala. It includes the estimation of all revenues and details of expenditures and investments corresponding to fiscal year 2009, and is coherent with the budget rules and guidelines that govern the fiscal policy during the aforementioned period ...”

Table 3.6.1 Information included in the budgetary documentation presented to the Congress of the Republic for approval of the Annual Budget Bill.

Component of information	Included	Comment
1) Macroeconomic assumptions with estimations of aggregate growth, inflation, and exchange rate	Yes	Macroeconomic assumption are prepared and updated by the Bank of Guatemala. The Bank provides this information as a member of the Public Finance Technical Commission. The multi-year budget that accompanies the Budget Bill contains the required macroeconomic information as well as the multi-year projections of the budget.
2) Fiscal deficit, defined according to GFS	Yes	Deficit, in the case of Guatemala, is calculated by subtracting the expenditures from the revenues, which follows the definition of Global Deficit in the 1986 GFS ⁴⁷ . Although this definition is the equivalent of Net Operational Out-turn according to the 2001 GFS, the PEFA methodology does not disqualify the 1986 GFS. Therefore, the condition is satisfactory.
3) Deficit financing and its composition	Yes	Documentation of the 2008 and 2009 budgets showed budget deficits and financing needs, including anticipated sources and contributions of each. Congress only approved the tax revenues, leaving external financing without approval. This could be interpreted that the information provided was not sufficient. However, this detail does not alter the evaluation, given that the measurement refers to whether or not information was provided, not the decision of Congress.
4) Debt stock, including details for the beginning of the year	Yes	Information on debt is reported adequately. In the budget, the debt is managed as Entity 0019, through which MINFIN exposed both the stocks and service of debt ⁴⁸ .
5) Financial assets, including details for the beginning of the year	No	The chapter on revenues of the budget clearly describes the flow of financial assets in the entries of Property Income and others, but it does not show the initial credit balance of the fiscal year ⁴⁹ .
6) Prior year's budget out-turn (2007)	Yes	The out-turn of the prior year's budget (2007) was reported in its official figures and audited by the CGO. Even though the existence of floating debt was identified in an institution in 2008, it was not quantified because the information presented to Congress reflected more reliable data.
7) Current fiscal year's budget (revised or out-turn) (2008)	No	This information does not form part of the budgetary documentation, but execution reports are submitted every four months to Congress. In the draft budget, only information on the budget approved for the current year (2008) and that proposed for the following fiscal year (2009) was included ⁵⁰ . The fact that Congress had direct access to SICOIN or that it periodically receives information on budget execution does not guarantee that it is accessible and updated for the reviewers at the time of review. On the other hand, the SICOIN reflected only the registered expenditures that did not include all the actual expenditures (see ID-7), for which reason the figures did not turn out to be appropriate to monitor the expenditures.
8) Summarized budget data for revenue and expenditure	Yes	The second part of the budgetary documentation includes a chapter on global charts that adequately summarize the revenues and expenditures proposed in the budget.
9) Explanation of budget implications of new policies, estimating the budgetary impact of major revenue policy modifications and/or major modifications to expenditure programs.	Yes	At the level of each sector and <u>when Congress requests it</u> , the minister or the pertinent authority can make a statement to Congress about budget implications of new initiatives. In the multi-year budget that forms part of the budgetary documentation, new budgetary initiatives are presented and a brief statement is carried out.

*Source: MINFIN, Technical Directorate for Budgeting
General Budget Bill of State Revenues and Expenditures for fiscal year 2009 (Congress of the Republic. Decree 72, 2008)
Ruling of November 17, 2008 of the Commission of Finance and Currency of the Congress of the Republic*

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13.

47 MINFIN has decided to adopt MEFP2001 but such adoption must be gradual. Change in the concept of fiscal deficit is a sensitive topic, as for a long time, the population, principally the political class has been accustomed to only one type of fiscal deficit (revenue-expenditure).

48 In the last mission of the IMF (April 2009), it preferred to take debt information provided by BANGUAT before that provided by the Directorate of Public Credit of the Ministry of Public Finance.

49 With the migration of MEFP2001, state financial and non-financial balances are produced. It is hoped that this measure can be gradually adopted starting in 2011.

50 When the draft budget is prepared, the fiscal year has not yet ended so this information cannot accompany it.

Score A. Eight of the nine parameters evaluated by the indicator are included in the budgetary documentation issued to Congress, and of these, seven completely satisfy the information requirements established by the PEFA reference framework.

Indicator	Score	Justification
ID 6	A	Scoring method M1
(i)	A	The budgetary documentation includes seven of the nine parameters considered for the indicator.

ID-7. Extent of unreported government operations

This indicator evaluates the proportion of expenditures and revenues of the government that are not reported in fiscal reports. The purpose of the indicator is to establish the extent of how realistic the budgetary estimations and reports on financial management are.

The reference period for the analysis for this indicator is 2008.

In general, budgetary regulations obligate the reporting of all institutional and governmental revenues. Thus the budget consists of all the resources of the Government, including the government's own resources and those provided by international agencies, both in cash and in financial aid. However, with regard to the expenditure, some institutions have utilized modalities outside the budgetary norms, constituting forms of extra-budgetary expenditure. In addition, other modalities of management exist that, without generating extra-budgetary expenditures, cause the budgetary expenditure to be inadequately reported, making it difficult to monitor.

The first modality, non-transparent financing, refers to prohibited practices in which contracts are

partitioned or incompletely registered. Institutions sign contracts and grant an advance payment to the contractors, registering the advance as the contracted amount. With a limited budget, various contracts may be initiated, whose aggregate amount results much higher than the budget availability. The MICIVI, for example, employed this procedure in 2007, allowing them to contract works without declaring them for a greater amount than the budget, on the order of 2,000 million quetzals.

The second modality, deficient declaration of expenditure or no declaration at all, is based on the use of parallel systems of management. Through agreements, institutions transfer part of their funds to other institutions, which execute the expenditure outside of the government's budgetary system, making accountability highly aggregated, incomplete, or extemporaneous. Monitoring of expenditure details becomes difficult and intermediate budget reports unreliable. The DAEF in their *Third report on fiscal policy in Guatemala: Preliminary closing of 2008 and perspectives on 2009* (MINFIN.DAEF, 2009) show how more than 13.3 % of the budget in 2008 was transferred to be executed by NGOs and trusts.

There are also some entities that receive transfers from the government and are not held accountable for the realized expense⁵¹. Some entities are catalogued within the budget category of State Obligations in charge of the Treasury, the most relevant cases being the Urban and Rural Development Councils receiving more than 1200 million quetzals in 2008 and the Universidad de San Carlos receiving more than 1000 million quetzals.

An additional practice employed by some institutions consists of not recording transactions. In the CGO report on the 2008 budget liquidation, there are references to non-registered merchandise revenues in warehouses and non-registered invoices that are, in some cases, transferred to the following fiscal year. In this way, institutions generate non-registered floating debt.

i) Level of unreported extra-budgetary expenditure that does not figure into the fiscal reports and is distinct from that of projects financed by donors.

Due to the extra-budgetary expenditure generated by omissions in transaction records, quantification proves difficult as they are unreported expenditure commitments, the practices of which are known through specific cases. The CGO report on the 2008 budget liquidation shows the existence of non-registered contractual debt in the MICIVI that amount to a total of 3,075,582,031.01 quetzals⁵². Reports for previous fiscal years do not show the existence of similar debt in this entity, thus suggesting that the

amount corresponds only to the year 2008. However, this supposition does not seem probable, since the noted amount surely includes the “stock” of debt from previous years, which has not been possible to quantify for lack of evidence to make calculations.

Budget expenditures that are reported in an untimely manner in the fiscal reports can be reasonably quantified. The DCE keeps a registry of the executed expenditure accounts through revolving funds and funds submitted to trusts and various agreements, whose aggregate values for 2008 are shown in Table 3.7.1. Accountability of these funds is made by regularization, that is, the transactions are not registered in SICOIN when they are realized, but accountability is performed periodically and is registered until that moment in SICOIN. In this way, the budgetary information reflects the amount of advance payment to the entity and not the actual expenditure, which is recorded when the entity declares expenditures during the year to renew⁵³ the fund or to liquidate the fund at the end of the year.

Table 3.7.1 shows how more than 5,700 million quetzals of the budget are registered by regularization. Such amounts can be subject to untimely declaration of expenditures during the year, affecting the quality of intermediate budget reports by an undetermined quantity. The pending balance to be declared by December 31, 2008, which reached a figure of 104.99 million quetzals, does not form part of the fiscal reports.

51 These transfers constitute budgetary obligations by legal and constitutional mandates, which is the reason why the Executive Branch is obligated to transfer the resources. Additional mechanisms have been implemented to gradually obtain information about the transferred resources. The Comptroller of Accounts has also supported the initiative demanding that the executing entities have SICOIN as a requisite to practice fiscalization.

52 Finding 11 referred to internal control in the General Directorate of Roads: "... contractual debt until December 31, 2008 for Q3,075,582,031.01, amount integrated by construction and supervisory companies for Q2,826,679,435.34 and Q248,902,595.67, respectively. Such debt is not reflected in the accounts of the central administration's general balance as of December 31, 2008."

53 To renew the fund, entities must account for their expenses by a minimum percentage of 75% of the received advance.

Table 3.7.1 Executed expenditures by third party (millions of quetzals)

Type of execution	Total Advances Realized 2008	Declared Expenditures
Amounts executed through agreements with non-governmental and international organizations	1,044.93	983.33
Amounts executed through trusts	3,730.56	3,687.17
Amounts executed through institutional revolving funds	984.80	984.80
Total	5,760.29	5,655.30
Balance to be allocated that does not appear in fiscal reports		104.99
<i>Source: Reports of the Directorate of State Accounting (DCE in Guatemala)</i>		
<i>Nota: Due to accounting closing of the fiscal year, balances of advances submitted at the end of the year cannot be regularized in a timely manner but are regularized at the start of the following year.</i>		

Budgetary funds without expenditure declaration and which do not form part of the aforementioned funds correspond to transfers to public entities, the major ones being the Development Councils and the Universidad de San Carlos. Such transfers together received more than 2,200 million quetzals in 2008. If we add to this figure the 104.99 million

quetzals mentioned above, as well as the part of the non-registered contracts by MICIVI that could be generated in 2008, the unreported budgetary expenditure would easily exceed 5% of the budget (2,130 million quetzals). No evidence has been found to confirm that this amount exceeds 10% of the budget (4,254 million quetzals).

Score C. The level of expenditure not reported in the fiscal reports exceeds 5% of the total expenditure of the government, but does not exceed 10%.

On December 30, 2008, the MINFIN issued the Ministerial Accord 124-2008 which regulates the registry of agreements with the purpose of stopping the use of non-transparent financing. The impact of this recent rule will be observed in the 2009 budget. With the Budget Bill for fiscal year 2008, the use of trusts and budget execution through agreements were regulated, obligating the registry and accountability of these funds. This rule has led to better information on the management of these funds. However, the anticipated results will not be achieved until the standard presentation formats

of reports prepared by the Directorate of Trusts is implemented in 2009, in addition to the training of entities on production and creating awareness on compliance to rules for transparency, accountability, access to public information, and fiscalization.

ii) Information on revenues and expenditures referring to projects financed by donors that are included in fiscal reports.

The totality of the funds originating from donations and loans are executed through budgetary procedures

and SICOIN, where both revenues and expenditures are registered. The system makes it possible to obtain the necessary information for the reports. However, some donations can be executed outside the knowledge of the government, by which they are relieved of the responsibility of the donations and the modality for fiscal reporting. In some cases, transactions records are carried out by regularization, in which case they may occur extemporaneously.

The MINFIN, as part of the formulation process

of the Annual Budget, prepares the complete list of investment projects that will be executed in the fiscal year, consolidating information supplied by the entities. This list includes the financing sources, executing entities and the unit responsible for the execution for each particular project. Based on this list, the investment budget is executed and the reports are integrated with four-monthly and annual budget reports. These reports present aggregate information of each project, but upon request, it is possible to receive detailed information.

Score A. The fiscal reports include complete information on revenues and expenditures of the projects financed with loans or donations.

Indicator	Score	Justification
ID 7	C+	Scoring method M1
(i)	C	The level of unreported extra-budgetary expenditure (distinct from that of projects financed by donors) is situated between 5% and 10% of the total expenditure.
(ii)	A	The fiscal reports include complete information on revenues and expenditures corresponding to 90% (in value) of the projects financed by donors, except for consumables provided in kind.

ID-8. Transparency of inter-governmental fiscal relations

This indicator evaluates conditional and unconditional budget transfers conducted based on clear, predictable, and transparent rules from the central government to decentralized or autonomous sub-national entities.

The analysis of the indicator focuses on the management of the last completed fiscal year (2008).

i) Transparent systems of unconditional and conditional transfers from the central government (budgetary and actual allocations) based on rules on horizontal allocation between

the central and sub-national governments.

If the legal framework that regulates horizontal transfers between the central government and municipal governments is complete and clear, then procedures apply that operationally affect the predictability of the transfers on the part of the municipalities.

The regulatory framework of fiscal relations between the central government and municipal governments is shaped by the following judicial regulations:

- The Political Constitution of the Republic⁵⁴ (National Constituent Assembly, 1985)
- Organic Budget Law⁵⁵ and its rules⁵⁶ (Congress of the Republic. Decree 101, 1997)
- Ley del Impuesto al Valor Agregado y sus reformas (Congress of the Republic. Decree 27, 1992 and its regulation agreed in 2006)
- Tax Law on the Distribution of Crude Petroleum and Petroleum-derived Fuel (Congress of the Republic. Decree 38, 1992 and complementary Decrees 38-92, 04-2003, 11-2003 and 38-2005);
- Reforms to the Specific Tax Law on the Distribution of Distilled Alcoholic Beverages, Mixed Alcoholic Beverages and Alcohol for Industrial Purposes (Congress of the Republic. Decree 11, 2003);
- Reforms to the Tax Law on the Distribution of

Crude Petroleum and Petroleum-derived Fuel⁵⁷ (Congress of the Republic. Decree 38, 2005);

- Tax Law on Vehicle Circulation⁵⁸ (Congress of the Republic. Decree 70, 1994);
- Tax Law on Property Value (Congress of the Republic. Decree 15, 1998); and
- Municipal Code (Congress of the Republic. Decree 12, 2002).

Based on the outlined legal framework, the Executive Branch annually presents a global amount in the annual draft budget to transfer to the municipalities without detailing the amounts at the municipal level. This amount contains a variable component, which depends on actual tax collection. Table 3.8.1 presents the budgetary and actual (effectively paid) allocations for the years 2006, 2007, and 2008.

⁵⁴ Article 257 establishes that the Government must grant 10% of the General Budget of Ordinary State Revenues to the municipalities.

⁵⁵ Article 22.

⁵⁶ Article 17.

⁵⁷ Article 14 which modifies Article 23 of the original law establishes: "Specific destination of the resources. What is collected in concept from the Tax on the Distribution of Crude Petroleum and Fuel Derived from Petroleum will be allocated in the budget in the following way: a) Of the superior gasoline tax, the Ministry of Public Finance will destine to the Municipality of Guatemala ten quetzal cents (Q.0.10) per gallon, and for the rest of the municipalities, twenty quetzal cents (Q.0.20) per gallon, the amount of which must be distributed proportionally according to constitutional allocation with the purposes of use in transportation and to improve, construct, and maintain both urban and rural transportation infrastructure of each municipality; and b) Of the regular gasoline tax, the Ministry of Public Finance will destine to the Municipality of Guatemala ten quetzal cents (Q.0.10) per gallon, and for the rest of the municipalities, twenty quetzal cents (Q.0.20) per gallon, the amount of which must be distributed proportionally according to constitutional allocation with the purposes of use in transportation and to improve, construct, and maintain both urban and rural transportation infrastructure of each municipality."

⁵⁸ Article 6 establishes that: "Of the collection from the following types of vehicles: a) private use, b) rental, c) commercial, d) urban transportation of people, and e) motorcycles, 50% will be destined to the municipalities to be distributed through the same system that CPE establishes as constitutional contribution, with exclusive use in the maintenance, improvement, construction, and/or expansion of streets, bridges, and sidewalk curbs, allowing up to 50% of the common fund and the remaining 10% to the department of transit of the national police, who will exclusively destine it for the maintenance and acquisition of traffic lights, transit signals and other equipment required to maintain traffic in an orderly and controlled manner, as well as for controlling the conditions in which people drive and the vehicular and motor conditions that circulate in the country."

Table 3.8.1 Contributions by the Central Government to the Municipalities

State Obligations in charge of the Treasury, Allocated and Valid Budget (in million Quetzals)						
Contributions of the Central Government to the Municipalities	2006		2007		2008	
	Budget	Actual	Budget	Actual	Budget	Actual
Constitutional Contribution to the Municipalities	1,591.9	1,591.9	1,591.9	1,597.3	1,887.0	1,887.0
VAT Contribution to the Municipalities	1,452.5	1,452.5	1,452.5	1,454.9	1,895.2	1,895.2
Various Tax Contribution to the Municipalities	151.2	182.4	151.2	190.8	218.5	218.5
Total	3,195.6	3,226.8	3,195.6	3,243.0	4,000.7	4,000.7

Source: Based on information from the DTP.

Statistical information from the SIAF-MUNI on 2008 shows that the total executed municipal expenditure increased to a total of 6,511 million quetzals, and consequently, governmental transfers represented almost two-thirds of the municipal budget revenues. The remaining third is covered by municipalities' own revenue.

Allocations are not conditional, though they may have a specific destination in the case of taxes. Annex A1.15 details the allocation method of constitutional contributions, as described in the Municipal Code. This law applies to the distribution of VAT-peace, petroleum tax, and vehicle circulation tax, because these taxes do not have specific procedures for distribution in the municipalities.

Distribution of budgetary allocations to each municipality is carried out by applying a "distribution factor" calculated through a particular formula indicated in Annex A1.15, the parameters of which are updated at the beginning of the year except for ordinary municipal revenues that are updated at the beginning of April. This means that the formula and specific allocations to each municipality can only be calculated at the start of the aforementioned months. The municipalities, thus, must formulate and approve their budget several months prior, estimating the revenues that will occur through transfers from the central government. Due to the variability in municipal revenues, the anticipated estimates of the allocations is difficult and unreliable, for which the municipalities normally assume a conservative position undervaluing their budget revenues and limiting their capacity to adequately program their plans of action. Table 3.8.2 shows that a high proportion of municipalities undervalued

their allocations for the years 2006, 2007, and 2008.

Allocations during the fiscal year are realized bimonthly. For the months of January and February, March and April, the effective constitutional allocation is not calculated and the amount transferred for the months of November and December is repeated. The transfers are carried out in mid-January and mid-March, and are immediately communicated through public announcements in the newspapers *Diario de Centro América* and two others that are circulated nationally. The constitutional allocation of May and June is calculated applying the formula and updated parameters. The transfer is made in mid-May and is communicated after the first two weeks of May in *Diario de Centro América* and two other newspapers with a national circulation. The communication also includes the total amount to be transferred during the year to each municipality. In the other two-month periods, the same procedure is followed but the accumulated transfer amounts are verified to not exceed the annual transfer total.

For the transfer amounts referred to tax coparticipation, the amount is calculated with the same distribution criteria that is applied to the constitutional allocation and is transferred together. In this case, using the same means of communication, only the bimonthly transfer amounts are communicated and not the annual total for each municipality.

Given that the bimonthly payments take into account the values of the actual collection of taxes involved, the National Treasury must recalculate the formula every two months to establish the corresponding allocation to each municipality, and from this amount, must deduce what has been

submitted to fix the transfer amount for the two-month period. Thus, the bimonthly payments

change, reducing the predictability of the amount to be received by the municipalities every two months.

Table 3.8.2 Comparative analysis - Transfers from the Central Government to 73 municipalities

Budget Transfers by the Municipalities and Allocated by the Central Government (in millions of current Quetzals)					
Municipal budget	# of municipalities	% of municipalities	Budgeted (A)	Allocated (B)	Difference (A)-(B)
Year 2006					
Underestimated	68	93%	340.3	516.8	-176.5
Overestimated	5	7%	55.5	48.5	7.0
Total	73	100%	395.8	565.3	-169.5
Year 2007					
Underestimated	53	73%	364.3	409.0	-44.6
Overestimated	20	27%	159.6	158.7	0.9
Total	73	100%	523.9	567.6	-43.7
Year 2008					
Underestimated	65	89%	477.1	629.8	-152.7
Overestimated	8	11%	86.3	67.4	18.9
Total	73	100%	563.4	697.2	-133.8

Source: Based on information by the MFP

Therefore, if the principles concerning transparent application of criteria or factors to realize transfers to municipalities established by the Municipal Code are reasonable, then their application will generate uncertainty for the municipalities due to the following factors:

- The transfers are not known sufficiently in advance so that the municipalities can completely formulate their budgets;

- The actual annual and bimonthly allocations are dependent on the actual tax collection and current revenues of the municipalities, which signifies that the transfer amounts are unpredictable for the municipalities.

Score A. There are clear, transparent, and accepted rules for the allocation of all constitutional resources to the municipalities.

ii) Timeliness of reliable information to sub-national governments on allocations that the central government will make for the next fiscal year. The methodology to determine the municipal allocations, according to that established in the Municipal Code⁵⁹, requires actual values of tax collection and of municipal budget execution. For this reason, it is not possible to anticipate the amounts

that will be transferred. The information that the central government provides to the municipalities so that they can formulate their budget cannot be announced at the time of budget formulation but rather during the fiscal year after information on actual management is known. Thus, information provided to the municipalities is delayed, affecting the municipal provisions. As shown in Table 3.8.2, on

⁵⁹ Modification to the Municipal Code was approved by Congress on May 13, 2010.

average there exists a significant variation between what the municipalities estimate during budget formulation and that which is actually received during the following fiscal management. During the preparation of the current report, a modification to the Municipal Code was under discussion in Congress, which would allow municipalities to be informed of the planned total of the monthly transfers during the last trimester of the year. Thus, the next PEFA

assessment of this dimension may have a better score.

Constitutional allocation is communicated when the fiscal year is already in progress. In the case of annual tax coparticipation, only the allocation amount is announced bimonthly, thus the municipalities do not receive any information on the annual allocation totals of their tax coparticipation.

Score D. The information submitted to the municipalities concerning allocation of funds is delayed.

iii) Measures through which consolidated fiscal data (at least on revenues and expenditures) concerning the central government are collected and announced by sectoral categories.

There was no evidence of an integral practice of systematic consolidation of the general government (central government and municipalities), despite the fact that the registry of financial transactions for the municipalities is realized using the same classification of revenues and expenditures as that of the central government⁶⁰. The municipalities have financial information online through the SIAF-MUNI⁶¹, but it is not consolidated with that of the central government.

Moreover, the information does not detail the classification by sectors. The aforementioned modification to the Municipal Code proposes a budget structure for the municipal system that will allow the public account to be consolidated, integrating it

with the municipal financial information. Procedures to report municipal budgetary management every four months are considered as well, assigning the function of fiscalization and sanction for non-compliance to the CGO. These modifications to the Code will have a positive effect on the scoring of this indicator in the next PEFA assessment.

The regulatory framework establishes that the municipalities must submit their annual budget liquidation reports to the Ministry of Public Finance, Congress, and the CGO⁶². Legislation does not anticipate penalties when municipalities do not send information about their approved and executed budgets to the Ministry. Table 3.8.3 shows that, based on the municipality financial records that were sent to MINFIN, less than a fourth reported information on approved and executed budget to the MINFIN during the period of 2006-2008.

⁶⁰ Article 8 of the Regulation of the Organic Budget Law

⁶¹ In 2008, the MINFIN has initiated the implementation of the SIAF Municipality to have information online on the municipalities' approved and executed budgets. Currently, all of the municipalities have initiated the implementation of the SIAF Municipality.

⁶² Article 47 of the Organic Budget Law

Table 3.8.3 Receipt of budgetary information from the municipalities (to April 29, 2009)

	2006		2007		2008		2009
	App.	Exec.	App.	Exec.	Exec.	App.	Exec.
Number of municipalities that sent information to the DTP	72	69	79	37	29	62	78
% of total municipalities of 331	21%	20%	24%	11%	9%	19%	23%

Nota: App. = Information on approved municipal budget sent; Exec. = Information on executed municipal budget sent
Source: Archive of the Department of Global Integration and Analysis, DTP.

Score D. Less than a fourth of the municipalities complies with the submission of information on budget management to the MINFIN. Consolidation of the municipal fiscal information is not carried out.

Indicator	Score	Justification
ID 8	C	Scoring method M1
(i)	A	Horizontal allocation of almost all transfers of the central government – at least 90% by value – is determined through transparent systems and based on rules
(ii)	D	Reliable estimations regarding transfers are provided after actual budget management values are known, or the previously published estimations are unreliable.
(iii)	D	Fiscal information is compiled and consolidated (<i>ex ante</i> and <i>ex post</i>) and made compatible with that of the central government with less than 60% by value of the sub-national governments' expenditures.

ID-9. Oversight of aggregate fiscal risk from other public sector entities

This indicator evaluates the capacity and quality of oversight of the central government to supervise and monitor aggregate fiscal risk, generated explicitly or implicitly by other entities in the public sector, such as autonomous entities, public companies, and municipal governments.

The analysis of this indicator focuses on the management of the last completed fiscal year (2008).

The legal framework that regulates fiscal relations between autonomous entities and public companies

with the central government is controlled by the Organic Budget Law and its regulations.

For public companies, Article 45 of the Organic Budget Law (Congress of the Republic. Decree 101, 1997) and Article 28 of its regulations establish the obligations of the companies concerning the preparation and presentation of both regional and sectoral information to the MINFIN and SEGEPLAN on the origin, amounts, and destinations of annually planned and executed investments in order to consolidate the budgetary information of the public

sector. This task is realized annually through the DCE which incorporates into SICOIN capital accounts of public companies and autonomous entities such as the Guatemalan Institute of Social Security (IGSS in Guatemala). However, it was shown that, in some cases, the incorporation of capital accounts leads to backlogs in management. For example, consolidation of fiscal year 2008 incorporates information from public companies on the management of 2007. Thus, the quality of information on the aforementioned capital accounts is not consistent with the consolidation period. In addition, information that autonomous entities present concerning their capital on their financial statements does not coincide with the SICOIN records (in the case of IGSS for 2008).

For decentralized and autonomous entities, Articles 39, 40, 41, 42, 43, 44, 50, and 59 of the Organic Budget Law establish the obligations concerning the presentation of financial information to the MINFIN. Articles 23, 24, 26, and 29 of the Regulations of the Organic Budget Law establish that March 31 is the deadline to present financial statements to the CGO and Congress, as well as a copy to the DCE for the purposes of consolidation. However, this is not carried out comprehensively. Article 50 of the Regulations gives the MINFIN authority to establish, on a case by case basis, the limit of debt for non-financial decentralized and autonomous entities, when they request authorization to manage public credit with sovereign guarantee.

For municipalities, the Directorate of Public Credit of the MINFIN keeps a statistical record of municipal debt, whose principal sources of information is the INFOM. The information is complemented and reconciled by the Directorate through the form DCP-1, issued by the municipalities in compliance with Article 115 of the Municipal Code.

In accordance with Article 38, number 21 of Government Accord 394-2008, Internal Organic Regulation of MINFIN, it is incumbent upon the Directorate of Fiscal Analysis and Evaluation to evaluate the sustainability of the fiscal policy, in particular with regard to public debt. For the automatic generation of consolidated economic accounts, through the Management Information System the SIAF has incorporated matrices that perform this function regarding budgetary accounts, currently being applied to entities of the central government and non-municipal companies.

i) Measure in which the central government monitors autonomous public bodies and public companies.

The central government conducts monitoring of the financial situation of public companies—with an active majority participation of the state—and of autonomous entities through the SICOIN. This system facilitates the consolidation of these institutions' capital accounts with that of the central government, but not all public companies present their financial statements.

The information recorded in SICOIN may be consulted and reported by the Directorates of MINFIN through their management information system, facilitating analysis and available as a useful instrument for autonomous public bodies and public companies.

The available information, though it reflects the institutional transaction registry, does not include audited financial statements of all the institutions, particularly the public companies. Although SICOIN performs the automatic consolidation of accounts, it does not issue any reports on global fiscal risk. On the other hand, this consolidation process is accepted by the Monetary Fund to calculate the deficit of the consolidated government.

Score C. Although public companies and autonomous and decentralized entities annually present their financial information to the MINFIN, not all present audited financial statements nor do they issue reports on global fiscal risk.

ii) Measure in which the central government conducts monitoring of the fiscal position of sub-national governments.

The central government conducts monitoring of the financial situation of municipalities and municipal companies through the SIAF-MUNI. The front page of SIAF-MUNI (<http://siafmuni.minfin.gob.gt>) presents

information on budget execution of expenditures and revenues of the 333 municipalities, including information on debt. Although not all municipalities submit their financial statements to MINFIN, the information is obtained annually from INFOM. The SIAF-MUNI automatically consolidates municipal accounts, but no report on global fiscal risk is issued

Score C. The net position of the municipal governments is monitored at least annually by the DCP based on information from INFOM, but no report is produced on global fiscal risk.

It is hoped that, by the start of 2011, it will be possible to include information on municipal governments and their companies in the reports on fiscal risk. To this end, the Technical Directorate for Budgeting will modify the expenditure object classifier in order to include items for non-business municipal entities,

social security, commonwealths, and financial and non-financial municipal companies. The SIAF-MUNI and SICOIN will completely identify the receiving entity of the transfers which will facilitate necessary correspondences for consolidation in detail.

Indicator	Score	Justification
ID 9	C	Scoring method M1
(i)	C	The majority of principal autonomous public bodies and public companies present fiscal reports to the central government, at least annually, but a consolidated outlook is not produced.
(ii)	C	Monitoring of the net fiscal position corresponding to the most important level of sub-national governments is conducted at least annually, but a consolidated outlook is not produced or it is incomplete.
Notes: i) A "B" score is not given because reports on global fiscal risk are not issued and audited financial statements of all the public companies are lacking. ii) A "B" score is not reached because reports on global fiscal risk are not issued .		

ID-10. Public access to key fiscal information

This indicator evaluates the extent to which the general public, or at least interest groups, have comprehensive access to key fiscal information with a certain standard of quality that is conducive to analysis and comparisons. This indicator was analyzed for the management of the last completed fiscal year (2008).

i) Number of elements that are used to assess public access to information (numbered 1-6 below) (for an element to be taken into account in the evaluation, all specifications of the parameter must be fulfilled).

According to the PEFA assessment model, the six elements that must be available to citizens are:

Table 3.10.1 Documentation of Public Access

Required elements	Elements to assess public access	Evaluation
Documentation on the annual draft budget, as presented to Congress	The complete information on the budget bill submitted to Congress is available on the MINFIN website to citizens 15 days after submission to Congress ⁶³ . The information contains the following: macroeconomic suppositions; financing of budgetary deficit; approved budget of the current fiscal year that is presented in the same format as the budget project; summarized budgetary data on revenues and expenditures; and budgetary consequences of new policy initiatives. In ID-6 some weaknesses are described concerning the following: fiscal deficit; debt balance; details of financial assets for the start of the fiscal year; and information on the budget out-turns of the previous fiscal year. A detailed analysis of the information contained in each of the elements is presented in Annex A1.13.	Yes, fulfilled
Budget execution reports during the fiscal year	The reports, though highly aggregate, are systematically made available to the public within the month after they are completed on the MINFIN web portal on transparency.	Yes, fulfilled
Financial statements at the close of the fiscal year	Financial statements at the close of the fiscal year are available to the public within five days of submission to Congress of the General Budget Liquidation of State Revenues and Expenditures and financial closing, which occurs at the end of March each year in accordance with Article 214 of the Constitution.	Yes, fulfilled
External audit reports	The only report on the consolidated operations of the central government is made available to the public on the CGO website within six months following the conclusion of external audit.	Yes, fulfilled
Awarding of contracts	All of the awarded contracts executed with budgetary credits are available to the public on the GUATECOMPRAS website at the time they are awarded. The website contains all the awarded contracts won through bids to providers with a NIT and foreign providers without a NIT, starting on July 19, 2004, which is when the registry of awarded contracts was initiated.	Yes, fulfilled
Resources placed at the disposition of primary service entities	In spite of MINFIN communicating through SICOIN ⁶⁴ , that is, resources are placed at the disposition of the primary service units of health and education every four months, such information cannot be considered to be accessible to the public because to find this information in the registries of SICOIN, it is necessary to have a particular level of knowledge that cannot be expected of the general public.	No, not fulfilled

With regard to resources placed at the disposition of public service entities, only financial information at the level of department heads is available. It is

not possible for primary service units to know the details of budgetary allocations and their execution.

Score A. The central government makes information public on five of the six elements.

The legal framework on public access to information was recently improved by the Law on Public Information Access (Congress of the Republic, Decree 57, 2008), which came into effect on

April 21, 2009. Article 10 establishes a list of information that court-appointed subjects must maintain updated and available. Annex A1.12 presents some articles of the law for reference.

Indicator	Score	Justification
ID 10	A	Scoring method M1
(i)	A	The government places at the disposition of the public between five and six types of the specified information.

63 During the review process, Congress can propose changes to the draft budget, which are coordinated with the Executive Branch and included in the budget bill at this time. The corrected version of the budget is approved by Congress and converted into Law.

64 Civil society organizations can have access to SICOIN, since MINFIN can grant a user code to members of the press, international aid agencies, and entities that analyze public management. Thus, although access is not open to the public, it is open to civil society organizations.

3.3. Policy-based budgeting

ID-11. Orderliness and participation in the annual budget process

This indicator evaluates the budget formulation and approval process, which is regulated by various constitutional and legal mandates and by a set of rules and instructions issued by MINFIN. These are outlined in Table 3.11.1. All budgetary entities of the government, including

the central government and autonomous or decentralized entities, prepare their institutional budgets using software tools of the SIAF and applying terms and instructions announced by MINFIN. This ministry consolidates the central government's budgets and submits them for approval by Congress.

Table 3.11.1 Regulatory framework of the budgetary system of Guatemala

Legal framework	Budget rules and instructions
- Constitution of the Republic	- Strategic Orientations on Public Policy and Budgetary Rules for the Formulation of the Budget Draft
- Organic Budget Law, its regulations and modifications	- Circulars on Budget Ceilings
- General Budget Bill of State Revenue and Expenditure and its Regulations	- Budget Formulation Manual
	- Budget Classification Manual
	- Budget Registry Manual
- Source: DTP	

The budget formulation process starts in January when the Secretariat of Planning and Programming of the Presidency of the Republic (SEGEPLAN in Spanish) and DTP prepare the budgetary policy project. Subsequently, SEGEPLAN presents “at the latest on February 28 of each year⁶⁵ “ their Report on the Execution Assessment of the General Policy of the Government (SEGEPLAN, 2008). Upon SEGEPLAN’s pronouncement concerning budget execution, Bank of Guatemala (BANGUAT), the Superintendence of Tax Administration (SAT in Spanish), and MINFIN establish and propose applicable economic suppositions to medium-term fiscal planning, as well as the collection goals for the year. All proposals are discussed with the Technical Commission of Public Finance (CTFP in Spanish)⁶⁶, who in coordination with the Economic Cabinet⁶⁷ recommend the defining parameters for

medium-term fiscal behavior. Once this stage is finalized, MINFIN prepares the budgetary policy document called Strategic Orientations on Public Policy and Budgetary Rules for the Formulation of the Budget Draft (MINFIN.DTP, 2008), as well as the budget ceilings for all entities, which are subject to the President of the Republic for his approval and subsequent distribution to the entities. According to the Regulation of the Organic Budget Law⁶⁸, the institutions must present to MINFIN their budget proposals by July 1 of each year. MINFIN consolidates all the budgets and prepares the Budget Bill which is presented to the Economic Cabinet⁶⁹ first for their analysis and then to the President, who presents it for discussion with the Council of Ministers, which validates it. Finally, the Budget Bill is presented to Congress by September 2 of the year⁷⁰. The Budget Bill presented to Congress

65 Regulation of the Organic Budget Law. Art.15

66 Regulation of the Organic Budget Law. Articles 3 to 7

67 The Economic Cabinet is constituted by: the Vice-presidency of the Republic, Ministry of Public Finance, Ministry of Agriculture, Ministry of Economy, Bank of Guatemala, Secretariat General of Planning, Superintendence of Banks, Superintendence of Tax Administration and Ministry of Energy and Mines.

68 Art. 16 modified by Government Accord 291-2006

69 Budget Formulation Manual. Title I, The budget process. Preparation and presentation.

70 Organic Budget Law. Art. 23

is accompanied by a multi-year budget proposal that clarifies the general parameters of fiscal and budgetary behavior within a three-year framework.

As mentioned in ID-3 (Table 3.3.1), the government's budget is subject to a series of strict rules, in particular, with revenues with specific destinations, fixed expenditures of the government or constitutional or legal expenditure commitments. These factors limit the allocations of funds to institutions, leaving only 10% of budgeted revenues to be available for such purposes. The fixation of institutional budget ceilings requires analysis and selection of priorities that can be used with the non-committed balance, which do not necessarily coincide with institutional priorities. Thus the institutional budget proposals, based initially on their plans of action, must be adjusted to the budgetary availabilities. During the fiscal year, the procurement of additional revenues generates new allocation processes, which are also subject to a selection of priorities, leading to repeated budget modifications.

Decentralized entities present their annual draft budgets to the Executive Branch through MINFIN. Such projects must be approved before December 15⁷¹. If the decentralized entity does not present its draft budget on time, MINFIN can, by law, prepare the budget bill and request its approval to the Executive Branch.

The budget formulation project is completely defined in the Budget Formulation Manual (MINFIN.DTP, 2004) approved by Ministerial Accord 217-2004 from December 30, 2004. Institutions work applying standard and computerized procedures, which simplify institutional management and formation process for the personnel responsible for the formulation.

i. Existence of and adherence to a fixed budget calendar

Analysis of this dimension focuses on the last approved budget (2009). The critical dates of the

budget calendar are fixed and are defined in the Organic Budget Law (Congress of the Republic, Decree 101, 1997) and in its Regulation, which allows institutions to coordinate the systems and processes in advance to prepare their budget proposal, even prior to receiving the specific calendar prepared by MINFIN for each annual formulation process.

The budget calendar prepared by MINFIN provides institutions six or more⁷² weeks to formulate their budgets. The calendar is clear, very detailed, and complete, spanning all steps from the earlier coordination processes to the formulation process and through the presentation of the Budget Bill to Congress. Not only are activities included that will be developed by institutions in the formulation process but also all inter-institutional coordination processes for the definition and approval of budgetary policies. Similarly, the periods for execution of the later processes of review and consolidation of the government's budget are established as well as those for the preparation of the Budget Bill.

The calendar for the 2009 budget formulation included 37 programmed activities that were developed in a period of 8 months, proposing an initial activity for January 11, 2008 with the preparation of the budgetary policy project. The process of inter-institutional coordination was planned next for the formulation and validation of the budgetary policies and strategies, and were May 19, 2008 was fixed as the date on which MINFIN would issue and distribute among the governmental institutions the documents with instructions and recommendations for the preparation of institutional budgets. The calendar established that on July 1⁷³ entities must present their draft budget to MINFIN, and September 1 was fixed as the date to present the budget bill to Congress. Table 3.11.2 shows some of the parameters with regard to its compliance:

71 Organic Budget Law, Art. 40

72 In 2009 they were six weeks, but in 2008 they were nine.

73 This date contradicts the indicated date in the Regulation of the Organic Budget Law (June 15).

Table 3.11.2 Compliance to the budget calendar.

Budget activity	Year 2008		Year 2009	
	Calendar	Actual	Calendar	Actual
Delivery of budgetary policy to institutions	April 27	May 18	May 19	June 20
Delivery of budget ceilings to institutions	May 4	June 18	May 19	June 20
Delivery of budget proposals by the institutions to MINFIN	July 2	July 2	July 2	July 2
Delivery of Budget Bill to Congress	August 31	August 31	Sept. 1	Sept. 1

Source: DTP, Rulings of the Finance Commission of Congress on budget projects 2008 and 2009

Although the budget calendar is clear and adequate, compliance with the calendar by MINFIN is not adequate, since, in reality, the institutions receive the necessary information to formulate their budget with much delay. Instead of making six weeks available to analyze the terms established by MINFIN, as established in the calendar, they scarcely receive two or three weeks. The budget guidelines for the 2009 budget formulation were issued in the following documents:

- Strategic Orientations on Public Policy and Budgetary Rules for the Formulation of the Budget Draft. General and strategic aspects of the budgetary and fiscal policy as well as the budget calendar are established in this document.
- Circulars on Budget Ceilings. Applicable budget ceilings for each institution are considered with regard to

principal entries of current expenditure, indicating the source of the resources.

- Budget Formulation Manual. General definitions and considerations of the budget process, budget formulation process, instructions for the use of applicable forms in the formulation process, and guidelines for processes to allocate resources, among other aspects, are included.
- Budget Classification Manual. Definitions and characteristics of the budgetary code are contained as well as specifications of each of the established budget entries.
- Budget Registry Manual. Recently issued by MINFIN, the budget registry is regulated at its various stages, for both revenues and expenditures, stating aspects that improve control over public funds and improving accountability procedures.

Score C. The budget calendar is clear, and although it gives enough time (six or more weeks) to institutions for budget formulation, compliance is not adequate. For the budget formulation for fiscal years 2008 and 2009, institutions were only given two weeks after receiving the Circular on Budget Ceilings to present their budget bill to MINFIN. A “B” score cannot be given under these circumstances.

ii. Clarity and comprehensiveness of and political involvement in the guidance on the preparation of budget submission, including the budget documents (budget circulars or the equivalent)

The analysis of this dimension focuses on the last approved budget by Congress (2009). The Budget Formulation Manual is highly clear, complete, and exhaustive in the description and definition of all budgetary aspects. The manual

functions as a standing guide since the formulation process has been standardized, simplifying the formulation process for the institutions. The specific (budget ceilings) and general directives of each institution are clear and complete. Decisions are taken through a participatory process with various institutions and take into account the evaluation of the budget execution of the previous year, in which the budget becomes a tool to apply government policies.

The production process of budgetary policies incorporates various public entities: SEGEPLAN, BANGUAT, MINFIN, and SAT. The Economic Cabinet⁷⁴ reviews these entities. Formulation of budgetary policies takes place in two phases:

decision through the budget amount in function of fiscal policies and macroeconomic provisions as well as revenues; and distribution of this fund among institutions. The intervention of the Economic Cabinet in the first phase is decisive. The second phase implies a prolonged and complex process of negotiations, in which all sectoral authorities participate, both in direct or inter-institutional negotiations and at the level of the Council of Ministers. This phase usually causes the delivery of budget ceilings to be delayed. In 2008 the process included a workshop, in which members of the Council of Ministers could discuss the various criteria, priorities, and necessary limitations in determining the institutional budget ceilings.

Score A. Information in the circulars on budget ceilings is exhaustive and clear. The Council of Ministers discusses budgetary allocations and proposes it to the President for approval of the budget ceilings that will be allocated and communicated to the institutions.

iii. Timely budget approval by Congress

Analysis of this dimension focuses on the last three approval processes by Congress (2007, 2008, and 2009).

The budgets of the last two years were approved before the fiscal year opened, but the 2007 budget was not approved by Congress. For this reason, in accordance with the constitutional mandate, the budget of the previous year (2006) was executed in 2007. Thus the budget had to be adapted to the budgetary needs of the government through successive modifications, which Congress approved throughout the year. This constitutional procedure, though set as an acceptable

procedure for budget execution, reduces government responsibility to its citizens. The power of Congress to authorize government expenditures is not effective if Congress does not meticulously examine and debate the budget of the government. Disapproval by Congress includes unfavorable opinions or the lack of opinions on fiscal policy and other annual or multi-year elements that form part of the Budget Bill. For this reason, this constitutional procedure, though allowing for uninterrupted management of the government, cannot be considered good practice. The budgets of the last two years were approved on the dates shown in Table 3.11.3.

⁷⁴ Ministry of Public Finance, Ministry of Agriculture, Ministry of Economy, General Secretariat of Planning, and Ministry of Energy and Mines

Table 3.11.3 Approval of budgets by Congress

Budget	Date of approval
2007	Not approved
2008	November 27, 2007
2009	November 21, 2008

Source: Budget Bills approved by Congress

Score B. The budget was approved in a timely manner for the years 2008 and 2009, but for 2007 the budget was not approved by Congress.

Indicator	Score	Justification
ID 11	B	Scoring method M2
(i)	C	Compliance with the budget calendar is inadequate, since only two weeks were given to the institutions to prepare their budget after receiving the Circular on Budget Ceilings. This prevented a B score.
(ii)	A	An exhaustive and clear budget circular is issued, which reflects the maximum limits approved by the Cabinet before the circular is provided to the entities.
(iii)	B	The budget was approved by Congress in only two out of three years under study.

ID-12. Multi-year perspective in fiscal planning, expenditure policy, and budgeting

This indicator evaluates the extent to which fiscal and budget forecasts analyzed under a multi-year perspective are linked with expenditure and budgetary policies in order to enable the best macroeconomic performance, to promote greater fiscal discipline and responsibility among the different institutions and levels of government, and to reconcile the public expenditure objectives with anticipated availability of financial resources.

The Organic Budget Law⁷⁵ establishes the need to produce a multi-year budget. The *Strategic Orientations on Public Policy and Budgetary Rules for the Formulation of the Budget Draft* form part of the documentation delivered to entities for their budget formulations and establish that each entity be responsible for preparing their multi-year (three-year) budget, which must contain expenditure forecasts with multi-year processes or programmatic provisions.

i. Multi-year forecasts and functional allocations

Analysis of this dimension centers on the last two completed fiscal years (2007 and 2008).

In the 2002 budget, for the first time, an Annex with a multi-year analysis of expenditure and revenue management of 2002-2004 was included. It was not until 2003 that this multi-year analysis was formally included in the budget process albeit in an exploratory manner. Thus Section 4 was incorporated into the Budget Bill that year, referred to as the Multi-year Budget 2003-2005. From then, the section on multi-year budget is included in the projects following the same format and document structure.

The Directorate of Analysis and Fiscal Evaluation (DAEF) and the Technical Directorate for Budgeting (DTP) of MINFIN, as well as BANGUAT, periodically analyze fiscal behavior within a multi-year, rotating framework that encompasses three years. The first two entities present the conclusions of their analysis in meetings with the Technical Commission of Public

⁷⁵ Organic Budget Law, Art. 8

Finance (CTFP), where the fiscal suppositions and provisions to be applied in the annual and multi-year budgets are defined. An analysis by functional or economic categories is not formulated, although an expenditure forecast is made for priority sectors and institutional expenditures following administrative budget classification. In this manner, an analysis of the revenues by source is carried out.

Analysis of fiscal behavior along with the conclusions and suppositions are included in the document *Strategic Orientations on Public Policy and Budgetary Rules for the Formulation of the Budget Draft*, making it possible for institutions to adjust their sectoral strategies in coordination with fiscal provisions. This analysis also includes support for the government's fiscal policies in the section on multi-year budget that forms part of the budget documentation presented for approval by Congress.

The multi-year forecasts make it possible for the institutions to make medium-term plans so that multi-

year expenditure commitments can be included. However, these projections only serve as references for subsequent budget formulations and they are not yet clearly linked with budget ceiling allocations of the institutions. The possible differences between current or past fiscal forecasts and budget ceilings notified to institutions are not explained by MINFIN.

The link between previous multi-year forecasts and actual budget formulation is not very clear, in part due to the exceptional characteristics of the last few years. In the years 2004 and 2007, Congress did not approve the budget. The year 2008 saw a change in government. The year 2006 signified a year of reconstruction after natural disasters. Thus external factors may have affected the quality of the forecasts, making them less apparent in their application to subsequent budget formulations. On the other hand, the sectors have not updated their strategic plans to adapt to existing fiscal conditions.

Score C: Although a rotating multi-year budget is produced with a three-year forecast, its link with the definition of budget ceilings is not made clear and the differences are not explained.

ii. Scope and frequency of debt sustainability analysis

Analysis of this dimension focuses on the last three completed fiscal years (2006, 2007, and 2008).

The Directorate of Public Credit permanently maintains an updated analysis of behavior and sustainability of public debt, as well as the analysis of its principal indicators of sustainability, whose last version was updated on August 31, 2009 encompassing the period between 1995 and 2012. The analysis is based on IMF's "*Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework for Low-Income Countries*"

(October 2008). Conclusions of this analysis are included in the documentation of the Annual Budget Bill presented to Congress for approval each year. The analysis consists of internal and external debt, both for the central government and the rest of the public sector as well as that for the Bank of Guatemala and public debt originating in external trade processes. Annex A1.15 contains a detailed description of the methodology employed in the analysis. Additionally, both the World Bank and the Inter-American Development Bank have developed various sustainability studies on public debt as part of credit operations approved by these entities to the Government of Guatemala.

Score A: A sustainability analysis on external and internal public debt is conducted annually.

iii. Existence of sector strategies with multi-year costing of recurrent and investment expenditures

Analysis of this dimension focuses on the last completed budget (2008).

Article 8 of the Organic Budget Law establishes that “the budget is a reflection of the government’s plans as well as sectoral and institutional plans.” Article 16 of the Regulation of this law stipulates that, together with the presentation of the budget proposal to MINFIN, the Annual Operational Plan (AOP) of the institution must be delivered. This AOP must also be presented to the CGO for evaluation. The budget, in this way, remains directly linked to the institutional AOP. The institutions completely comply with this rule.

The *Strategic Orientations on Public Policy and Budgetary Rules for the Formulation of the Budget Draft* (2008, page 6) make clear reference to the fact that public policies have been developed with sectoral participation including regional and local participation, and that they represent “those transformations that institutions and public sector entities wish to achieve medium-term, maintaining coherence with the General Guidelines of the Government.” This document, in its regulatory

paragraphs⁷⁶, establishes the responsibility of the institutions to formulate their strategic multi-year plans and Annual Operational Plans. These plans are coordinated continuously with SEGEPLAN, the entity in charge of monitoring and implementation.

Institutional responsibility to formulate the multi-year budget assures that the institutional plans have at least a medium-term vision and obligates the institutions to project their investment expenditures or finalize them in order to include in the multi-year forecasts the recurrent costs that would be generated. In addition, the institutions are legally obligated to have multi-year strategies and plans whose costs must be officially reflected in a budget document in the recurrent expenditure and investment entries.

In 2008, though there were medium-term sectoral plans and strategies, they were not reflected in the budget that was finally approved nor were they compatible with the fiscal provisions. On the one hand, the sectoral strategies were not updated with the changes in expenditure priorities, imposed by the reconstruction process of 2007 and electoral needs of 2008. On the other hand, the availability of budget funds diminished due to urgent needs, preventing fulfillment of the institutions’ initial budget proposals.

Score C. Although medium-term sectoral strategies exist, in 2008 they were not compatible with fiscal provisions.

iv. Linkages between investment budgets and forward expenditure estimates

Analysis of this dimension focuses on the last completed budget (2008).

In the case of Guatemala, the monitoring system for

public investment is administered by SEGEPLAN, which indicates a distance from the budget system administered by MINFIN. Moreover, SEGEPLAN intervenes from the pre-investment phase to the conclusion of the investment process and its subsequent evaluation, maintaining a distance from the later operation of the acquired good. MINFIN

only intervenes in binding terms in the preparation of the annual budget, since the multi-year budgets still are informative in nature. Coordination between both institutions and their respective functions is reasonably good at the necessary level to establish public policies, having also an adequate regulatory framework that sufficiently distributes the responsibility between both. At a lower lever, however, in which the specific details of investments are managed, both institutions remain free of responsibility. That is, the institutions directly involved with the operation assume the responsibility. In this way, the forward expenditure estimate is carried out but it does not have a binding effect on the budget.

Paragraph 2.3.16 of the *Regulatory Framework for the Planning Process and SNIP Rules for Public Investment Projects* (SEGEPLAN, 2009), establishes the obligations to make a forward expenditure estimate on all public investment processes that require approval. Section 7 of the *Project Formulation and Evaluation Manual* (SEGEPLAN, 2008) describes all operational costs that must be included in the forward expenditure estimate of the projects.

Although the regulatory framework is clear in reference to forward expenditure estimates originating from public investments and there

is adequate compliance, the responsibility to cover the operational costs of execution entirely resides in the receiving institution of the good at the moment the investment execution concludes.

The summarized classification of the multi-year budget does not allow for verification of the inclusion of these forward expenditures, as the concluded investments are not specifically mentioned but only global entries of operational expenditures. However, as mentioned in the analysis of the previous dimension, the link between multi-year budget and the budget is not clear, for which the inclusion of these forward expenditures in the multi-year budget does not assure that they are included in the annual budget. Finally, the budget allocated to the institutions in the Circulars of Budget Ceilings⁷⁷ is normally lower than the global budget estimated initially by the institutions⁷⁸. If the allocated budget space would have included these amounts, the deficit in other items could have been diluted. Although it is not possible to verify that the expenditure estimates are included in the annual or multi-year budget for not being explicitly quantified, the institutions, as the ones responsible for putting into operation the concluded investment, assume the obligation with their items of operational expenditures. No evidence of concluded investments that have not been put into operation has been found.

Score B. Although investments are selected systematically based on sectoral and institutional strategies coordinated with the plans of the government, and their forward expenditures of operation have been calculated, reported, and taken into account in the sectoral multi-year programming, their inclusion in the budget is not clear.

⁷⁷ The Circular of Budget Ceiling is prepared based on fiscal estimates and multi-year global information, and do not make reference to specific operational expenditures. This is why it is not possible to identify whether these forward expenditures have been included.

⁷⁸ As a mechanism to guarantee a prudent management of deficit and fiscal accounts, the Executive Branch utilizes the mechanism of budget ceiling fixation, determining from the estimated financial availability. Before 2003, institutions presented their ceiling requests according to their own expectations. As a result, the consolidated requirements exceeded by a significant amount the estimated available resources for the fiscal year being budgeted. Thus, MINFIN lost much time adjusting the ministries' requests.

Indicator	Score	Justification
ID 12	B	Scoring method M2
(i)	C	A rotating, multi-year budget with a three-year projection is produced, but its linkage with the definition of budget ceilings is unclear and the differences are not explained.
(ii)	A	Sustainability analysis for external and internal public debt is performed annually
(iii)	C	Statements of sectoral strategies exist in relation to various principal sectors, but determining the sectoral costs that correspond to up to 25% of primary expenditure has only been realized in a substantial way. Rather, the strategies determine the costs which encompass most sectors but are incompatible with aggregate fiscal provisions.
(iv)	B	The majority of significant investments based on pertinent sectoral strategies and implications with regard to recurring cost conform to sectoral allocations and take into account forward budget estimates.

3.4. Predictability and control in budget execution

ID-13. Transparency of taxpayer obligations and liabilities

This indicator evaluates the extent to which the following is realized: i) sufficiently clear and understandable tax legislation and procedures including those related to customs; ii) taxpayers have access to information concerning their tax responsibilities and procedures that must be employed to comply with the responsibilities; and iii) administrative contentious tax resources function adequately and in a transparent manner for the taxpayers.

The reference period for the analysis of this indicator concerns management including execution and evaluation for the year 2009.

Annex A1.8 includes a detailed list of the valid tax legislation.

The tax system of Guatemala is based on the collection of direct and indirect taxes, which represent 11.3% of the Gross Domestic Product (GDP) in 2008. The tax burden of Guatemala is found to be among the lowest in the region⁷⁹ and

the total tax revenues are below the goal of 13.2% of the GDP established by the Peace Accords signed in 1996, the objective of which was to assure necessary fiscal revenues to finance public expenditures required to maintain peace. Annex A1.16 presents the details of the tax revenues as a percentage of GDP for the period between 2004 and 2008.

The constantly increasing demands in public expenditure, especially that directed to social sectors and infrastructure, have been decisive in bringing about tax reforms almost every two years over the past 23 years. The most notable milestones of these reforms were: increase in the VAT from 10% to 12% during the administration of Oscar Berger (2004-2007), and with regard Income Tax⁸⁰, the establishment of a general regime of 5% on gross income and an optional 31% on utilities, which is valid to date. The current administration has presented to Congress tax reform initiatives with the purpose of increasing collections until the percentage outlined in the Peace Accords is reached and equity of the system is improved.

79 For example, in 2006, the tax burden in terms of GDP was, for Bolivia 23.8%, Uruguay 18.6%, Nicaragua 17.5%, Colombia 16.0%, Peru 14.9%, and only Ecuador (10.4%), Panama (10.3%) and Haiti (10.0%) had tax burdens lower than Guatemala.

80 Income Tax is the tax that has suffered the most modifications during the last 23 years, which generally created resisted in the private sector.

Table 3.13.1 Tax revenues of the central administration 2004-2008 (In percentage of GDP)

Description	2004*	2005*	2006*	2007*	2008*
Direct Taxes	2.8%	2.9%	3.3%	3.3%	3.3%
Income	1.7%	2.1%	2.4%	2.5%	2.5%
Property and Wealth	0.0%	0.0%	0.0%	0.0%	0.0%
Solidarity, Extraordinary and Temporary	0.0%	0.0%	0.0%	0.0%	0.0%
Commercial and Agricultural Enterprises	0.4%	0.0%	0.0%	0.0%	0.0%
Extraordinary and Temporary Support for the Peace Accords	0.6%	0.8%	1.0%	0.8%	0.8%
Indirect Taxes	8.7%	8.3%	8.5%	8.8%	8.0%
Value Added Tax	5.5%	5.2%	5.4%	5.9%	5.5%
Domestic	2.1%	1.8%	1.9%	2.1%	2.0%
Imports	3.4%	3.4%	3.5%	3.7%	3.5%
Customs Duties on Imports	1.3%	1.8%	1.1%	1.0%	0.8%
Distribution of Petroleum and its Derivatives	0.9%	0.2%	0.8%	0.8%	0.7%
Revenue Stamps	0.2%	0.2%	0.2%	0.2%	0.1%
Vehicle Circulation	0.1%	0.2%	0.1%	0.1%	0.1%
Petroleum Royalties and Hydrocarbon Shareables	0.3%	0.3%	0.3%	0.3%	0.4%
Departure Tax	0.1%	0.1%	0.1%	0.1%	0.1%
Beverage Distribution	0.1%	0.2%	0.2%	0.2%	0.1%
Tobacco	0.1%	0.2%	0.1%	0.1%	0.1%
Cement Distribution	0.0%	0.0%	0.0%	0.0%	0.0%
Others	0.1%	0.0%	0.0%	0.0%	0.0%
Total	11.5%	11.2%	11.9%	12.1%	11.3%

* Includes returns from Fiscal Credit on VAT to the export sector.
Source: MINFIN.

i) *Clarity and comprehensiveness of tax liabilities.*

Income tax and value added tax constitute the principal sources of tax revenues. Tax collection in 2008 showed that, between the two taxes, approximately 70% of the total tax revenues was collected. The evaluation of the present dimension is based on the analysis of these taxes.

Value Added Tax

VAT is a general application tax, thus determining the taxes to be paid is relatively simple and clear. Therefore, the tax authority (SAT) has limited capability to determine the tax base. Some exemptions of tax payment are established by the Political Constitution in favor of public and private education centers, universities, the Sports Confederation and Olympic Committee, and the

Guatemalan Institute of Social Security (IGSS)⁸¹. Some exemptions have a redistributive purpose such as the exemption for retail sales in local (canton) markets and housing sales under certain conditions⁸².

Income Tax

The income tax is designed to treat differently the income of dependent individuals, non-dependents, enterprises, and withholdings. The most striking case is the personal income as it is not unified. In the case of professional independents, tax liabilities are not easy to estimate in the optional regime, due to the quantity of exemptions and deductions that they can justify before the tax administration. This is in contrast to professional dependents who provide a limited number of discounts and exemptions to income tax. However, income tax follows a dual structure, as labor income are taxed in a progressive manner and

81 Sales are not taxed and a return of the VAT included in the purchase is granted. It is estimated that the fiscal cost of these exemptions is equivalent to 0.17% of GDP.

82 It is estimated that the fiscal cost of retail sales in local ("canton") markets will be an equivalent of 0.26% of GDP and the housing sales will be 0.05% of GDP.

withholdings are taxed with a single reduced rate. In the case of income of dependent individuals, once the general deduction of Q36,000, exemptions, and admitted deductions are applied, their income is taxed based on a progressive structure in accordance with Table 3.13.2. Simplification of the table has been considered in order to augment the equity of the system in relation to the tax payers who opt for the general regime of income tax.

Personal income tax for dependent individuals establishes for the tax payer a credit equal to an amount paid in purchases, with a limit of 12% of net income. This provision is under consideration to be eliminated as it encourages an informal market of false invoices or undue transfers of invoices, and 98% tax payers of this tax remain exempt after applying the non-taxable minimum (MNI in Spanish), exemptions, and deductions, in addition to this credit.

Table 3.13.2 Progressive rate of income tax

Nominal Income Bracket (Annual Quetzals)		Marginal Rate	Effective Income Bracket (Annual Quetzals) ¹		Marginal Rate
0	65,000	15%	36,000	101,000	15%
65,000	180,000	20%	101,000	216,000	20%
180,000	295,000	25%	216,000	331,000	25%
295,000	more than 295,000	31%	331,000	more than 331,000	31%

¹ Effect from the non-taxable minimum (MNI in Spanish) amount

Income tax on legal persons and natural persons who conduct commercial activities may comply within two alternative regimes: the general regime that taxes gross income by 5% and the optional regime that taxes utilities by 31%. The recent solidarity tax imposes a tax of 1% on gross income or net assets. The greater of either can be accredited against the income tax, serving as a minimum payment of the tax⁸³. Thus, the estimate of tax liabilities is consistent and not optional, only when the profitability of the declarant is up to 16.1%. In the case of taxpayers such as some independent professionals and housing and trade rentals that obtain a profitability rate higher than the supposed rate, they receive a “prize” due to the applied methodology to estimate tax liabilities. On the other hand, a significant number of taxpayers opt for the general regime, paying taxes in excess even though they would pay less if they opted for the optional regime⁸⁴. Thus, the estimation of liabilities in this case “punishes” the taxpayer. The motive to pay according to the general regime and not in the option is the high transaction cost that is necessary

to comply with the established requirements for the optional regime. Although the regulation and administrative procedures may not be equitable, in the majority of the principal taxes, they are clear and are adequately explained and documented. This allows the taxpayer to correctly interpret them, limiting the discretionary powers of the tax administration.

Customs Legislation

Customs legislation is based on the application of CAUCA and RECAUCA (Regulation of CAUCA) as a general framework of customs operations. CAUCA establishes, in Articles 87 and 88, the regulation on the use of customs agents and special proxies who support compliance with the customs legal framework. These agents and proxies are specialists in legislation and customs procedures, and help with the customs function. This facilitates taxpayers’ interpretation of customs legislation. The regulatory framework also contains a set of operational rules for various customs procedures that regulate the customs processes and

83 The implicit profitability rate that the regime assumes is 16.1% (5/31)

84 It is estimated that the excess would be US\$135 monthly for every company.

their regimes, detailing actions that must be followed by the customs officials and external trade operators.

In customs management, some discretionary powers related principally to the annotation process of taxes have been observed. The private sector has expressed their concern for possible discretion on the application of tariff items and valuation of merchandise. However, taxpayers can present resources for review before the customs administration in the first instance, and before the Directory of SAT in the second instance to

resolve any discrepancies in the application of the rule. Finally, the generalized claim of the private sector is directed to two fundamental issues: the legal tax and customs framework is applied only to the formal sector, leaving the informal sector to the side, and the formalization efforts on the part of the government have been limited. It is estimated that 30% of the Economically Active Population (EAP) would comprise the informal sector. For this reason, the private sector has shown resistance to the increase in tax rates and the creation of new taxes⁸⁵.

Score B. Internal tax legislation is clear and comprehensible for internal principal taxes (VAT and income tax for dependents), but this is not the case for income tax for independent individuals or enterprises.

ii) Taxpayers' access to information on tax liabilities and administrative procedures.

The web page of SAT (www.sat.gob.gt) is the means par excellence to access information on tax payment and existing administrative procedures. The web site presents information on taxes and other tax-related obligations including customs. The private sector demonstrated their satisfaction for the quality and information contained on the web site. In addition,

SAT has 39 offices distributed in four administrative regions which have advisory units to the taxpayers and educational material concerning tax-related issues.

In order to evaluate and measure the quality of services, SAT contracted *Empresa Interdisciplinaria en Desarrollo S. A. - CID Gallup Latinoamérica*, who presented a final report in July 2008 on the measurement of perception and level of satisfaction of services. The most relevant findings are shown in Chart 3.13.1.

Chart 3.13.1 Survey on SAT service quality

Survey on SAT service quality– Relevant findings to the indicator

- The principal point of contact when in need for SAT's services are the SAT agencies, according to 61% of the participants, as they claim "this is the most efficient way to clarify my doubts."
- More than half the informants (53%) indicated that they were satisfied with the supported offered by the SAT collaborators during their visits to the offices. Aspects that needs improvement include "faster response time" and "accuracy in the information offered."
- A high level of satisfaction was presented with the BANCASAT system among those interviewed, who emphasized "the facility in the handling of the tool" (80%) and "fast speed" (79%) as the best attributes of the platform.
- The SAT web portal is distinguished for being "easy to manage" (4.12/5.00) and with "information at hand" (4.05/5.00). Similarly, more than eight out of every ten users affirm "to have found the information they were looking for" on this web.

⁸⁵ For example, according to the Chamber of Industry of Guatemala (CIG), the estimated annual contraband represents: i) a total of US\$251 million; ii) US\$61 million in lost tax collections; and iii) a destruction of jobs for the formal sector on the order of 33.520 posts. See CIG "Proposal for the Reactivation of the Internal Market," from 10/24/2008.

During the last ten years, SAT has carried out education courses and tax training courses for taxpayers. For example, SAT trained 36,949 taxpayers in 2005, 42,892 taxpayers in 2006, 33,548 taxpayers in 2007, and 37,825 taxpayers in 2008. It could not be confirmed on which topics the taxpayers were trained. However, the primary participants were accountants. Table 3.13.4 shows the number of individuals trained by SAT during the period January-July 2009. Education and tax training campaigns have

been implemented, taking into consideration local customs and employing simple language, even in the department capitals, the training was carried out in the native languages. According to representatives of the private sector, communication on tax-related issues has improved significantly in the last ten years. For example, all the SAT delegations have offices staffed with qualified personnel and information available to the taxpayers.

Table 3.13.3 Professional structure of the participants in the SAT training courses

Profession	Number of individuals	% of total
Accountant	7,326	37%
Tax withholding agent	4,205	22%
Taxpayers in general	3,359	17%
Professionals	2,018	10%
Employees	858	4%

Profession	Number of individuals	% of total
Cooperatives	811	4%
Educational centers	503	3%
Small taxpayers	263	1%
Chief justice	207	1%
Total	19,550	100%

Source: SAT.

Score A. Taxpayers can access tax-related information easily and without restrictions. Furthermore, the tax administration has supported facilities through education campaigns to the taxpayers.

iii) Existence and functioning of a tax appeal mechanism

The existence and functioning of tax appeals is established in Decree number 6-91 of Congress, Tax Code, Articles 154 through 160, and in the SAT Organic Law (Decree No. 1-98). Article 7 of this latter decree establishes that “the Board of Directors of SAT is the superior directorate body, directing the tax administration policy and ensuring that SAT functions well.” In particular, among the capacities of the Board of Directors, paragraph (k) states that the Board is responsible for resolving its administrative resources in accordance with the law.

With regard to customs, Article 127 of CAUCA and Articles 623 to 628 of RECAUCA establish the existence of and procedure for customs resources.

Government Accord number 208-2008 of the Ministry of Public Finance regulates that “the Board of Directors, as the superior body of SAT, will have the functions and capacities that are granted to the National Customs Court in the CAUCA, and that in the final instance, through administrative means, it will receive notice concerning motion to appeal concerning tariff, valuation, origin and other customs-related issues that taxpayers or those responsible file before the Tax Administration, in the form and time indicated in the relevant legislation.” On the other hand, independence in the treatment of the administrative contentious processes related to tax or customs and presented before the judicial branch is guaranteed by the independence of legally established powers. In this way, the taxpayer has three instances for appeal of administrative decisions. The first instance is operational before the leadership of the department

that analyzed the case. This is purely technical and is based on the application of established rules and procedures. The second instance constitutes the SAT Board of Directors, which ensures that the law has been interpreted and applied correctly to the operations. The third and final instance refers to the courts of the judicial branch. These three instances are limited to apply the law, which in the internal tax sector gives little margin for discretion. In the customs sector, discretions can occur in some functions but the statistical analysis of appeals shows that these are decreasing significantly. The possible lack of independence between the first two instances turns out to be irrelevant, given that none of these have significant discretionary power.

Statistics show that, on the one hand, submitted motions of appeal are scarce, and on the other hand, of the more than 1000 cases presented in appeal to

the second instance, less than half that have had unfavorable results are appealed to the third instance. With this data, it can be concluded that the taxpayers' motivation to appeal to the last instance is reduced.

In general, the administrative mechanisms have functioned relatively well. The principle causes for taxpayers filing administrative appeals before SAT are presented in Table 3.13.5. With regard to the status of the motions, Table 3.13.6 shows the number of files resolved by SAT Board of Directors in 2007, 2008, and part of 2009. In the administrative contentious process, the situation for SAT has been relatively favorable. Table 3.13.7 presents the situation of the judicial processes that confronted SAT during 2007-2008. One of the causes that would explain some unfavorable cases for SAT is the absence of specialized courts, as the knowledge of the judges concerning tax issues is limited.

Table 3.13.4 Grounds for administrative resources filed by taxpayers

Reason	Tax	2007	2008
1. Adjustments to the determination of tax obligations	Income	12.79%	23.96%
	VAT	12.57%	15.85%
	Commercial and Agricultural Enterprises (IEMA) or Extraordinary and Temporary Support for the Peace Accords (IETAAP)	10.83%	13.73%
	Other returns	3.05%	8.85%
	Customs duties on imports and VAT for exports	15.84%	7.56%
	Other taxes	2.25%	3.96%
2. Fines for non-compliances with tax payments	VAT exporters	39.68%	21.29%
3. Other fines	Non-compliance with formal obligations, resistance to fiscalizing actions, and fines related to specific taxes	2.99%	4.80%

Source: Technical Advisory of the SAT Board of Directors.

Table 3.13.5 Files resolved by the SAT Board of Directors

Form of Resolution by the Board of Directors							Amount (in millions of Quetzals)	
Year	Granted (1)	Denied (2)	Partially granted (3)	Others (4)	Total Resolved	Denied/Total Resolved	Confirmed	Dismissed
2007	88	1,051	92	145	1,376	76%	280.11	144.53
2008	96	738	143	108	1,085	68%	452.56	206.52
2009 ^(*)	72	451	46	87	656	69%	396.80	15.21

Source: Advisory of the SAT Board of Directors (*) Until August 2009

(1) Granted: cases in which the adjustments formulated by SAT are dissolved, and the taxpayers' arguments and proof are accepted.
 (2) Denied: cases in which the defense and proof offered by the taxpayer are insufficient. The adjustments are confirmed.
 (3) Partially granted: cases in which part of the formulated adjustments are dissolved and others are confirmed.
 (4) Others: cases in which the Board of Directors amend or repeal some procedure or resolution not based on law.

Table 3.13.6 Files in judicial process

Year	Files Admitted	Settled cases			Files in process	Favorable cases /Total cases
		Favorable to SAT	Unfavorable to SAT	Total		
2007	363	92	81	173	190	53%
2008	349	164	92	256	283	64%

Source: Administrative Division of Legal Affairs, SAT

Score A. The tax appeal system against the tax administration functions independently and in a transparent manner with a speed much greater than the contentious tax cases, as evidenced in the following comparison: while the administrative contentious cases were delayed on average four years, the appeals before the SAT Board of Directors lasted, in the second instance, 80 days.

Indicator	Score	Justification
ID 13	A	Scoring method M2
(i)	B	Legislation and procedures referring to the majority of principal taxes—not necessarily all of them—are exhaustive and clear, and the discretionary powers of the public participating entities are subject to strict limitations.
(ii)	A	Taxpayers have expedited access to exhaustive and updated, user-friendly information. This information concerns tax liabilities and procedures of the tax administration in relation to all principal taxes, complementing the work of the AIF through active education campaigns for the taxpayers.
(iii)	A	With satisfactory levels of access and equity in all its aspects and in an effective manner, a system of tax-related resources with transparent administrative procedures and adequate breaks and balances has been established. This system is applied through independent institutional structures and their decisions are executed promptly.

ID-14. Effectiveness of measures for taxpayer registration and tax assessment

This indicator evaluates the extent to which the taxpayer registration is reliable and seeks to establish reasonableness in the estimations of corresponding tax liabilities. Moreover, it also evaluates to what extent the systems of risk and audit efficiently contribute to the compliance of tax obligations.

The reference period for the analysis of this indicator concerns the management, including execution and evaluation, of 2009.

i) Application of controls in the taxpayer registration system.

Tax identification in Guatemala is referred to as the Unified Tax Register (RTU in Spanish). By order of the Value Added Tax (VAT) Law (Congress of the Republic, Decree 27, 1992 and its regulation of 2006), Income Tax Law (ISR in Spanish) (Congress

of the Republic, Decree 26, 1992 and its regulation of 2006), and the Tax Code (Congress of the Republic, Decree 6, 1991 and Reforms of 2006), all persons who are economically active must register with the RTU. SAT is in charge of registering all physical, legal, and “special situation” persons. The latter refers to taxpayers who are not legal persons such as trusts, co-ownership, contracts for joint venture, and undivided estates, among others, and are susceptible to compliance with material or formal tax obligations.

Thus all interaction between the tax administration and the taxpayer with regard to tax payments and compliance of tax obligations is carried out starting with the Tax Identification Number (NIT in Spanish). Table 3.14.1 presents the total number of potential taxpayers that the RTU contains for 2006, 2007, 2008 and through September 2009 along with its interannual variation:

Table 3.14.1 Taxpayer registration data

Description	Registered taxpayers			
	2006	2007	2008	2009
Individual persons	3,912,186	4,451,691	5,019,201	5,365,748
Legal persons	108,882	116,542	124,682	139,097
Potential taxpayers	4,021,068	4,568,233	5,143,883	5,504,845
Growth rate				
Individual persons		14%	13%	7%
Legal persons		7%	7%	12%
Potential taxpayers		14%	13%	7%
<i>Source: SAT</i>				

Potential taxpayers are the result of the registry of the SAT and former General Directorate of Internal Revenues that includes: a) individual or legal persons who pay tax with or without recurrent obligation, who have reached legal age (18 years), and by legal mandate (Article 3 of the Income Tax Law) since the year 2000 must be assigned a NIT⁸⁶; b) persons who

are required to make operation requests that give rise to credit assets; and c) debtors that are legal or individual persons (Point “a” of Articles 13 and 14 of the Regulation for the Credit Risk Administration, Annex to the Resolution JM-93-2005), and to the bodies, wealth, or goods specified by the Income Tax Law.

⁸⁶ According to information from the National Institute of Statistics of Guatemala, there are about 5,836,504 inhabitants older than 19 years of age in 2005. Thus the RTU represents approximately 70% of the population.

SAT manages a tax base that contains the effective taxpayers with the purpose of making estimates of tax liabilities and debts. This base is comprised by taxpayers who interact with the tax administration in the following manner: a) frequently and are designated as special large and medium taxpayers; and b) recurrent or non-recurrent, but

comply with some tax obligation, designated as medium and small taxpayers (MEPECOS).

Table 3.14.2 presents the number of effective taxpayers for 2006, 2007, 2008, and through September 2009 as well as its interannual variation.

Table 3.14.2 Number of effective taxpayers

Description	2006	2007	2008	2009
A. Special taxpayers	3,000	1,900	1,800	1,900
<i>Large special</i>	300	300	300	300
<i>Medium special</i>	2,700	1,600	1,500	1,600
B. Medium and small taxpayers (MEPECOS)	937,400	999,880	1,072,332	1,068,005
<i>MEPECOS with taxpayments with recurrent obligation (VAT, ISR, IETAAP/ISO)</i>	448,250	463,364	473,740	436,217
<i>MEPECOS with taxpayments with non-recurrent obligation (Only payment of Vehicle Circulation Tax stamps without paying VAT, ISR, IETAAP/ISO)</i>	489,150	536,516	598,592	631,788
C. Total Tax Base (effective taxpayers) (A+B)	940,400	1,001,780	1,074,132	1,069,905
Variation		6.5%	7.2%	-0.4%

Source: SAT

To maintain the RTU updated, SAT has an annual update procedure of data for each taxpayer, based on the FDU form. The updating process functions as a traffic light. For example, the annual system assigns an orange color to the NIT with no updated information in the past twelve months. Thus, if a taxpayer with an orange NIT arrives to any tax office to update his/her information, the FDU form is printed out, and a yellow color is assigned. With a yellow-colored NIT, the taxpayer has 30 business days to delivery the form with updated information. Once the updated information is recorded, the system assigns a green color to the corresponding NIT, signifying that the information has been updated. If the taxpayer does not deliver the FDU within 30 business days, the system automatically assigns a red color, signifying that the information is not up-to-date. This process is automatically applied in the Fiscal Registry of Printers, which signifies: i)

that the owners of the printers must have updated information if they wish to print invoices; and ii) that any taxpayer who requests authorization to print invoices through a printer must have updated information. In sum, in either case, the update constitutes a prerequisite to obtain authorization. Moreover, taking into account the IT platform of the RTU system, other systems also identify taxpayers who have not complied with their tax obligation, whether the non-compliance is due to not being located or once located, not presenting themselves to solve the situation. The operational programs that use qualification and disqualification of the NIT through specific actions are: Omissions, Collections, Current Account, VAT Retention, Cross-checked information, and Fiscalizations. Table 3.14.3 presents the reasons for NIT disqualification for 2006, 2007, 2008 and through September 2009, as well as its annual variation⁸⁷:

⁸⁷ Temporary disqualification of the NIT is an administrative measure that SAT executes based on the faculty that the SAT Organic Law and Tax Code provide. Article 3, paragraph (e) of the SAT Organic Law establishes: "The Object and Functions of the SAT (...To maintain and control the registries, promote and execute administrative actions and promote judicial actions that are necessary to charge taxpayers and those responsible for the taxes, interests, and if applicable, charges and fines that are owed)." Article 98 "A," points 7 and 8 of the Tax Code states: "(...To verify the veracity of the information provided by the taxpayer or the responsible party in the RTU...)"

Table 3.14.3 NIT Disqualifications from 2006 to September 2009

Reason	2006	2007	2008	2009
Lack of updated data	71,303	77,362	104,874	121,925
Omissions	48	43	8,642	13,201
VAT Retention	0	2,483	8	12,295
Cross-checked information	239	681	8	2,958
Collections	0	0	724	2,378
Fiscalizations	24	47	230	573
Total	71,614	80,616	114,486	153,330
Variation		13%	42%	34%

Source: Database of the Unified Tax Register System

Various institutions use NIT as an identifier of natural and legal persons who carry out the institutional management. From the tax administration, pertinent information can be obtained, primarily general data as well as information concerning affiliations, vehicles, and establishments. Institutions which use NIT are:

- Guatemalan Institute of Social Security (IGSS in Spanish) uses NIT as an identifier for employers as well as their affiliates, and conduct consultations through the web service.
- Ministry of Public Finance, through SIAF-SAG, uses NIT as an identifier for providers and collaborators in the public sector. Among the systems that use NIT are: GUATECOMPRAS to identify the state providers; SIGES to operate the expenditure of goods and services that the state acquires; GUATENOMINAS to identify collaborators in the public sector; and SICOIN for the accounting registry and approval of payments to providers and public sector collaborators. Consultations are conducted through the use of the web service. In addition to the NIT, this system also consults or validates authorizations of invoices and other documents that by law must be authorized by the tax administration.
- The National Civil Police uses general identification information of taxpayers and vehicles that are registered for the persecution of possible offenders by commission of a supposed crime. Consultation is conducted through access to a system via the web.
- The Judicial Body uses NIT as an identifier for their providers and collaborators. Consultations are conducted through the web service. The Public Ministry, as an entity qualified in the investigation of crimes, uses general identification information of taxpayers and vehicles that are registered. Consultation is conducted through access to a system via the web.
- The Trade Registry, in conjunction with the tax administration, created a service window, where the registration procedure of trade enterprises for natural persons is consolidated. Presenting oneself to the window, the applicant not only registers his/her enterprise, but also receives a NIT.
- The Real Estate Registry, as an entity qualified in ensuring the registration and annotation of in rem rights on real estate, uses NIT as an identifier of the registered owners of the real estate and to check that the corresponding taxes are dutifully paid. Consultations are realized through the use of the web service and by access to a server client system.
- AGEXPORT, the Association of Exporters, takes control of their unionized groups and of compliance to tax obligations through a specific application in coordination with Customs Management. Consultations are realized through the use of the web service.
- The banks of the system use NIT as an identifier for all account holders

that wish to obtain credit and for the reception of tax payments. Consultations are realized through the use of the web service and can assign NIT to account holders who do not have one.

- The Superintendent of Banking (SIB in Spanish) uses NIT as an identifier for account holders of all banks and financiers to control and perform risk analysis, carrying out consultations through the web service.

As it currently operates, the NIT is basically employed as a document to certify the identity of natural and

legal persons, and their procedures are oriented to ensure updating and validity of the general data of active and potential taxpayers. The current design of the RTU does not allow the registry to be enhanced systematically with commercial information and taxable assets of the taxpayers, limiting the efficiency simply to aspects of identity. Thus, the linkages to other registries are limited and indirect.

As part of the re-engineering project of the RTU, SAT has established that the functionality of RTU's database, which was conceptualized and developed seven years ago, requires modernization and updating.

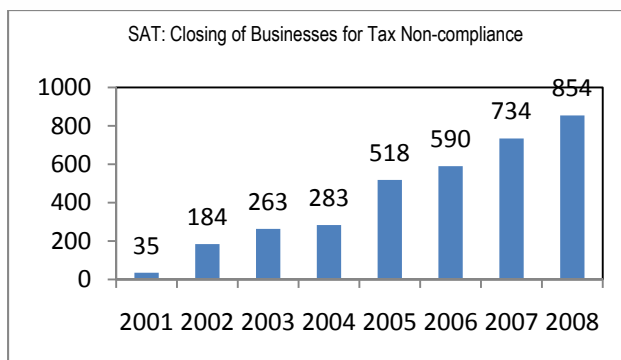
Score B. The RTU contains general, basic, and updated information on special taxpayers and MEPECOS, who comprise the tax base, but it cannot be enhanced systematically and directly with commercial information and information on taxable assets of the taxpayers.

ii) Effectiveness of penalties for non-compliance with registration and declaration obligations.

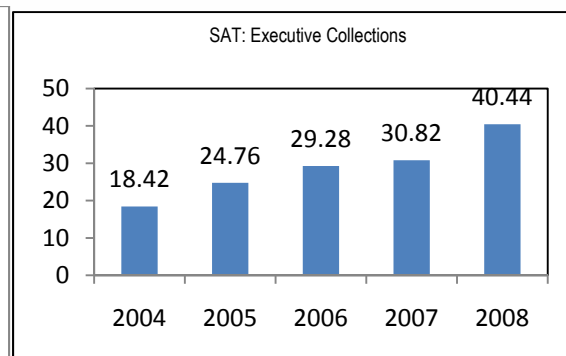
In the case of special large and medium taxpayers, SAT effectively controls compliance of their substantive and formal tax obligations through the allocation of a portfolio to professionals that form part of the Divisions of Collection and Management of each of the respective managements. Continuous management of compliance with tax obligations of these taxpayers is realized through direct and constant communication, verifying that they comply within the established time and offering assistance on various topics. In the case of medium and small taxpayers, compliance control of tax obligations is

realized through systems. That is, monitoring is not personalized and consists of sending mass notices according to the collection potential, the OMISOS (Omissions) procedure being of greatest application. Through this procedure, after the expiration date, declarations that are not presented by the taxpayers are identified according to their affiliations.

With relation to the penalties for non-compliance with the declarations, SAT keeps a registry of business closings for tax non-compliance and of the executive collection amounts, which in neither case are significant. In the following charts, the number of businesses closed by SAT during 2001-2008 is shown and the executed collections for 2004-2008:



Source: SAT



Source: SAT

Article 94 of the Tax Code of Guatemala, Decree 6-91 updated in August of 2006, clearly establishes the applicable penalties to tax violations, including those concerning the taxpayer registry (registration and annual update) and tax declaration (omission,

late submission, among others). Monetary penalties vary between US\$ 5 and 150, and non-compliance of payment can lead to legal sanctions. However, in practice, the application of these penalties only occurs to large taxpayers and not for the rest of the taxpayers.

Score B. Tax legislation establishes the penalties for non-compliance with obligations and registry in the RTU. These penalties are applied by SAT but are not sufficiently effective, in particular those that are related to the taxpayer registry.

iii) Planning and monitoring of tax audit and fraud investigation programs.

SAT has significantly improved the planning and monitoring of tax audit and fraud investigation programs starting in 2007, when the Internal Regulation – Accord of the Board 7-2007 was approved. This establishes that the institution must produce a Fiscalization Plan annually at the national level for internal taxes and external trade. The Fiscalization Plan of Internal Taxes is approved by the Fiscalization Manager in accordance with the responsibilities outlined in the Regulation. The Fiscalization Plan of External Trade is approved by the Fiscalization Manager in accordance with CAUCA IV as well as by the Superintendent of SAT.

SAT approved the Annual Fiscalization Plan of 2008 and 2009, including the various audit programs to be executed, such as: a) selective audits, which are recommended by the risk analysis (fiscal intelligence module); b) non-recurrent audits, which are recommended by massive audit programs; c) massive audits, which are comprised of programs

of fiscal presence by specific sectors and cross-checked information; and d) joint operational programs and physical inventory programs.

From an organizational point of view, the Fiscalization Plan corresponds to the structure of the Fiscalization Management comprised of the following departments: a) Selective Fiscalization which proposes the fiscalization plan for the fiscalization divisions, generation of audit programs and monitoring; b) Fiscalization Plan of External Trade, which proposes the fiscalization plan for external trade operations and its monitoring; and c) Massive Processes, which proposes a work program in function of the evolution of economic sectors and complaints. The department of Risk Management offers technical support in the production and execution of the annual fiscalization plan through studies that identify risks, update risk parameters, and quantify the risks. The department of Evaluation and Monitoring establishes realized activities by different departments during the execution of the fiscalization plan. The ordering element in the application of the annual fiscalization plan is the FISAT system.

Chart 3.14.1 Fiscalization System of the SAT -FISAT-

The FISAT is an IT system utilized to address, select, program, execute, evaluate, and monitor the fiscalization processes of the Fiscalization Management. This system facilitates the following:

1. To observe macroeconomic behavior of taxpayers at the sectoral, national, regional, and departmental levels.
2. To diagnose tax behavior of taxpayer groups in certain sectors based on statistical indicators.
3. To consolidate distinct sources of data to evaluate behavior and compliance of all taxpayers, determining indices of evasion or circumvention through the integration and application of rules, variables, formulas, and models.
6. To consult, through the taxpayer, the distinct relations that sustain other taxpayers as well as the linkage with accountants, lawyers, and legal representatives.

With regard to monitoring of compliance and execution of the fiscalization plan, the plan is generally satisfactorily fulfilled due to the fact that the majority of audit programs are executed. Monitoring of the

plan encompasses: a) audit programs by management and by tax type; b) details of adjustments and fines by management and tax type; and c) fiscal presence.

Table 3.14.4 Audits executed during 2007 and 2008

Management	2007		2008		
	Process	Finalized	Programmed	Process	Finalized
Large special taxpayers		19	280	14	216
Medium special taxpayers	1	5	678	14	627
Central region		47	1,235	108	1,083
Southern region		44	334	18	316
Western region		41	535	16	519
Northeastern region		41	363	20	342
Fiscalization Programming Subtotal	1	197	3,425	190	3,103
Fiscal Credit (3 regions)	1	182	2,420	204	2,216
Total	2	379	5,845	394	5,319
%			100%	7%	91%

Source: SAT

Score A. Audits and tax fraud investigations are realized and monitored in accordance to an Annual Fiscalization Plan, whose production is largely based on risk criteria, criteria of evaluation and risk measurement for principal taxes that are declared and evaluated by taxpayers (Self-Assessment).

Indicat or	Score	Justification
ID 14	B+	Scoring method M2
(i)	B	Taxpayers are registered in a complete database system with some links to other pertinent systems of public registries and financial sector regulations.
(ii)	B	Penalties for non-compliance are provided for the most important areas, but are not always effective for being insufficient and/or lack of uniformity in the administration.
(iii)	A	Administration and information on tax audits and fraud investigations are based on a documented general audit plan with clear criteria on risk assessment for all the principal taxes, on which an autoliquidation system is applied.

ID-15. Effectiveness in collection of tax payments

This indicator evaluates: i) the capacity of the tax administration to establish with precision overdue tax debts and their collection; ii) the frequency in which tax collection is transferred to the Treasury in order to ensure cash and banks for programmed public expenditures; and iii) the frequency and quality of the reconciliations of collections, including tax debts, between the tax administration and National Treasury.

i) Collection ratio for gross tax arrears, consisting of the percentage of existing tax arrears at the beginning of a fiscal year, which was collected during that same year.

The reference period for the analysis of this dimension concerns the last two completed fiscal years (2007 and 2008).

Effective tax legislation establishes that, when a taxpayer presents the declaration of tax payment, the total declared amount must be paid. That is, conceptually there can be no pending payments with regard the declaration. Thus in theory, SAT should not have to monitor such tax payments. However, small taxes do exist through payment plans, allowing the taxpayers to regularize their situation. These cases are rather exceptional and are not the rule.

Instead of payment arrears, with the procedure employed by SAT, the payment declaration is omitted. This cannot be quantified and a score for this dimension cannot be given.

Score N/S. Existing information does not allow for the evaluation of this dimension.

ii) Effectiveness of transfer of tax collections to the Treasury by the fiscal revenue administration.

The reference period for the analysis of this dimension concerns the management of 2009 from execution to evaluation.

Taxpayers of internal tax and importers pay all their tax obligations at commercial banks, as it is not possible for them to pay through other means, including SAT and the National Treasury. Through agreements with commercial banks, SAT establishes that they are authorized to receive, collect, and maintain the collected amounts of internal taxes and customs duty as well as transfer them to accounts at the National Treasury at the Bank of Guatemala. The scope of the agreements covers the entire country

and include the boundaries where there is a customs presence. The agreements establish that bonds of the collected amounts must be deposited the same day in the restricted account in the Bank of Guatemala under the name “National Treasury, National Collection Account-SAT.” The deposited funds are held by the collecting bank and are not available for the National Treasury, although they are entitled to know how much was deposited in the account. According to the agreements, these funds must be transferred to the account named “Government of the Republic, Common Fund” in the Bank of Guatemala after five (5) business days of their reception, remaining available to the Treasury until this moment. Compliance with the agreements is controlled and sanctioned by SAT every moment the agreements establish a detailed regime on the sanctions and their causes.

Score B. The collected funds by the bank system through an agreement with SAT are transferred to the Treasury on the fifth business day after collection.

iii) *Frequency of complete accounts reconciliation between tax assessments, collection, arrears records, and receipt by the Treasury.*

The reference period for the analysis of this dimension concerns the management in 2009 from execution to evaluation.

SAT carried out a daily reconciliation of the funds received by the collection banks, comparing information from the realized deposits with taxpayer payment documentation. This reconciliation is conducted at the start of the following five business days, when the bank sends SAT the documentation supporting the collected totals, including the deposit

ticket made to the Common Fund at BANGUAT, which must be registered by the National Treasury as a credit note in SICOIN. With this documentation, the Supervision Department of Collection Receiving Entities and Rule Compliance through the Unit of Accounting Registry of Tax Revenues and the Supervision Unit of Operations and Reconciliations conduct a daily registry of revenues. This department carries out pertinent daily registries on: a) the IT system SICOIN, in which the accounting entry corresponding to the received revenues are realized; and b) the Integrated Tax System (Control Module BANCARIO) of SAT, which enables the monitoring of collected revenues as well as compliance with the collection agreement with the bank system.

Score A. Complete reconciliations of declarations are realized and collection is carried out effectively with the amounts transferred to the National Treasury on a daily basis.

Indicator	Score	Justification
ID 15	N/S	Scoring method M1*
(i)	N/S	No score for lack of information
(ii)	B	Collected revenues are transferred to the Treasury on at least a weekly basis
(iii)	A	A complete reconciliation of tax appraisals, collections, arrears, and transfers to the Treasury is realized on at least a monthly basis, within the following month to the end of the month.

ID-16. Predictability in the availability of funds for commitment of expenditures

The reference period for the analysis of this indicator focuses on the last completed fiscal year (2008).

This indicator evaluates the extent to which ministries and agencies that form part of the national budget and depend on budget allocations and liquid funds from the National Treasury receive information in a timely manner on budget allocations and cash holdings in order to program and pay their commitments.

i) *Extent to which cash flows are forecast and monitored.*

Forecasts of cash flows are conducted once a year in November to support budget formulation for the next management. Monitoring of cash flows is carried out by the National Treasury on a daily basis in relation to the cash and banks, and monthly when the accrued fees must be reported. At the beginning of each four-month period, the ministries and agencies that depend on the budget funds send their

commitment and accrued fee requirements in written form to the DTP. The DTP filters the institutions' requirements using the framework of Article 30 of the Organic Budget Law, which establishes that MINFIN will set the accrued and paid commitment fees, considering the seasonal flow of revenues, the actual execution capacity, and the funds required to achieve the program and project goals in a timely manner. Once the DTP "filters" the requirements, they are analyzed weekly by the Committee of Programming and Budget Execution (COPEP), who defines a final table of resource distribution based on information with regard to cash balances reported by the SICOIN by source and on information from the National Treasury. Definition of the final distribution is realized in accordance with criteria of expenditure priorities established in the approved budget. These priorities are generally expenditures in health, education, and social protection programs.

This mechanism favors the control of expenditure, in the sense that the commitment fees every

four months offer a ceiling and horizon for the expenditure to be compromised during this time. Conforming to the information, the entities proceed to realize purchases of goods and services, which are paid when the DTP communicates the accrued fees monthly. This process is consistent due to the fact that the financial system of the country is based on the budgetary programming for execution of expenditures. Throughout the fiscal management, control is exercised and monitoring is conducted of the permanent cash flow with the purpose of payment prioritization. Information flow between the National Treasury and the entities on estimated cash balances by source and with specific destinations has been fluid during the period of analysis.

However, this mechanism has not definitively been achieved to effectively contain expenditures, because the entities argue that they have budgetary credit, hence, should be able to comply with expenditure commitments.

Score A. A cash flow estimation, updated monthly, is realized for budget preparation and formulation.

ii) Reliability and horizon of period in-year information to ministries, departments, and agencies (MDAs) on ceilings for expenditure commitment. In general, during the period of analysis, the information that the MINFIN provides to the ministries, departments, and agencies (MDAs) on

ceilings for expenditure commitment has been reliable. Indeed, during this time, the commitment and accrued fees have presented positive balances among the programmed and executed totals. Table 3.16.1 shows the commitment and accrued fees, programmed and executed by budget group for 2006, 2007, and 2008.

Table 3.16.1 Programmed and executed fees, 2006-2008 (in millions of quetzals)

Group	Commitment			Accrued		
	Programmed (a)	Executed (b)	Difference	Programmed (a)	Executed (b)	Difference
Group	2006					
0	12,971.5	11,756.4	1,215.1	11,762.5	11,453.5	309.0
100	5,729.3	4,981.2	748.1	5,218.5	4,467.8	750.7
200	1,782.0	1,397.3	384.7	1,714.6	1,382.0	332.5
300	6,892.5	6,020.5	871.9	6,342.2	4,878.9	1,463.4
400	10,939.1	10,553.4	385.7	9,772.5	9,520.1	252.4
500	11,050.1	10,606.9	443.2	11,243.4	10,426.5	816.8
600	73.9	60.7	13.2	64.2	58.4	5.8
700	6,432.3	6,019.1	413.1	6,372.7	5,159.5	1,213.1
800	41.8	41.6	0.1	61.2	56.5	4.7
900	78.2	73.9	4.3	68.3	64.7	3.6
Total	55,990.6	51,511.1	4,479.5	52,620.1	47,468.0	5,152.1
Group	2007					
0	9,316.1	8,257.4	1,058.7	12,721.2	12,321.9	399.3
100	3,832.5	3,528.0	304.6	6,145.3	5,605.1	540.2
200	1,223.5	1,034.0	189.6	2,008.2	1,631.3	376.9
300	5,038.2	4,754.3	283.9	6,652.6	6,075.4	577.2
400	8,489.7	8,191.9	297.8	11,304.7	10,949.6	355.1
500	6,785.3	6,513.8	271.5	10,419.2	9,737.2	682.0
600	35.1	34.3	0.8	71.4	60.4	11.0
700	3,549.5	3,503.3	46.2	6,190.8	6,057.5	133.3
800	33.3	32.8	0.6	51.0	49.0	2.0
900	109.7	106.2	3.4	136.0	130.6	5.4
Total	38,413.0	35,955.9	2,457.0	55,700.4	52,618.0	3,082.4
Group	2008					
0	10,607.3	10,224.0	383.3	16,019.2	15,411.3	607.9
100	8,081.2	7,328.0	753.2	10,397.8	9,550.0	847.8
200	4,000.9	2,813.5	1,187.4	5,661.6	4,280.2	1,381.5
300	4,626.4	4,326.3	300.2	5,716.4	5,155.0	561.4
400	5,367.7	5,057.9	309.8	9,956.3	9,530.2	426.1
500	6,169.8	5,602.4	567.4	8,453.2	8,103.9	349.3
600	142.1	134.4	7.7	158.4	154.0	4.4
700	4,264.6	4,074.3	190.3	6,657.7	6,332.0	325.7
800	71.0	64.8	6.2	82.0	71.4	10.6
900	50.8	28.7	22.1	63.4	39.0	24.4
Total	43,381.8	39,654.3	3,727.5	63,166.2	58,627.0	4,539.2

Score B. Information that MINFIN provides to the MDAs to comply with their expenditure commitments is reliable and is communicated at the start of each four-month period.

Note: Although the procedure employed by the government is adequate, to obtain an “A” score, the PEFA standard requires the entities to have a period of six months to compromise expenditures. In the case of Guatemala, only four months are available.

iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs

The frequency of adjustments made to budget allocations is a function of cash and banks and estimations of fiscal revenues. Budgetary adjustments, in general, do not require consideration by Congress, provided that the total amounts of revenues and expenditures in the approved budget are not modified. This supposition grants certain flexibility to MINFIN to make budget adjustments through government accords, depending on the policy priorities established in the approved budget. Annex A.1.3 shows how institutional budgets were modified during the year, in some cases reaching variations of up to 41.6 % in MICIVI; 47.8% in the Ministry of Economy; and 25.7 % in the Ministry of Labor. Nine other institutions suffered budget modifications by amounts exceeding 10% of the budget, which was discussed in ID-2. In some cases, these modifications were requested by the

institutions, and in others, they were negotiated with the institutions. Possibly in certain circumstances they were obligatory and necessary due to external or unforeseen factors. However, in all cases, they were discussed and approved by the institutional authorities. For the analyzed fiscal year (2008), there is no evidence to rate the realized budget modifications due to a lack of transparency or unilateral decisions.

In accordance with Article 28 of the Organic Budget Law, MINFIN is authorized to make adjustments corresponding to the approved budget, when behavior of the current revenues show a significantly lower tendency to the estimates established in the approved revenues and expenditures. Thus the procedure to adjust the budget is realized as many times as necessary with the purpose of maintaining manageable levels of deficit. Consequently, although the process is transparent and coordinated with institutional authorities, it occurs frequent and in a significant amount, according to the information shown in Annex A.1.3.

Score C. A legal framework exists that allows for budget adjustments to be made in a transparent and coordinated manner with the institutional authorities, but they are applied frequently and in significant amounts.

Note: Although the procedure employed by the government is adequate, to obtain a “B” score, the PEFA standard requires that only one or two significant budget adjustments per year. The case of Guatemala does not satisfy this standard.

Indicator	Score	Justification
ID 16	C+	Scoring method M1
<i>(i)</i>	A	Cash flow is forecast for the fiscal year, which is updated monthly based on actual entry and exist of cash.
<i>(ii)</i>	B	Reliable information is provided to the MDAs on commitment ceilings at least three months in advance.
<i>(iii)</i>	C	Budget adjustments are frequently made with certain transparency.

ID-17. Recording and Management of cash balances, debt and guarantees

This indicator evaluates the extent to which the following processes are realized: i) Whether the administration of public debt is carried out in a timely manner based on precise and updated information in order to contribute to an adequate

programming of budget commitments (interest payments and amortizations); ii) Whether cash needs are supported with updated information on cash and banks in the accounts of the Treasury to minimize the generation of public debt; and iii)

Whether the awarding of contingent guarantees is registered in a transparent and timely manner so that there can be information on implicit fiscal risk.

i) Quality of debt data recording and reporting

The reference period for the analysis of this dimension concerns the management of 2009 from execution to evaluation.

The legal framework for the administration of public debt is found in Title V of the Public Credit System of the Organic Budget Law, which defines the institutional and procedural framework (Articles 60 to 74). However, recording of information on public debt is realized separately: a) by MINFIN through the DCP responsible for external and internal public debt; and b) by BANGUAT through their financial agent. BANGUAT facilitates statistical information on internal debt so that this information can be captured by DCP via the internet for monitoring purposes.

The division of functions for public debt recording determined that the IT applications for the recording of both types of debt are different. On the one hand, the DCP uses the database ORACLE 10G for the recording of external and internal debt and the system SIGADE 5.3 uses “Espejo BANGUAT-MFP”⁸⁸ for their administration. BANGUAT also has its own application for recording, controlling and

paying internal debt. The use of distinct applications is justified, as BANGUAT is the paying agent of the state, conforming to the guidelines issued by MINFIN. However, recording the entirety of public debt for auditing purposes is the responsibility of the DCP.

Information on external debt is updated monthly, reconciled with information from the creditors twice a year and daily reports are prepared for operational monitoring. The reports include: i) the status of external debt; ii) internal debt payment program; iii) external debt service; iv) internal debt placement; and v) capital payment of internal debt. These reports are available on the transparency page of the MINFIN website: <http://transparencia.minfin.gob.gt/transparencia/>. The website does not contain a report on consolidated internal and external debt, but it does have detailed information on the status of public debt separately. The DCP has stated that it will implement a new web page with more information that is more accessible to the general public.

With regard to the quality of information on public debt, the CGO issued a report on the 2008 budget liquidation. In this report, the CGO observed that the statistical information on the registry of bonds issuance and registries of the DCE managed by the DCP and reconciled with BANGUAT differ from the debt balances recorded in SICOIN. Thus both dependences are currently under process of validation and adjustment of accounting information.

Score C. The registry of data on internal and external public debt is complete, updated, and reconciled every semester. The data is considered to be of good quality. However, minor problems of reconciliation have been produced between the data that show SICOIN and DCP. Monthly reports on management and the state of public debt are issued, including interest payment, amortizations, and stock of original debt and balance.

Note: Although debt management, in general, would call for a “B” score, the fact that the accounts are not reconciled with the creditors at least every three months prevents such scoring.

ii) Extent of consolidation of the government’s cash balances.

The reference period for the analysis of this dimension concerns the management of 2009 from execution to evaluation. The National Treasury maintains information daily

on the balances of its account as well as others under its control through system reports. At night, the banks migrate the account information to the system and consolidate it in an electronic sheet.

Because some institutions transfer part of their budget execution to NGOs, international institutions,

⁸⁸ System created with the objective of maintaining homogeneity of the registries between the entities, which is fed with information from BANGUAT daily.

and trusts through agreements, part of the fiscal funds are transferred to these institutions under the modality of advances in revolving funds (payments to the contract account). With regard to these funds, the NT does not exercise any control, except on advances and accountability prior to the renewal of

funds⁸⁹. These accounts and funds do not form part of the NT system, as the information on balances are only informative and not operational for fiscal cash management. These funds and accounts are not taken into account in the evaluation of this dimension, as they are considered contract payments in process.

Score A. All the cash balances of the NT system is calculated and consolidated daily.

iii) Systems for contracting loans and issuance of guarantees.

of public entity stocks guaranteed by the state.

The reference period for the analysis of this dimension focuses on the last completed fiscal year (2008).

According to the effective regulatory framework, prior to the opinions of the Executive Branch and the Monetary Board of BANGUAT, Congress is the only authorized entity to approve public credit operations that come from the Executive Branch or any other state entity. The previous opinions of the Executive Branch and BANGUAT refer to the convenience, necessity, and fiscal impact of the proposed credits, verifying that they do not affect the established fiscal goals and sustainability of the debt.

There is a legal framework for the contracting of loans and issuance of guarantees by the state (see Annex A1.17). Through SIGADE, adequate registry of the valid guarantees could be observed, through which consolidated reports of the state on direct and guaranteed external public debt can be issued, including the history of debt contracted by public enterprises in previous years. For example, there exists the registry of debt balance of EMPAGUA, whose service is in charge of the NT, showing the validity of explicit guarantees. With regard to internal debt, it is not necessary to have a registry of guaranteed internal debt once there is no issuance

With regard to municipalities, the DCP has a statistical registry of their debts based on information from INFOM and the DCP-1 forms sent by each municipality. This information is not integrated into SIGADE. Because the system does not have this functionality, its own system was implemented.

Score A. There is a well defined procedure to grant loans and guarantees based on transparent criteria and fiscal goals. Congress is the only authorized entity to approve them.

Indicator	Score	Justification
ID 17	B+	Scoring method M2
(i)	C	The registries of internal and external debt are complete, updated, and reconciled at least annually. The data are considered to be of reasonable quality, although some gaps and problems of reconciliation were noted. Reports on the volume of debt and its service were presented only occasionally, and their scope is limited.
(ii)	A	All the cash balance is calculated daily and is consolidated.
(iii)	A	The central government contracts loans and grants guarantees in accordance with transparent criteria and fiscal goals, and all the loans and guarantees are always approved by only one public entity.

⁸⁹ In the case of trusts, the Trust Administration Manual of the central administration establishes that advances must be regularized at a minimum of up to 75 % of the last disbursement and 100% of the penultimate disbursement in SICOIN. A green light from the Directorate of Accounting of the State. The National Treasury can authorize new advances prior to the approval of funds by the Budget Planning and Execution Committee (COPEP).

ID-18. Effectiveness of payroll controls

This indicator evaluates the integrity of personnel registries and the efficiency of human resource administration processes and processing of government payroll.

The Constitution of the Republic⁹⁰ establishes that the Legislative and Judicial Branches as well as the municipalities and other autonomous, semi-autonomous, and decentralized entities will be authorized by their own laws when they establish work relationships with their servers. For this reason, the human resource system of the government includes only the servers of the central government and some decentralized and autonomous entities, but not all of the public servers. The other public institutions

administer their human resources autonomously under their own rules with their own financial resources, outside of the central government's control but within the fiscalization of the CGO.

This indicator only evaluates the portion of public servers that are integrated into the central government's system, whose management of human resources is authorized by the Civil Service Law⁹¹ (Congress of the Republic. Decree 1748, 1968) and its Regulation⁹². These regulate the relations between the public administration and its servers. Table 3.18.1 shows the budgeted values of the global payroll system of the central government and autonomous, decentralized, and special entities.

Table 3.18.1 Distribution of State Payroll (millions of quetzals)

Year	Payroll entities authorized by the Civil Service Law	Payroll entities not authorized by the Civil Service Law	Proportion under the Civil Service Law
2006	7,730	671	92.0%
2007	8,385	1,271	86.8%
2008 ^(*)	9,349	4,335	68.3%

Source: Ministry of Finance. WEB Fiscal Transparency
() The Comptroller's budget comes out of the Executive Branch's budget and assumes autonomous management on issues of personnel.*

(i) Degree of integration and reconciliation between personnel records and payroll data

The reference period for the analysis of this dimension concerns the management of 2009 from execution to evaluation.

This dimension evaluates the procedures that ensure the consistency among the following aspects: payroll registries that contain the workers' payment history; personnel forms that contain personal, work-related, and professional information of the workers; and classification of posts (salary scale) that contains the description of functions, obligations, and responsibilities of the public servers and that also establishes the salary scale. The consistency

of information is also evaluated periodically. There is no single registry of personnel and computerized records were started only in 2000. Before this date, the records were "ballots," which were filled out by the Salary Authorizers of the Ministry of Public Finance. Historical information on current personnel is distributed among various institutions. The CGO conserves the personnel archives prior to 1971. The National Civil Service Office (ONSEC in Spanish) has the records for 1971-1992. The DCE has the records from 1993. Decentralized entities, public companies, and special entities, such as the CGO, have their own personnel records and administer their human resources under different regimes than those applicable to the Civil Service Law. Currently, there is a new registry of servers in the system

90 Article 117

91 Decree 1748, Congress of the Republic

92 Government Accord 18-98

called GUATENOMINA. This registry is located in MINFIN and contains personnel information linked to the payroll of 63 public institutions (Ministries, Secretariats of the Presidency and some autonomous and decentralized entities; see Annex A1.7).

Entities authorized by the Civil Service Law administer their human resources under the governing body of ONSEC and globally add up to more than 250,000 public servers, both those that are permanent and contracted. These entities prepare each of their payrolls and record them in the GUATENOMINA system, which then transfers all information via the internet, facilitating review and initial approval by ONSEC⁹³ and/or by DTP⁹⁴ before the payment is processed by the National Treasury. GUATENOMINA maintains personnel forms that contain information on payroll and human resources, but they lack historic information on the workers. The

GUATENOMINA system excludes entities that are not authorized by the Civil Service Law as they process their payroll in their own, independent systems.

Although the personnel records of GUATENOMINA generate personnel forms including information pertinent to the administration of human resources, it cannot add information on new personnel or information on historical records.

During the second semester of 2009, ONSEC will receive technical assistance from the Spanish Agency for International Cooperation to analyze the necessary improvements to the post classification, to propose a plan of action, and to establish a single, centralized personnel registry.

Six expenditure categories in personnel are identified in the budget, as shown in Table 3.18.2.

Table 3.18.2 Budget classification of expenditures linked to personnel contracting

Budget code	Category	Description	# of servers to January 2009
011	Permanent personnel	Permanent personnel in the institution	208,877
022	Contracted personnel	Temporary contracted personnel (up to 12 months)	9,707
029	Technical-professional services	Professional or technical personnel contracted temporarily (up to 12 months)	n.d.
021	Temporary assistance	Temporary, special personnel	53,263
031	Personnel with daily wages	Worker with temporary contract	n.d.

Source: ONSEC

Currently, there are both physical and digital personnel files, but there is no database that compiles and centralizes the information. Furthermore, the classification of posts and salaries (salary scale) has undergone successive modifications with more than 1400 discretionary categories that have not been

approved. The interviewed public servers of the institutions as well as those of the CGO, DCE, and ONSEC, agree that periodic payroll reconciliations do not occur. This is confirmed in the CGO reports. Repeated findings of deficiencies in the institutional records as well as payroll production are noted.

Score D. Payroll is not reconciled periodically with personnel records.

93 When changes in human resources are made
 94 When changes that affect the budget are made

(ii) Timeliness of changes to personnel records and the payroll

The reference period for the analysis of this dimension concerns the management of 2009 from execution to evaluation.

This dimension evaluates the extent to which the administration of personnel records and payroll is efficient, based on how the information is updated to maintain correct and timely payment of salaries of all the workers. The procedures of ONSEC establish that payroll be closed on the 18th day of each month as the payroll does not include all changes, especially in MINEDUC and MSPAS which operate nationally in a decentralized manner. These omissions normally are regularized the following month through a retroactive payment. The time required to process the administrative step for the approval of the changes may vary depending on the proposed modifications, because approval may be required of different institutions, as mentioned for the previous dimension.

The Audit Report on the Budget Liquidation of Revenues and Expenditures of January 1 to December 31, 2007 (Comptroller General's Office, 2008) has detected omissions in the records with working individuals without due record and authorization. This can cause several months of delay in their first payment. In order to regularize the payroll for the month of April 2009, ONSEC reports to have received a total of 2,079 files from MINEDUC, referring to the takeovers and deliveries, some of which are from September 2008. In addition, between April 1 and April 22, they had received 750 files of takeovers that corresponded to January 2009. With regard to the government's general payroll, ONSEC processes more than 30,000 of these files every year.

Regarding entities that are not subject to the governing body of ONSEC, the changes and updates of the records tend to take place in a more timely manner. However, since there is not centralized control over them, no statistical information exists. Yet in some cases, the CGO has identified some omissions and failures in the records.

Score C. In some institutions that operate under the mandate of the Civil Service Law, delays in the updating of payroll records of several months have been identified, mostly of up to three months, but in some cases, over six months. These delays originate retroactive adjustments that occur with some frequency. The adjustments and updates are due to delays in the submission of information by the institutions and irregular practices that allow workers to start working before the necessary approvals.

(iii) Internal control of changes to personnel records and the payroll

The reference period for the analysis of this dimension concerns the management of 2009 from execution to evaluation.

This dimension evaluates the effectiveness of controls on payroll and personnel records, which should be concentrated not only on computerized procedures but also on institutional management procedures and allocation of specific responsibilities for the officials responsible for their administration.

The entities have control assistance systems, including biometric types. Within the institutions, the responsibility of the administration of payroll and personnel forms in GUATENOMINA is clearly defined and assigned to persons that possess the authority to authorize any movement or change in the personnel records or payroll. The GUATENOMINA system also has controls that prevent duplicity of functions among all the personnel registered in the system. There are exceptions established in the Civil Service Law which allow, in some cases, for servers in the education, health, and governance sector to exercise two public offices when they are performed with compatible schedules.

Score B. All public entities governed by the Civil Service Law or by any other rules have a human resources unit whose sole responsibility is to administer, record, and process institutional payroll, whether through their own systems or through GUATENOMINA. The persons authorized to record changes in personnel archives or payroll are not the same as those that authorize or approve such records. The capacity and base for the introduction of changes to personnel records and payroll are clearly defined. These capacities as well as recording procedures and information updates are documented in the various articles of the Regulation of the Civil Service Law.

(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers

The reference period for the analysis of this dimension concerns the management of the last three completed fiscal years, 2006, 2007, and 2008.

This dimension evaluates the frequency with which personnel and payroll records are audited, both in the recording as well as management procedures. It also evaluates whether the

procedures are integrated to the government level. In the human resources system authorized by the Civil Service Law, no integral audit has been realized on the personnel and payroll records in the last three years. With regard to other institutions, the CGO has confirmed that, as part of the audit process of the institutions, payroll is reviewed to detect primarily formal, administrative errors and data records. However, the review does not constitute a formal audit of the payroll and personnel records; rather it is a partial audit.

Score C. The CGO realizes institution-wide partial reviews that can be considered partial audits of the payroll.

Indicator	Score	Justification
ID 18	D+	Scoring method M1
<i>(i)</i>	D	There is no personnel database and classification of posts (scale) has undergone numerous modifications and insertions that have distorted it. Thus it is not possible to reconcile the payroll with these records. The only reconciliations that are currently carried out are those that concern institutional payroll payment processes.
<i>(ii)</i>	C	The CGO has identified delays of several months (three or less in the majority of cases) in the updating of payroll records. In many of these cases, these delays originate in retroactive adjustments, taking place frequently.
<i>(iii)</i>	B	The authority and base to process payroll and personnel changes are clear.
<i>(iv)</i>	C	Within the last three years, partial audits of the payroll have been conducted.

ID-19. Competition, value for money and controls in procurement.

This indicator evaluates the quality and transparency of the public procurement regulatory framework, through examining the extent to which competitive procedures are used, and when less competitive procedures are used whether their use is justified, and efficient and impartial mechanisms are in place to resolve complaints.

Public procurement in Guatemala is regulated by the State Contracting Law (Congress of the Republic, Decree 57, 1992) and its Regulation⁹⁵, in addition to all the reforms realized since their first approval in 1992. The scope of the application of this law encompasses state bodies, decentralized and autonomous entities, executing units, municipalities, and public state and municipal enterprises⁹⁶. At the time the evaluation was carried out, Congress was considering a reform project to the State Contracting Law⁹⁷, in which limits for different purchasing modalities were reviewed and the legal base for application of the GUATECOMPRAS system for electronic purchases was constructed.

Over the last several years, the Government of Guatemala has developed the State Procurement and Contracting System (GUATECOMPRAS)⁹⁸, which currently serves to publish the different purchasing processes as well as offers online access to information on each process⁹⁹. The module GUATECOMPRAS EXPRESS is under development, which will allow for the electronic purchase of goods and services under the public shopping scheme.

i) Use of open competition for award of contracts that exceed State established monetary threshold for small purchases (percentage of the number of awarded contracts that exceed the threshold)

The reference period for the analysis of this dimension focuses on the last completed fiscal year (2008).

The State Contracting Law anticipated three purchasing modalities in order to know: (i) public bidding¹⁰⁰, (ii) public shopping¹⁰¹, and (iii) direct purchases¹⁰². The thresholds for the application of each of these modalities are summarized in Table 3.19.1¹⁰³

95 Government Accord 1056-92 of December 22, 1992

96 Article 1 of State Contracting Law

97 Decree 27-2009, Reforms to Decree 57-92 of the Congress of the Republic, State Contracting Law, went into effect on September 18, 2009.

98 www.guatecompras.gt

99 Terms for bidding, consultations, clarifications, and amendments to the bidding terms, opening acts of bids, evaluation reports, and contract awarding acts, non-compliance, and responses to non-compliance.

100 Chapter I of Title III of the State Contracting Law, Articles 17 to 37

101 Chapter II of Title III of the State Contracting Law, Articles 38 to 42

102 Chapter III of Title III of the State Contracting Law, Article 3

103 Articles 38 and 43 of the State Contracting Law

Table 3.19.1 Thresholds for the application of different contracting modalities

Modality	Threshold in Quetzals (GTQ) ¹⁰⁴
Public Bidding	> 900,000
Public Shopping	>30,000; <= 900,000
Direct Purchase ¹⁰⁵	<= 30,000

Source: State Contracting Law (Congress of the Republic, Decree 57, 1992)

The State Contracting Law and its Regulation stipulates that the first two modalities –public bidding and public shopping must be published¹⁰⁶ in the official newspaper -*Diario de Centro América*, in the newspaper with greatest circulation, and in GUATECOMPRAS¹⁰⁷. In addition, they state that reasonable time be allotted for the preparation and presentation of bids/contributions¹⁰⁸ by interested parties to ensure competitive modalities.

The State Contracting Law exempts bidding and public contribution requirements for the purchase of goods and supplies through open contracts¹⁰⁹. However, in the Regulations for the State Contracting Law, a competitive procedure is established that is made public through GUATECOMPRAS and the newspaper *Diario de Centro América*¹¹⁰.

The State Contracting Law also establishes exceptions in which the bidding and shopping processes are not obligatory¹¹¹, which thus do not fall under competitive processes.

Part of the purchases with public funds is realized through trusts, signifying that the regulations and procedures contained in the State Contracting Law and its Regulations are not followed. Moreover, with regard to trusts, special procedures are followed that are outlined in specific regulations that do not necessarily comply with internationally recognized principles of competitiveness. Such trusts are considered to be “other contracts” for which the Law stipulates that rules of common law apply¹¹². Because no significant amount of information concerning the purchases made through trusts can be found, they are considered as part of the exception category.

Based on data obtained from the Integrated Governmental Accounting System (SICOIN) and System of Management (SIGES), the Directorate of State Accounting provided information, summarized in Table 3.19.2, with regard to the totals of executed contracting in 2008. These systems, however, starting in 2009, contain a computer module that identifies the number of realized contracts, which was not available for 2008.

104 Exchange rate 8.00 quetzals per US dollar

105 El Decreto 27-2009, en su artículo 8, “Monto”, reforma el artículo 38 de la Ley de Contrataciones “Monto”, especificando que cuando el precio de los bienes de las ofertas, suministros o remuneraciones de los servicios no exceda de noventa mil quetzales (Q 90,000.00) la compra podrá hacerse por compra directa

106 With regard to purchases through public bids, Decree No. 27-2009 which modified Article 23, Publications, establishes two publications: one with the Information System for State Contracting and Procurement (GUATECOMPRAS) and another in the official newspaper *Diario de Centro América*.

107 Article 23 of the State Contracting Law and Article 16 of the Regulation of the State Contracting Law, respectively.

108 In the case of a public bid, 15 business days are contemplated between the first and last dates of publication, and 40 days between the last publication date and presentation date of bids (Article 23 of State Contracting Law). In the case of a public contribution, 8 business days are stipulated between the publication date in GUATECOMPRAS and the presentation and reception date of bids (Article 26 of Regulations of the State Contracting Law)

109 Article 46 of State Contracting Law

110 Article 25 of Regulations of the State Contracting Law

111 Article 44 of State Contracting Law

112 Article 54 of State Contracting Law

Table 3.19.2 State Contracting in 2008 (millions of quetzals)

Modality	Central Government		Decentralized		Public Entities	
	Paid amount	%	Paid amount	%	Paid amount	%
Exception	7,539	56%	3,278	77%	10,817	61%
Direct Purchase	821	6%	356	9%	1,176	7%
Public Bidding	4,092	31%	304	7%	4,396	25%
Open Contract	540	4%	140	3%	679	4%
Public Contribution	423	3%	176	4%	599	3%
Total	13,415	100%	4,254	100%	17,668	100%

Source: SICOIN (MINFIN)

Score D. Existing data are insufficient to quantify the proportion in which competitive methods of contracting are utilized.

ii) Justification for use of less competitive procurement methods

The reference period for the analysis of this dimension focuses on the last completed fiscal year (2008).

The exception cases, established in the State Contracting Law¹¹³, which do not follow bidding or public shopping processes are the following: (i) goods procurement, contracting of construction works, services, and supplies to safeguard borders, bridges, natural resources subject to international regime or the territorial integrity of Guatemala; (ii) purchase and contracting of goods, supplies, works, and services indispensable in resolving situations derived from declared exceptions according to the Constitutional Law of Public Order, which may cause suspension of public services or suspension is imminent; (iii) purchase and contracting of goods, supplies, works, and services that are necessary and urgent in resolving situations of national interest or social benefit; (iv) purchase of personal property and real estate and conditioning of Guatemalan embassies, legations, consulates, or missions abroad; (v) contracting of works or services for the state dependencies abroad; (vi) purchase of armaments, ammunition, equipment, construction materials, aircrafts, boats and other vehicles, fuel, lubricants, food provisions, and the contracting of services and supplies for the Guatemalan Army and its institutions; (vii) purchase of metals necessary for the mintage of coins, systems, equipment, printing of bills and securities, which by nature of their

functions require the Bank of Guatemala; (viii) purchase of real estate that are indispensable for its location for construction works or public service provisions, which can only be procured from a single person; (ix) contracting of individual professionals in general; and (x) purchase and contracting of goods, supplies, and services with single providers.

On the other hand, the State Contracting Law also stipulates cases in which public bidding is not obligatory as those that are subject to procedures established for public contributions and others outlined in the Law and its Regulation¹¹⁴. These cases include the following: (i) leasing with or without the option to purchase real property, machinery, and equipment within or outside of national territory; (ii) contracting of studies, designs, supervision of works and contracting of technical services; (iii) procurement of scientific, artistic, or literary works; (iv) procurement of quarries destined for public works construction; and (v) contracts that are held by the Supreme Electoral Tribunal for electoral events.

Finally, the State Contracting Law also includes the possibility of direct contracting in cases with an absence of reliable bids in the public bidding processes¹¹⁵.

While the legal framework of the State Contracting Law establishes the requirements for use of less competitive and non-competitive modalities, its application shows that a high percentage of public purchases are included in the requirements. This is also reflected in the previous dimension.

¹¹³ Article 44 of State Contracting Law

¹¹⁴ Article 44 of State Contracting Law

¹¹⁵ Articles 32 and 43 of State Contracting Law

Score D. The State Contracting Law and its Regulation establish a variety of exceptions in the use of competitive procedures, leading to a high proportion of expenditures to be realized through procedures for exceptions (see ID-19.i). In practice, the preference in the use of open competitive procedures for state procurement is not clear.

iii) Existence and operation of a procurement complaints mechanism

The reference period for the analysis of this dimension concerns the management of 2009 from execution to evaluation.

The State Contracting Law stipulates giving notice of the Appeals for Review and Reconsideration¹¹⁶. The first appeal proceeds counter to the resolutions dictated by the superior administrative authorities within the same entity, while the second proceeds counter to the resolutions dictated by the individual superior administrative authorities or those that are collegiate members of the entities.

The resolutions of the Appeals for Review are enacted in writing and are reasoned and based on law, exhausting the administrative channels¹¹⁷. The resolutions are issued without the participation of an independent external body.

Resolution No. 30-2009 of the Ministry of Public Finance¹¹⁸, issued by the Normative Directorate of

State Procurement and Contracting, establishes the procedures to give notice of appeal for complaints online through the Guatemalan State Procurement and Contracting System (GUATECOMPRAS). It also aims to prevent legal challenges that would postpone the procedure. Complaints are established informally between the parties who participate in the purchasing process, a situation which is legalized in Article 6 of Decree 27-2009 which reforms the Contracting Law. Prior to a definitive approval, by way of filing a complaint, the purchasing entity can rectify the procedure, if appropriate.

In the complaints, the interested parties can request changes, criticize, or claim based on the administrative act related to a purchase or contracting, detailing the claimed facts precisely and including supporting documents when necessary. The complaints thus raised are responded to by the Adjudication Board to the same entity responsible for the purchasing process without the participation of an independent external body.

Score B. Although there are procedures to process complaints in the state procurement processes, they are resolved by the same institution that performs the procurement, making the participation of entities foreign to the procurement process unnecessary who could issue an impartial judgment, not compromised by the result of the competition or with the content of the complaint.

Indicator	Score	Justification
ID 19	D+	Scoring method M2
<i>(i)</i>	D	There are insufficient data to evaluate the method utilized to award public contracts.
<i>(ii)</i>	D	The regulatory requirements do not clearly establish that the open competition be the preferred method for procurements.
<i>(iii)</i>	B	A process established by legislation is applied to the presentation and processing of complaints regarding the procurement process, but it is not possible to improve the solution of a complaint by taking it to a superior external authority.

116 Articles 99 and 100 of State Contracting Law

117 Article 101 of State Contracting Law

118 Resolution No. 30-2009 of April 6, 2009, effective April 22, 2009, whose text forms part of the reform project to the State Contracting Law

ID-20. Effectiveness of internal controls for non-salary expenditure

This indicator evaluates the effectiveness of the internal control systems relative to expenditure commitments and payment of goods and services procured through public entities. Other indicators evaluate management controls of debt (ID-17), payroll (ID-18), and advances (ID-22).

The reference period for the analysis of this dimension concerns the management of 2009 from execution to evaluation.

In its capacity as Governing Body of Internal Control, the Comptroller General's Office (CGO) has produced a Conceptual Framework of Internal Control (Comptroller General's Office, 2006) for all public entities that comprise the state, complementing the General Rules of Internal Control (NGCI in Spanish) (Comptroller General's Office, 2006) that was approved through Accord CGO No. 09 of 2003.

In accordance with the Conceptual Framework, internal control is defined as "a process carried out by the highest collegiate body (Administration Council, Board, etc.), the management, and the personnel of an entity, which is designed to give reasonable certainty to the fulfillment of the institutional objectives, comprised of one or more of the following groups: effectiveness and efficiency of operations, reliability of financial and administrative information, observance of applicable laws and regulations" (Comptroller General's Office, 2006, page 3).

The NGCI are obligatory for all public entities, in particular, the following:

- State bodies, autonomous and decentralized entities
- Municipalities and their enterprises
- Non-financial public sector entities
- Individual or collective persons who receive, administer, or invest state funds or any funds in which they have direct participation, whatever the denomination.
- Individual or collective persons who conduct fund-raising

- Contractors of construction works and services of entities subject to the fiscalization of the CGO. Other persons and entities that are in accordance with the law must be fiscalized by the CGO.

To facilitate the understanding and implementation of the NGCI, they are divided into six groups:

- General application rules
- Rules applicable to the General Administration Systems
- Rules applicable to the Personnel Administration
- Rules applicable to the Public Budget System
- Rules applicable to the Integrated Government Accounting System
- Rules applicable to the Treasury System
- Rules applicable to the Public Credit System

These rules allocate the responsibility to design and implement an effective structure of internal control to the Highest Executive Authority. An effective structure of internal control must include specific criteria related to: a) general controls; b) specific controls; c) preventive controls; d) detective controls; e) practical controls; f) functional controls; g) legality controls; and h) opportunity controls, applied in each stage of the administrative process in such a way that administration and operations are simplified, eliminating or aggregating controls without hurting the quality of service.

It is evident that, at the policy level, the Guatemalan public sector, in particular the central government, is updated according to international standards and recommendations of the INTOSAI. However, the aforementioned regulations are implemented only partially. Specifically, internal control in practice is represented by control activities that are hardly a component of the internal control system. Such activities of control are not the result of analysis and evaluation of existing risks in the different processes, organizational units, and budget execution items.

i) Effectiveness of expenditure commitment controls

Decree No. 101-97 of Congress, Organic Budget Law, Article 26, Limit of expenditures and their purposes, states: “The credits contained in the general budget of state revenues and expenditures, approved by Congress, constitute the maximum limit of budgetary allocations. No commitments can be procured and no expenditures can be accrued for which there are no available balances in budget appropriations, nor can these credits be arranged for a purpose distinct from that planned.”

Similarly, the NGCI, Rule 4.17, Budget Execution, establishes: “...The specialized unit and those responsible for the executing units must ensure compliance with established procedures and mechanisms...for the control of: procurement, payment, registry, custody, and utilization of goods and services...” Rule 4.18, Budget Records, establishes: “...The specialized unit must create procedures that enable efficient, timely, and actual recording of revenue (accrued and earned) and expenditure (commitment, accrued, and paid) transactions...”

As mentioned above, a conceptual framework is prepared that, when applied, would contribute to the effectiveness of controls. However, in practice, the entities can procure commitments without budget availability. To the extent that the information system limits the recording of commitments, the obligations are transferred to the following fiscal year, at which time, accrued and paid commitment is simultaneously recorded with the corresponding effects in the budget of the following year.

The CGO has reported in its audit reports of budget liquidation for 2006, 2007, and 2008, non-recorded debts, principally those of the Ministry of Communications, Infrastructure, and Housing for the following amounts: Q1,481 million (2006); not quantified (2007); and Q3,075 million (2008). Moreover, the Financial Administration Unit of the Ministry of Health informed the preparers of the current report that, in 2007 and 2008, debts were not accounted for Q83 and Q167 million, respectively.

In response to these and other inconsistencies in the reported information, in accordance with its legal powers, the CGO imposes economic sanctions without damaging other sanctions when differences are not corrected. For example, in 2008, in the case of the Ministry of Communications, a specialized commission established the actions to be followed based on the complexity of the inconsistency in non-recorded liabilities.

Additionally, some entities that administer public funds apply their own regulations in the execution of the budget. Thus they are not obligated to comply with the legal rules and procedures applicable to entities of the governmental sector. Among these bodies are the International Civil Aviation Organization (ICAO), the International Organization for Migration (IOM), and the International Cooperation Center for Agricultural Pre-investment (CIPREDA in Spanish)¹¹⁹. A similar case is found in the use of trusts, in which they are also not obligated to comply with all the legislation applicable to the governmental sector.

Score C. The control mechanisms for expenditure commitments are partially effective. In the last three years, the CGO has reported important cases in which it has issued decisions with exceptions on budget execution of the central government.

ii) Comprehensiveness, relevance, and understanding of other internal control rules and procedures

In all the entities that form part of the fiscal

year (Ministry of Public Finance, Ministry of Communications, Infrastructure, and Housing, Ministry of Public Health and Social Assistance, and Ministry of Education), both the Directors of the FAU

and those of the Internal Audit Units confirmed that there was no evidence on formal risk analyses, risk maps, or anything equivalent, on which the existing measures for internal control would have been constructed. This situation implies a separation or gap pending on what is defined as one of the elements of internal control in the NGCI, number 12 “risk evaluation.” Thus, internal control, as required in the NGCI and the international standards, only focuses on the “control activities,” one of the elements outlined in the NGCI, but not on the remaining four elements, which are control environment, risk evaluation, integrated accounting and information systems, supervision, and monitoring of the environment and control structure. Additionally, both the CGO

and IAU expressed that, while control rules and procedures are available, these rules are not always understood by those responsible for their application.

In 2008, the CGO developed the Preliminary Evaluation System of Internal Control, also known as the “Check List,” a tool which is comprised of a series of questions on the existence of controls, focusing only on the “control activities” component without considering the others. However, the CGO still has not issued a conclusion on the relevance and effectiveness of the internal control system. Furthermore, it should be mentioned that the effectiveness of this tool has not been determined, as there is no feedback on the results and subsequent actions.

Score C. The NGCI have not been applied to the anticipated full extent, and consequently, there is no evidence on the advances of the implementation. The independent evaluations are not systematic, thus there are no reports that refer to the relevance and understanding of the NGCI.

iii) Degree of compliance with rules for processing and recording transactions

The IAU and CGO reports reveal significant and frequent non-compliance with internal control and regulations. For example, in 2008, an average of 34.8 findings per entity in the central government was reported. Table 3.20.1¹²⁰ summarizes the findings by type¹²¹, as well as the corrective actions taken during

the last three years. Annex A.1.9 details the legal and administrative actions as well as the findings of internal control and compliance for each entity.

The CGO reports of 2006, 2007, and 2008 also reveal significant non-compliance with the regulatory framework for internal control: 32%, 33%, and 37%, respectively, of the total reported findings. Such non-compliance primarily led to economic sanctions.

120 Figures extracted from the Audit Reports on Liquidation of Annual Budgets 2006, 2007, and 2008

121 The findings are classified as: (I) Internal Control and (ii) Compliance. To the extent in which legal compliance is one of the detailed objectives in the NGCI, non-compliance is equivalent to departing from internal control. That is, all findings can be classified under Internal Control.

Table 3.20.1 Findings and corrective actions (In units, percentages and million of quetzals)

		Year		
		2006	2007	2008
Type of finding	Non-compliance	383	381	520
	Internal Control	179	189	299
Total findings		562	570	819
Sanctions	# of sanctions	519	521	775
	% of total findings	92%	91%	95%
	sanctions imposed value	63.3	111.7	147.7
	% of total annotated value	49%	59%	81%
Indictment	# cargos	30	35	32
	% of total findings	5%	6%	4%
	Indicted values	63.4	18.7	29.2
	% of total annotated value	49%	10%	16%
Complaints	# of complaints	13	14	12
	% of total findings	2%	2%	1%
	total complaints presented	2.1	59.8	5.6
	% of total annotated value	2%	31%	3%
Totals	# total findings	562	570	819
	total annotated value	128.8	190.2	182.6

Source: Executive Summary of the Audit Report on the Liquidation of the Budget of Revenues and Expenditures for the fiscal years 2006, 2007, and 2008

These non-compliances generate uncertainty on the effectiveness of the internal control system. They originate in the weaknesses of the design of the system, which, as mentioned before, have focused on actions of control that are not articulated with the other components outlined in the NGCI and that have not been implemented. To the extent to which the rules are not understood, there are high indices of non-compliance.

In addition to that mentioned in the dimension (i), non-compliance of internal controls, especially those related to transaction records on budget execution, can be observed in the decisions with exceptions that the CGO issues in the last three years. This is significant because, for the majority of entities, findings of internal control that the CGO considered to be true were reported.

Score D. The UDAI and CGO reports reveal significant and frequent non-compliance with internal control and regulations.

Indicator	Score	Justification
ID 20	D+	Scoring method M1
(i)	C	Control procedures for expenditure commitments that are applied are partially effective, but they do not integrally encompass all expenditures. Otherwise, they are occasionally violated.
(ii)	C	Other control rules and procedures consist of a basic set of processing rules and transaction records, which is understood by those who are directly involved in the application. Some rules and procedures are excessive, as controls can be deficient in spheres of minor importance.
(iii)	D	The basic set of rules are not complied with in a systematic and generalized form due to direct non-compliance with rules or for the unjustified systematic use of simplified or emergency procedures.

As the Governing Body of Internal Control in its legal framework, the CGO has a regulatory function to supervise and advise. However, there is no organizational unit that effectively influences the implementation or operation of internal control. There is neither understanding nor appropriation of the directorate levels of direction in the public sector on the importance to structure and make the internal control systems work. In practice, this translates into the following circumstances: (i) the lack of resources for the implementation of due extension, and (ii) the misconception on the part of the authorities of internal control, in which UDAI is in charge of internal control and not part of their functions and responsibilities.

As a consequence, as shown in Annex A1.9, they comprise the frequently reported findings by the CGO, in which a financial or administrative penalty is generated against public servers that do not comply with their responsibilities. On the other

hand, because the focuses are on the transactions and not systematic, it is very difficult that the sanctions be directed to the directorate levels, the members of whom are not aware of the support that is needed from them so that the NGCI can be implemented.

The CGO, as part of the SAG, advances studies to support the implementation of the NGCI, more than concentrating on decreasing the number of control non-compliances. A monitoring system of internal control findings, which will become effective in 2010, will enable them to be more proactive in the identification of necessary actions to correct the systematic problems, as entities and bodies are recidivists in non-compliance with the NGCI. The Directors of UDAI are interested in supporting actions to complete the implementation of the NGCI, but they indicate that they lack resources and the political will to close the gap.

ID-21. Effectiveness of internal audit

The objective of this indicator is to verify the effectiveness of internal audit, based on final internal audit reports, through the behavior of indicator parameters in their scope and quality, form and timeliness of the reporting of findings, and management response to internal audit conclusions.

According to the Conceptual Framework for General Standards of Internal Control (NGCI in Spanish) (Comptroller General's Office, 2006, page 16): "The IAU has the responsibility of permanently evaluating the entire internal control structure, the operational systems, and information flows in order to avoid the development or increase in the level of risks in errors or irregularities, ensuring actual solvency and solvency imposed by necessity. Timely reporting of any anomalies should occur so that the administration can take corrective actions in a timely manner to minimize existing risks."¹²²

Furthermore, the NGCI (Comptroller General's Office, 2006, page 4) establish that: "**The internal control environment and structure must be evaluated continuously.** In the institutional context in which the IAU works, it must permanently evaluate the internal control environment and structure at all levels and operations to promote continuous improvement. The Comptroller General's Office will assess the actions of the IAU in addition to institutional internal control to guarantee sustainability of the systems and solidity of the internal controls."¹²³

With regard to the creation and operation of the IAU, the NGCI (Comptroller General's Office, 2006, page 4) establish that:

"The superior authorities are responsible for the creation and optimal maintenance of the internal audit units. The superior authorities must create the internal audit units

¹²² Section IV – Internal Control Responsibilities, number 21, Internal Audit.

¹²³ Section 1 – General Application Rules, number 1.7, Internal Control Evaluation.

in accordance with the complexity of the institutional operations and endow them with the necessary resources so that management can contribute to improve efficiency and effectiveness of the institutional internal control. The superior authorities must ensure that the internal audit units are technically and operationally strengthened so that control is sustainable, procuring the financial, human, material, and technological resources necessary for proper management. Through the corresponding administrative unit, the Comptroller General's Office will verify the possible causes of weakening in institutional internal control and will request to the superior authorities explanations or justifications"¹²⁴ .

In accordance with the aforementioned statements and confirmations by the CGO, all entities of the central government provide an IAU. The IAU of the selected ministries (Public Finance, Communication, Public Health and Social Assistance, and Education) reported the following common deficiencies in their resources:

- Lack of sufficient and competent personnel
- Lack of training
- Risk analysis is not used for planning
- Audits of management and technology is not performed
- No integral conclusion on SCI
- No quality control system
- No annual report on management
- No specialized technological tools for social objects

With regard to these common deficiencies, it should be noted that the IAU of the Ministry of Public Finance conducts isolated interventions in the operations to assess compliance with goals based on the allocated budget. Only the IAUs of the Ministry of Public Finance and the Ministry of Communication (see ID-21.ii) issue annual reports on management.

Annex A1.10 details the deficiencies confirmed

for each entity. In cases such as the Ministry of Public Health and Social Assistance, the CGO confirms these weaknesses in its 2007 report on Budget Execution of Revenues and Expenditures.

In light of best practices and under the NGCI of the country, effectiveness of internal audit was evaluated in conjunction with that of internal control, as the internal audit function is considered to be an integral part. Thus, the scope of the evaluation included the state and effectiveness of the IAUs in the four (4) selected ministries (see ID-20.ii) and points of view of the CGO, which as Governing Body of Internal Control, has the responsibility to evaluate the plans and reports of the IAUs.

i) Coverage and quality of the internal audit function

The IAUs have not been structured to conform with Government Auditing Standards and their independence is relative, as the internal auditors are freely appointed and removed by the HEA. In practice, the majority of IAUs functionally depends on a Vice Minister and do not maintain permanent communication with the HEA. On the other hand, the NGCI describe the operation of the Audit Committees, which among other functions, perform monitoring of important matters concerning internal control, risk, and government, based on internal audit reports. However, these have not been constituted. In general terms, the Government Auditing Standards are partially abided by, especially for operational weaknesses of the IAU. Examples consist of lack of specialized, professional personnel for the areas of specialization of the ministries, lack of technological tools to obtain and analyze information, as well as weak development and lack of an ethics code in the majority of entities.

The selected IAUs (see ID-20.ii) partially use risk analysis but without studying best practices in depth. In the cases that were noted, transactional focus was given priority over evaluating and concluding on systemic internal control behavior. Upon completing their work, these IAUs lack reports on pertinence and

effectiveness of internal control for each evaluated system (micro level) and on a more generic level (macro level). The audits focus on examining compliance of internal control and of legal rules and regulations in selected transactions without utilizing technical methods that would allow conclusions to be projected concerning the evaluated internal control systems. The reports are characterized by descriptions of findings on transactions and recommendations to correct errors, and in some cases, actions to penalize irregularities. On the other hand, these IAUs do not conduct audits on budget performance, in which attention for efficiency and effectiveness

in the use of public resources would be measured.

As the Governing Body of Internal Control, the CGO reviews the IAUs' plans and reports. Whether the CGO considers the IAUs' plans to formulate its own is not evidenced in the quality control visits structured by the CGO, which assists or ensures compliance with Government Auditing Standards, nor is it evidenced in the evaluation reports on the plans and reports presented by the IAUs. On the other hand, the CGO has a report for each IAU or all IAUs in general on their state and operation in the central government.

Score D. A majority of the entities representative of the central government provide an internal audit function, although its focus is primarily transactional.

ii) Frequency and distribution of reports

The Government Auditing Standards (Comptroller General's Office, 2006), specifically No. 4 – Communication of Results, establishes the technical criteria of the content, production, discussion, and presentation of the audit report, as well as the structure to present the results and monitoring of the recommendations.

According to the Government Auditing Standards (Comptroller General's Office, 2006, pages 14, 15):

“The entire audit report of the governmental sector must be issued upon completion of the work and following the established timeline in the auditing manual. It is important that the auditor of the governmental sector comply with the established dates in the corresponding timeline, so that the audit results can be of use and the responsible parties can

take the necessary corrective measures to eliminate the causes of problems. In the case of findings that warrant immediate decisions and actions, the auditor must communicate this through partial reports. These will also be included in the final report, making reference to actions already taken.”

The reports are sent to an audited unit, HEA, and CGO. The CGO, in accordance with Government Auditing Standards, must consider these reports to verify the causes of weaknesses in institutional internal control and those that are responsible. Only two of the four ministries interviewed prepare management reports (MINFIN and MICIVI).

The IAU of the MINFIN describes in their reports the status of the formulated recommendations, classifying them as responded, partially responded, in process, and not responded. As with other entities, it does not give a report on statistics or compliance rates.

Score C. The reports are issued periodically and are sent to the individual responsible for the audit unit, the HEA, and the CGO. The Ministry of Public Finance does not receive a copy of these reports, as this is not stipulated in the GAS (Government Auditing Standards).

iii) *Extent of management response to internal audit function*

As mentioned above, the GAS (Government Auditing Standards) No. 4 – Communication of Results (Comptroller General’s Office, 2006, pages 15, 16), establishes the technical criteria for the monitoring of the implementation of recommendations contained in the audit reports. Specifically, the standards establish:

“The CGO and the IAU of the public sector entities will periodically perform monitoring of the compliance with recommendations in the issued audit reports. The Annual Audit Plans will consider the monitoring of compliance with the recommendations of each issued audit report. Upon writing up the audit report, the auditor of the governmental sector must mention the results of monitoring of the recommendations in the audit report from the previous government. Non-compliance with the recommendations will lead to the application of sanctions by the administration of the public entity or by the CGO. Follow-up on the recommendations will be the responsibility of the IAU of the public entities and the CGO. Recommendations that are found pending compliance must be taken into account for the specific planning of the following audit.” Additionally, the NGCI establishes that the CGO is responsible for

advising on the application of recommendations issued by the IAU.

The IAUs of the Ministry of Public Finance, Communication, and Public Health and Social Assistance confirm that the recommendations are responded to by the administrators. The Ministry of Education mentioned that they respond only partially. With regard to the implementation and taking actions, the four IAUs confirmed that the actions are carried out with some delay.

The IAUs partially prepare management reports with no statistics or indicators that would allow the establishment of the level of acceptance and implementation in practice of the recommendations and changes experienced in the internal control of the audit units. On the other hand, the IAUs confirm that they receive a response from the audits about their observations, which is a requirement according to the rules, but they perceive a low level of appropriation in relation to the value obtained by the IAU.

The interviewed users of the audit do not perceive that they are receiving a professional service by the IAUs. They consider this to be a function of a lack recognition and credibility derived from competent work. They also note that they do not receive assurance services or management support services. The responses to the reports are considered to be simple procedural requirements and not resources to decrease risks identified by the IAUs.

Score C. Statistics are not prepared concerning the level of assimilation, but internal auditors reveal that the recommendations are taken into account though not in a timely manner as required.

Indicator	Score	Justification
ID 21	D+	Scoring method M1
(i)	D	No internal audit focused on monitoring of the systems exists, or it is very limited.
(ii)	C	For the majority of the entities of the central government, reports are issued periodically but are not presented to the Ministry of Public Finance.
(iii)	C	Many of the Boards take a reasonable quantity of relative measures for main problems, though usually with much delay.

3.5. Accounting, recording, and reporting

ID-22. Timeliness and regularity of accounts reconciliation

This indicator evaluates the extent to which banks accounts and suspense or imprest accounts are regularly reconciled, adjusted, or liquidated in order to ensure that institutional financial statements adequately reflect financial management.

The reference period for the analysis of this dimension concerns the management of 2009 from execution to evaluation.

The chapter on Accounting and Financial Analysis of the Processes and Procedures Manual of the DCE describes in detail the bank reconciliation process and the timeliness in which they are realized, as well as the form and timeliness in which the results are reported and recorded. In addition, the annual budget bills establish the periodicity of the reports¹²⁵, whose preparation requires previous reconciliation of the accounts. The General Standards of Governmental Internal Control (NGCIG) establish that these reconciliations are performed respecting the standards of the DCE¹²⁶ and the instructions of the superior authorities of the institution. These rules establish several types of reconciliation: i) reconciliation of the use of approved quota¹²⁷; ii) reconciliation of balances¹²⁸; iii) reconciliation of daily, weekly, or monthly bank balances¹²⁹; and iv) reconciliation of operations which will be executed by the DCP on operations of placement, loans, donations, and trusts with the DTP, NT, DCE and executing units of public entities¹³⁰.

There is a specific standard for advance agreements that establish limits on the amounts (20%)¹³¹ and obligations of their liquidation to be able to request

new payments in the corresponding agreement. It is obligatory that an accountability process be performed on the imprest accounts of the agreements distinct from the multi-year ones for the advances granted to the central administration as well as the return of non-utilized funds so that advances can be received the following¹³². This monitoring is realized through SICOIN.

(i) Regularity of reconciliation of bank accounts

Guatemala uses the treasury single account model named the “Government of Republic-Common Fund” (see footnote Error: Reference source not found of this document). In this account, the central administration manages and centralizes the management of funds under the control of the NT. In reality, the Common Fund is comprised of accounts in three different currencies: quetzals, US dollars, and euros. From these accounts, the NT directly pays the state providers or transfers funds to accounts of the institutions or programs. The institutions or programs possess accounts of revolving funds but also can have trusts or agreements with entities such as NGOs, multilateral entities, and international bodies to which part of their funds are transferred. In these cases, the responsibility of reconciliation of the accounts corresponds to the entity that administers the account.

Currently, the reconciliation of all bank accounts administered by the NT is realized by the computer daily by the Integrated Governmental Accounting System (SICOIN)¹³³, which compares the electronic bank records with their accounting records. The DCE also carries out manual reconciliations

125 Articles 12 and 13 of the Annual Budget Bill as described in the following dimension of this indicator.

126 On February 3, 2003, the Directorate of State Accounting of MINFIN issued resolution 001-2003, which approved the Integrated Governmental Accounting Rules for the Non-Financial Public Sector (MINFIN.DCE, 2003). It is based on the Basic Principles of Accounting, issued in Pronouncement No. 1 of the Commission on Accounting Principles of the Guatemalan Institute of Public Accountants and Auditors. Although oriented to the private sector, this rule respects the generally accepted principles of accounting. Currently, a new rule based on International Accounting Rules for the Public Sector (NICSP) is in preparation.

127 General Standards of Governmental Internal Control, Article 4.16, refers to the monitoring of the use of the budget granted to the entity as well as its balance.

128 General Standards of Governmental Internal Control, Article 5.7, refers to the balances of advances, contracts, suspense accounts, and others pending liquidation.

129 General Standards of Governmental Internal Control, Article 6.16, refers to the balances of the bank accounts administered by the NT or by entities and projects.

130 General Standards of Governmental Internal Control, Article 7.8, refers to the operations of credit or donations registered in the public credit system.

131 Ministry Accord MINFIN 124-2008 of December 30, 2008. This accord regulates the procedures to follow in contracts as well as in their execution.

132 Art 40 of the Annual Budget Bill 2009.

133 Bank reconciliations are realized daily and bank accounts must be reconciled monthly. The latest date is the 10th of the following month, that is, balances of the monetary accounts from January must be reconciled by February 10 at the latest.

when necessary¹³⁴. Reconciliation of institutional accounts is performed monthly, as recorded in the Annual Budget Liquidation Reports in which the CGO explicitly mentions the reconciliations that were realized¹³⁵ for each institution or describes the pertinent findings. The report contains various notes and findings referring to the four types of reconciliation established in the NGCI.

The CGO reports show that, in general, both at the level of the NT and of public institutions, reconciliations are realized routinely and in a timely manner, either monthly or within the month following the reconciled period. The Organic Law of the CGO sets sanctions¹³⁶ on omissions or delays in the realization of these processes. The Annual Budget Liquidation Reports show that the sanctions have been applied and have generated pecuniary fines for those held responsible.

Score A. Reconciliation of bank accounts of the government is performed monthly (for accounts not administered by the NT) or daily (for accounts administered by the NT). This is shown in the annual budget liquidation reports of the CGO, which identify and penalize deficiencies, omissions, or delays in these processes.

(ii) Regularity of reconciliation and clearance of suspense accounts and advances

In the General Dispositions section, the General Budget Bill of State Revenues and Expenditures (Annual Budget Law) sets the classes, terms, and conditions for the advances and other transfers of public resources. The Annual Budget Law for fiscal year 2006 established that the receiving institutions of public funds through agreements with the state must submit quarterly physical accountability reports to the public entity of the agreement (Article 13). The Annual Budget Law for fiscal year 2008 established that these receiving entities were subject to fiscalization by the CGO when they required it, but did not mention the quarterly obligation of accountability reports (Article 12). The budget law for fiscal year 2009 modified this last article again, including the obligation to submit a monthly physical accountability report, and set a format for this submission. Moreover, in the case of public investment funds, it established that they must report monthly to the National Public Investment System (SNIP)¹³⁷. In this way, reconciliation of these accounts and their accountability fall entirely under the public institution that generated them. The

institution must record in SICOIN the statement of the funds for advances monthly, the remainder subject to the fiscalization and sanction procedures of the CGO¹³⁸. Although the rule has changed in the last few years, in all cases a periodicity of reconciliations was set that did not exceed quarterly reconciliations. Currently, it is set at a monthly reconciliation.

The DCE reports show that the amounts pending liquidation in accounts that operate under the modality of revolving funds and advances in 2008 were not significant. The ledger account “11310304 State Debtors, advances granted to executors delegated by agreements pending liquidation” showed a balance of GTQ 32,494,221.07 (less than 0.1% of the 2008 budget) as of December 31. On the other hand, the account “11310303 State Debtors, revolving fund pending liquidation” showed an accumulated total balance by several institutions of GTQ 4,479,082.55.

Recently, a different modality of budget execution has become widespread in the public sector in Guatemala. This modality consists of the transfer of funds as an advance to trusts, whose execution was out of budgetary control and out of public procurement standards. The Annual Budget Law for

134 Operations that are registered in the payment of dues, memberships, and external providers generate an exchange differential, the reason for which there are two CURs and only one debit note.

135 For example, in the section Banks, where bank management of the audited entity is analyzed and notes are included, such as “It is verified that the bank reconciliations are up-to-date.”

136 Article 30, points 10 and 11

137 Articles 12 and 13

138 Article 13

2009 established that the funds executed by trusts must respect procedures of control and supervision of state contracting. The Funds Administration Manual through Trusts (MINFIN.DTP, 1999) notes that the use of funds delivered to trusts must be recorded by regularization¹³⁹ in SICOIN. Moreover, it states that the NT must register an accumulated execution of at least 75% of funds previously transferred so that a new transfer to the trusts can be realized¹⁴⁰. At the close of 2008, though the accounts show movements of over 4,000 million quetzals, the final balances of the funds in the 132 trusts presented results similar to the initial balances of that year. In addition, though the final overall balance increases the total

to GTQ 3,114,675,510.15, this amount does not indicate that they were balances pending liquidation.

For the purposes of this analysis, the fact that the account balances did not increase indicates that in the study period, there were no significance balances to be liquidated, as the majority of the existing balances were trust funds, some originating from 1999. As mentioned above, in the contracts distinct from the multi-year ones, there is an obligation of accountability to the central administration of advance accounts and the return of non-utilized funds to be able to receive advances in the following fiscal year. Thus, liquidation of these funds must be realized at least annually.

Score B. The monitoring of revolving funds and advance accounts is realized monthly. Liquidation and compensation is realized annually, within the first two months of the new fiscal year, as evidenced in the Annual Budget Liquidation Reports of the CGO.

Indicator	Score	Justification
ID-22	B+	Scoring method M2
(i)	A	Detailed reconciliation of all bank accounts of the central government is carried out at least monthly at the global level, generally within four weeks after the end of the period.
(ii)	B	Reconciliation and compensation of suspense accounts and advances is carried out at least annually within two months after the end of the period. Balances not compensated are transferred.

139 Section II.6 of the Manual for Trusts Administration of the Central Government

140 Section II.7 of the Manual for Trusts Administration of the Central Government

ID-23. Availability of information on resources received by service delivery units

This indicator verifies the existence of consolidated and available information on resources effectively received by service delivery units, such as schools and primary health clinics, in all their sources of financing. It also verifies the adequacy of this information and its use to monitor resources. The fiscal years 2006, 2007, and 2008 are evaluated.

i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units

Both in the Ministry of Education (MINEDUC) and the Ministry of Public Health and Social Assistance (MSPAS), the transfer of resources to primary service delivery units is conducted from the IAU of the Ministry. Follow-up on the use of these resources is carried out at a decentralized level: in the MINEDUC through the Departmental Directorates, and in the MSPAS, through the departmental Health Area Headquarters. The funds for these units are transferred from an institutional revolving fund, whose renewal is subject to accountability and its execution must be adjusted to specific standards for this type of funds¹⁴¹. For the education and health sectors, the institutional classifier of the Budgetary Classifications Manual (MINFIN.DTP, 2008) only reaches the ministerial level (see Annex A.1.11), but in SICOIN it is possible to define an additional classification level that establishes institutional cost centers. For example, MINEDUC has an additional level of classification that allows it to allocate institutional cost centers for 30 directorates and general directorates of the central administration as well as 29 departmental directorates. The service delivery units do not have their own budget code, thus their resources are registered in aggregate or departmental accounts. For the health sector,

this additional level of classification has allowed the allocation of cost centers to 81 units, including directorates of the central administration, health areas and regional headquarters, hospitals, and nursing schools. Because health centers, permanent medical care centers, community health centers, and health posts which are primary care units remain outside the classifier, their resources are reported as an aggregate in regional or municipal groupings by specialty or service level but without individual monitoring.

Because payments to salaried and contracted personnel as well as major or bulk purchases are processed centrally from the MINFIN or the Sectoral Ministry, the transfer of resources is limited to minor operational expenditures. Consequently, in general, this aspect is not that critical in the management of the units. Under normal conditions¹⁴², these transfers are realized in a timely manner, according to a schedule coordinated with the units. With regard to personnel, the administrative process can be very prolonged as described in ID-18 and require the participation of various institutions. In many cases, the transfer processes of personnel or the contracting of new personnel can be very lengthy or the salaries of paid with several months of delay, to the detriment of the service delivery units. Monitoring can be complex, as multi-institutional management is required. In the case of goods that are transferred from the central system, such as medicines and school materials procured through open contracts or bulk purchases, administration of these resources follows an administrative process in which the various institutions (general directorates, departmental directorates, health zones, etc.) participate sequentially. As a consequence, the provision of goods to the primary units can be, in some cases, delayed and monitoring is not always efficient. With regard to the monetary transfers, from the perspective of the sectoral entities that request to the NT the transfer of funds to service delivery units, information on the transferred resources is

141 "Manual on Procedures, Forms, and Instructions for Administration of Revolving Funds" (MINFIN.DTP, 1998) and the "User's Guide for the Revolving Funds Module" (MINFIN.DTP, 2004).

142 This did not occur in 2008 because these two sectoral entities experienced a reduction in their budget due to the reallocation of funds that were caused by the government having to pay the debt generated by MICIVI.

complete. However, information on the use of the transferred resources by these units can only be obtained during the accountability process, which is realized sporadically. In the case of MINEDUC, the accountability process is realized semi-annually.

With regard to their own revenues, a large number of service delivery units receives donations or international aid, which generate monetary in-kind revenues or that must be reported for registry in SICOIN. Although the regulatory framework is clear concerning the immediate reporting of these revenues, in some units this mandate is not complied with the required rigor, as the revenue reports do not adequately reflect the revenues. Although the resources are received by the service delivery units, there is no evidence that this information is particularly reported at the central

or local level, or that it shows the specific details of each unit. Furthermore, the budget procedures and SICOIN cannot provide disaggregated information for each unit, with the exception of hospitals and health units that are identified in SICOIN. There are no special surveys that verify the reception of resources by these units. However, at the global and regional level, it is possible to determine in SICOIN the delivery to the service delivery units.

Therefore, all monetary resources are received by the service delivery units, given that the transfers are realized directly to these units and they account for their use. Because the transferred resources in money or in goods and services for hospitals are registered specifically in SICOIN, the system's information is reliable and updated. In other cases, it has aggregated regional or departmental information.

Score C. There is information on resources received by the service delivery units and it is possible to annually report it in an aggregated manner, some in detail but not all. Special surveys are not conducted to obtain the information given that computer systems exist that can provide it directly.

Note: The functional classifier changed starting 2010. Treatment is gradual and it is hoped it will be standardized as much as possible to the 2001 GFSM. However, this is a statistical system, not a system of budget or wealth control. Therefore, better practices can be adopted by the system cannot be substituted.

Indicator	Score	Justification
ID-23	C	Scoring method M1
(i)	C	The existing information on the last three years has revealed the level of received resources in cash and in kind for a significant portion of the primary schools and primary health clinics in the country.

ID-24. Quality and timeliness of in-year budget reports

This indicator evaluates the extent to which the budget execution reports, produced in 2008, have adequately reflected transactions and permitted institutional and pertinent sectoral authorities to monitor management, and when necessary, implement corrective measures in a timely manner.

The reference period for the analysis of this indicator concerns the last completed fiscal year (2008).

In Guatemala, budgetary management of the central government is realized entirely through computerized processes (SICOIN), which have various procedures for consulting, downloading, and generating reports on updated information concerning budget execution for authorized users and fiscalizing entities of the central government such as the general public. This informational facility has significantly reduced the number of reports issued on budget execution.

Following the constitutional mandate, the government presents to Congress quarterly¹⁴³ management reports that contain physical and financial execution for the period. Each year, within the first three months of completion of the fiscal year, an accountability report on the annual budgetary management¹⁴⁴ is presented. These conditions are extensive for the autonomous and decentralized entities, which will present their respective reports to Congress with a copy to MINFIN and the CGO. The reports are ratified annually in the Annual Budget Bill in the article referencing submission of budget execution reports to Congress.

All government funds, including general funds and private funds (institutions' own funds) of the central government, are deposited in the single account administered by the NT, with the exception of some funds originating in donations. The NT can only transfer or pay with these funds through

the budget procedures of SICOIN. Thus SICOIN contains all information on budget funds, and their reports reliably reflect the management of the NT.

Institutions have various options in executing their budget, which can be registered in numerous ways in SICOIN. These modalities are: i) When institutions directly execute their budget, the expenditure is registered in SICOIN and the NT makes the payments, resulting in a timely transaction record in all phases; ii) When institutions indirectly execute their budget transferring part of their funds to a trust or other entity with which they have a signed execution agreement, the NT transfers the funds to the trust or other entity, who then executes the expenditure outside of SICOIN. In this case, the expenditures are recorded by regularization in a process that can be deferred by several months; and iii) When the entity executes donation funds not recorded in the budget, the revenue and expenditure is simultaneously regularized *a posteriori*. As described in ID-1, 2, and 4, there are also other institutional procedures that generate extra-budget execution, such as the partial recording of contracts and untimely registry of invoices and accruals.

Although the movements of funds from the NT are adequately recorded, the budget expenditure registry in SICOIN does not correctly reflect how it was spent nor does it do so in a timely manner. Due to this weakness in bookkeeping, in its reports on annual budget liquidation, the CGO abstains from issuing an opinion, issues a decision with exceptions or an adverse decision in some cases. Consequently, clean certificates issued by this entity are rare.

MINFIN prepares two types of budget reports and other non-budget financial reports:

143 Article 183.w of the Political Constitution of the Republic establishes the obligation of the President of the Republic to present to Congress every four months an analytical report on budget execution, which is prepared by MINFIN.

144 Article 183.i of the Constitution of the Republic.

- Budget Liquidation Report. It is an annual document prepared by the DCE, obligated by the constitution, which describes the budget execution and financial statements of the government. It is presented to the CGO and Congress. The document also shows sources of financing as well as groupings of expenditures by entity, type of expenditure, function, and purpose. This report also details approved, modified, accrued, and paid values from the budget. It also includes a consolidated general balance, which is prepared with proprietary information presented by the decentralized entities. Given that the DCE only receives proprietary information and that not all entities comply with sending this information, the actual state of public finances is not reflected.
- The Analytical Report on Budgetary Management. As a quarterly document obligated by the constitution, financial execution of the central government is described for the periods of January to April and January to August. It is prepared by the DCE and presented to SEGEPLAN, the CGO, and Congress. The document presents the budget execution of the central government, showing sources of financing as well as groupings of expenditures by entity, type of expenditure, function, and purpose. It also details approved, modified, accrued, and paid values from the budget.
- Report on the state of public debt. As an internal document in the MINFIN, the Directorate of Public Credit issues monthly a report on the state of public debt that contains securitized debt balances, in-year placements, payment program, paid maturities, and debt service. The Directorate of Fiscal Analysis and Evaluation prepared three reports in 2008, evaluating the financial management of the government in 2007 and some aspects of management in 2008.

In addition to the preparation of the

- Annual Draft Budget and the Physical Investment Program Project, Capital and Financial Investment Transfers (produced in conjunction with SEGEPLAN¹⁴⁵), the Technical Directorate for Budgeting must present monthly to Congress and the CGO a report containing all the ministerial and government accords that authorize budget modifications and transfers¹⁴⁶.

SEGEPLAN prepares an annual report on the evaluation of budgetary management that serves as the base to formulate budget policies for the following year. This document is not made public.

Following a mandate in the Organic Budget Law (Article 26), decentralized institutions and municipalities present quarterly reports to MINFIN with a copy to SEGEPLAN when investments are made. The reports concern the physical and financial management including: “the physical execution of programs and projects, comparing them with those that are programmed; financial execution of expenditures by programs and projects comparing them with those that are programmed; financial execution of resources by revenue entry; economic and financial results for the period; and analysis and justifications for the principal variations.”

(i) Scope of reports in terms of coverage and compatibility with budget estimates

This dimension analyzes two fundamental aspects of budget information: 1) whether the classification of the approved budget and that employed in budget execution reports is compatible, allowing for a direct comparison of both values; and 2) whether the information in the budget execution reports clearly identify stages of commitment and payment or accrued expenditure.

In the first case, given that the classification of the approved budget and that employed in budget

¹⁴⁵ Executive Branch Law. Decree No. 114-97; Article 14.e and Article 35.o.

¹⁴⁶ Article 32, Organic Budget Law

execution reports is the same, comparison is direct and immediate. In the second case, SICOIN registers and reports on all budget and accounting stages. It does not allow the recording of a stage if the previous stage is not completed. In this way, SICOIN registers the voted budget and its modifications as well as the budget execution and accounting in

their phases of accrued and paid commitment. Some modules external to SICOIN, such as SIGES and contract modules, also register other aspects of management that are automatically linked with SICOIN. All phases of the transactions are currently registered in the system and can be reported.

Score A. Comparison of the budget reports with the approved budget is direct and immediate, as they utilize the same formats. The reports show all budget and accounting phases, including the voted budget and its modifications as well as execution in all phases of accrued and paid commitment.

(ii) Timeliness of the issue of reports

All the institutions of the government including the decentralized and autonomous institutions that follow the mandate of the constitution and the Organic Budget Law report on their budget and accounting execution to MINFIN, the CGO, Congress, or SEGEPLAN monthly, every four months, or annually, whichever corresponds. Because the delayed submission of these reports can cause an interruption in the disbursements from the NT to the entities, the reports are normally presented promptly. The MINFIN prepares their budget management report

every four months. The quarterly period is defined by the constitution and is applied to the programming of the budget availability quota by the NT and to the submission of reports. Although SICOIN operationally allows for monthly or quarterly reports, it is not realized due to enforcement of the regulation.

The Analytical Report on Budgetary Management, prepared every four months by MINFIN, and the Budget Liquidation Report, prepared annually by MINFIN, are consistently presented to Congress and the CGO within the timeframe established by law. Table 3.24.1 shows compliance with these rules by MINFIN.

Table 3.24.1 Punctuality in the presentation of budget reports

Report	Regulation	Presentation date according to regulation	Date presented
<i>Four-month Analytical 2008.1</i>	Constitution of the Republic. Art. 184.w	May 31, 2008	May 29, 2008
<i>Four-month Analytical 2008.2</i>		September 30, 2008	September 30, 2008
<i>Four-month Analytical 2009.1</i>		May 31, 2009	May 28, 2009
<i>Budget Liquidation and Accounting Close 2008</i>	Constitution of the Republic. Art. 214	March 31, 2008	March 30, 2008

Score D. Frequency of the reports is every four months due to constitutional regulations.

Note: PEFA standards establish that, to obtain a C score or higher, budget execution reports must be presented at least quarterly. In the case of Guatemala, the constitutional mandate establishes a period of every four months.

(iii) *Quality of information*

Regarding fiscal revenues, with the exception of non-significant donations, the information recorded in SICOIN is complete and timely, as the reports contain complete and updated data on revenues. Although the flow of funds from the NT is evidenced adequately, budget information on expenditures, in particular that shown in intermediate budget execution reports, does not appropriately reflect institutional expenditure. Thus, this information does not allow for appropriate monitoring nor does it identify situations that warrant corrective measures. Evaluation of fulfillment of objectives and adequate use of public funds also remains limited due to this weakness. Although

the reports are prepared following the budget structure, they encompass all budget entries and provisions. Expenditure coverage consists of stages of accrued and paid commitment. The information shown does not adequately reflect reality in a timely manner, because in many cases, recording occurs by regularization and not at the moment of transaction.

Information on execution registered in SICOIN shows weaknesses that affect its quality. A review of the opinions issued by the CGO on financial statements of the government, which was presented in the annual budget liquidation of 2008, shows unfavorable findings for various institutions. Table 3.24.2 presents some of these findings by the CGC.

Table 3.24.2 Findings of the CGO on 2008 Budget Liquidation

Institution	Finding
Secretariat of Administrative Issues and Security of the Presidency	The financial statements that the Ministry of Public Finance issues does not reflect the actual balances.
IAU – MINFIN	Actual budget execution of expenditures in the corresponding period is not reflected.
DCE – MINFIN	Influences the balances reported in the general balance sheet which do not reflect the actual situation of state assets.
DGCP – MINFIN	Uncertainty exists on balances revealed on December 31, 2008, of the account 2231 Long-term public debt obligations of the general balance sheet of the central administration.
General Directorate of Community Participation and Support Services – MINEDUC	The budget execution does not present actual figures. Thus it does not constitute a reliable tool for decision-making.
IAU – MINEDUC	Figures presented in the financial statements presented by accounting of the state are not actual figures.
Ministry of Economy	The total of the actual accruals and paid amounts are not established with certainty and in a timely manner, which affects decision-making in the production of the 2009 budget. In the 2008 budget, a greater percentage of the execution compared the actual figure is reflected.

Score D. Information on budget execution registered in SICOIN shows weaknesses that affect its quality.

Indicator	Score	Justification
ID-24	D+	Scoring method M1
(i)	A	Classification of data permits a direct comparison with the original budget. Information encompasses all budget entries and provisions. Expenditure coverage encompasses the stages of commitment and payment.
(ii)	D	Quarterly reports are not prepared.
(iii)	D	The data are too imprecise to be useful.

ID-25. Quality and timeliness of annual financial statements

This indicator evaluates the extent to which the reports on financial statements of the central government and decentralized and autonomous institutions are timely, complete, punctual, and based on adequate accounting standards.

(i) Completeness of financial statements

The reference period for the analysis of this dimension concerns the last annual financial statement (2008).

Financial statements prepared by MINFIN are exclusively those of the central administration. Decentralized and autonomous entities as well as municipalities present their financial statements to Congress and the CGO independently. Consolidation is performed for the sole objective of calculating deficit, but no report on consolidation of the public account is prepared. Consolidated financial statements of the central government are prepared, however.

During the study period, some institutions of the central government employed parallel procedures or non-authorized financial administration procedures such as execution through trusts and agreements, untimely recording by regularization, dividing of contracts, and retention of invoices without

recording. Such circumstances determined that the accounting information, especially that referencing expenditure during these years, has presented some inconsistencies, affecting the financial statements. The CGO, in its budget liquidation reports for these years, has identified various types of deficiencies that affect the quality of financial statements of the government in its numerous elements. For example, in its opinion on accounts from 2008, the CGO reported for various institutions of the central government, several findings that affect the quality and certainty of the accounting information that, among other aspects, concern the following: inadequate registry with revolving funds as well as advances without liquidation, omissions in recording of revenues, account balances that do not reflect reality, opening balances without adjustment, uncertainty in equity accounts, differences between bank balances reported by the NT and those of the general balance sheet, uncertainty regarding balances of the state assets, uncertainty in balances revealed from internal public debt, balances that do not reflect reality in donation accounts, deficiencies in the regularization of recording of the account *Construcciones in Process*¹⁴⁷ and transfer to asset accounts or results. In addition, the financial statements do not reflect floating debt.

Score D. Consolidated financial statements of only the central government are prepared, and information on expenditures, revenues, and account balances contain significant omissions.

(ii) Timeliness of submission of the financial statements

The reference period for the analysis of this dimension concerns the last annual financial statement presented for audit (2008).

Financial statements are prepared annually by MINFIN and are included in the report on “Liquidation of the General Budget of State Revenues and Expenditures and Accounting Close of

the Fiscal Year,” which is sent within the first three months of the year to Congress¹⁴⁸ with a copy to the CGC. The CGO presents the report and its opinion on accountability of the government to Congress within the following two months. Although the CGO presents its report to Congress, in the last few years, it has not issued any opinions, which is why its approval is still pending. Table 3.25.1 shows the dates on which these reports were presented.

¹⁴⁷ In addition to the fact that institutions do not adequately report on their completed works in order to make transfers to state assets, it has been observed that investments realized with state funds as well as their own are recorded in trusts in their accounting without transferring to state accounting.

¹⁴⁸ Article 214 of the Constitution establishes that “The respective Ministry will formulate the annual budget liquidation and submit it to the Comptroller General’s Office within the first three months of each year. Upon reception of the liquidation, the CGO will present a report and issue an opinion no later than two months, and will be presented to Congress which will approve or disapprove the liquidation.”

Table 3.25.1 Presentation dates of accountability to Congress.

Report on accountability of the government	Date presented to Congress	Date of CGO report	Date of approval by Congress
2006	March 6, 2007	May 2007	Pending
2007	March 28, 2008	May 2008	Pending
2008	March 30, 2009	May 2009	Pending

Sources: Ministry of Finance- DCE; CGO.

Score A. MINFIN submits the financial statements of the government simultaneously to Congress and the CGO within the first three months of completion of the fiscal year. The CGO presents to Congress the audited report on these financial statements within five months after the completion of the fiscal year.

(iii) Accounting standards used

The reference period for the analysis of this dimension focuses on the last three completed fiscal years (2006, 2007, and 2008).

Though the base of the financial information system of the government, the accounting system does not have accounting standards established and specific

to the public sector. In this system, the “Generally Accepted Accounting Principles” are used, which are applicable to the private sector. The IPSAS standards include 26 specific public sector accounting standards, which provide special treatment to specific themes of public administration, which are not found in the regulation applied by the Guatemalan government. The implementation of the international standards of IPSAS are currently under study.

Score C. Although there is not specific accounting standard for the public sector which represents a national equivalent to the IPSAS, there is coherence in the presentation of the financial statements through time, keeping the same generally accepted accounting principles valid.

Indicator	Score	Justification
ID-25	D+	Scoring method M1
(i)	D	A consolidated statement of the government is not prepared annually.
(ii)	A	The statement is submitted for external audit within 6 months after the end of the fiscal year.
(iii)	C	The statements are presented in a coherent format through time with some indication of applicable accounting standards.

3.6. *External scrutiny and audit*

ID-26. Scope, nature, and monitoring of external audit

This indicator evaluates the function of external audit by measuring: a) whether all public institutions and all budget funds are audited; b) whether of the financial audits, performance audits and other audits are conducted; c) whether audit reports are presented in a timely manner to legislation; and d) whether a correct follow-up is carried

out on the implementation of recommendations.

The Audit Report on the Liquidation of the Budget of Revenues and Expenditures for Fiscal Year January 1 to December 31, 2008 (Comptroller General's Office, 2009) clearly explains the nature and scope, as outlined in Chart 3.26.1.

Chart 3.26.1 Nature and scope of the external audit function

The Political Constitution of the Republic of Guatemala establishes in Article 232 “The Comptroller General's Office is a decentralized technical institution with fiscalizing functions of revenues, expenditures, and in general anything related to financial matters of the state, municipalities, decentralized and autonomous entities, as well as any person that receives state funds or makes public collections. Contractors of public works and other persons delegated by the state to invest or administer public funds are subject to this fiscalization.”

Article 241 Accountability of the State establishes that: “The Executive Branch will annually present to Congress an accountability report of the state. The respective ministry will formulate the annual budget liquidation and will submit it to the Comptroller General's Office within the first three months of each year. Upon receipt of the liquidation, the CGO will present a report and issue an opinion no later than two months, and will submit it to Congress, which will approve or disapprove the liquidation.

In the event of disapproval, Congress must ask for reports or pertinent explanations, and if the causes are punishable, it will report to the Office of the Public Prosecutor.

Once the budget liquidation is approved, a synthesis of the state's financial statements is published in the official newspaper.

Decentralized and autonomous bodies and entities of the state, with their own budget, will present to Congress in the same form and timeline, their corresponding liquidation to fulfill the principle of unity in the fiscalization of revenues and expenditures of the state.”

Decree no. 31-2002, Organic Law of the Comptroller General's Office, Article 2, Jurisdiction. “The fiscalizing function corresponds to the Comptroller General's Office externally of assets and liabilities, duties, revenues and expenditures, and in general, any financially related matters of the bodies of the state, autonomous and decentralized entities, municipalities and their enterprises, and other non-financial public sector institutions, any person, entity or institution receiving state funds or makes public collections, non-financial enterprises in which the state participates in its capital under whatever denomination as well as participating companies. Contractors of public works and any other national or foreign person delegated by the state who receives, invests, or administers public funds are also subject to fiscalization. Exceptions are public sector entities which are subject to other fiscalizing entities by law.

The Comptroller General's Office must ensure probity, transparency, and honesty in public administration as well as the quality of public expenditure.” Article 4. Attributions, point e) “To audit, issue opinion, and submit a report on the financial statements, execution, and liquidation of the General Budget of State Revenues and Expenditures and those of autonomous and decentralized entities, sending the corresponding reports to Congress within the constitutional timeline.”

i) Scope/nature of audit performed (including adherence to auditing standards)

The reference period for the analysis of this dimension concerns the last audited fiscal year.

The CGO is an independent, autonomous entity which follows GAS (Government Auditing Standards), consistent with the standards recommended by INTOSAI¹⁴⁹. The nature of the audits practiced by the CGO is comprised of reviews of legal compliance and quality of executed budget accounting. These reviews include evaluations of transactions to establish whether they comply with NGCI. The CGO issues reports with opinions on the status of budget execution and observations on internal control and legal compliance. In reality, audits do not focus their work on establishing integral quality of internal control systems for each entity, body, or the central government. On the other hand, the CGO does not perform audits based on the value of the money or results, which would allow it to make a statement about the efficiency and effectiveness in the administration of public funds. Transactional audits¹⁵⁰ of budget execution, internal control,

and legal compliance for all entities and bodies of the central government¹⁵¹ are performed annually.

The Comptroller's 2008 report reveals that the budget execution of the central administration is examined through selective tests. The scope of the examination is defined as the following: "In accordance with International Government Auditing Standards, the status of the budget liquidation and financial statements of the central government for the period from January 1 to December 31, 2008 were selectively submitted for testing on auditing procedures, and a decision was issued as a result of the realized test."¹⁵²

External audit covers the entire budget execution through the application of selective tests. In 2008, Q43,935,451,153.00 was obtained, and in 2007, Q40,198,188,516.00 was obtained. In 2006, Q37,703,952,843.00 was obtained. The CGO still does not have at its disposal a functioning internal quality control system, and to date, its practice has not been submitted to an independent quality control.

Although the audit covers the totality of the budget, it does not focus on systemic or significant problems, limiting itself to transactional or legal aspects.

Score C. Transactional audits of the budget execution, internal control, and legal compliance are performed annually on all the entities and bodies of the central government, but without addressing systemic or significant problems.

ii) Timeliness of submission of audit reports to legislature

The reference period for the analysis of this dimension concerns the last annual

audit presented to Congress (2008). The Constitution establishes that the CGO will receive the annual budget liquidation within the first three months of each year and it must issue to Congress the corresponding report and decision within two

149 INTOSAI: International Organization of Supreme Audit Institutions.

150 A transactional audit focuses on individual transactions, thus it is not reasonable to issue opinions or conclusions on systemic behavior of the budget and internal control.

151 Generally, in the budget classification, the central government covers 18 bodies, entities, and other executors and concepts of budget execution such as: the Presidency of the Republic, 13 ministries, the Attorney General's Office, Superintendency of the Tax Administration (collection), Indigenous Development Fund, Departmental Development Councils, secretariats and other dependency entities of the Executive Branch. Additionally, the "State obligations in charge of the Treasury and Public Deb Services" are also included.

152 Extracted from Executive Audit Report on the Budget Liquidation of Revenues and Expenditures, Fiscal Year January 1 to December 31, 2008 (Comptroller General's Office, 2009, page 3)

months. This timeline has been fulfilled by the fiscalizing entity for the three years under study. The audit reports on the government's budget liquidation for the years 2008, 2007, and 2006 were presented in May 2009, May 2008, and May 2007, respectively.

As discussed above, at the regulatory level, the audit function or external control of the public sector in Guatemala is reasonably developed. In terms of implementation, the CGO issues annual reports to the legislature and include a presentation standard, which consists of the following general components: (i) an executive report on the management of the CGO during the year, and (ii) a detailed report with the CGO's decision.

The professional decisions include details on the audit results with an emphasis on budget execution. The reports for the years 2006, 2007, and 2008 included a particular expression of opinion by the CGO, characterized by a paragraph of "limitation in scope" that noted: "Except for that mentioned in the following paragraphs, we produce our review in accordance with Generally Accepted Auditing Standards and Government Auditing Standards..." This type of disclosure in an auditor's report signifies abstention from providing an opinion. However, the report continues in a subsequent paragraph, stating "our audit provides a reasonable base for our opinion."

In the three years, the opinions issued as a consequence of limitations in scope and the findings detailed in the reports contained the following, taken from the budget execution reports for fiscal years 2006, 2007, and 2008. In the budget execution report for fiscal year 2006: "In our opinion, except for the effect of the issues mentioned in the preceding paragraphs, the financial statements indicated above reasonably present, in all their important aspects, the financial situation of the central government as of December 31, 2006, the results of its operations for the year completed on this date, in accordance with the budgetary and generally accepted accounting principles." (Comptroller General's Office, 2007, page 54).

In the budget execution report for fiscal year 2007: "In our opinion, except for the effect of the issues mentioned in the preceding paragraphs, the financial statements indicated above reasonably present, in all their important aspects, the financial situation of the central administration as of December 31, 2007, the results of its operations for the year completed on this date, in accordance with the budgetary and generally accepted accounting principles." (Comptroller General's Office, 2008, page 24).

In the budget execution report for fiscal year 2008: "In our opinion, except for the effect of the issues mentioned in the preceding paragraphs, the financial statements indicated above reasonably present, in all their important aspects, the financial situation of the central administration as of December 31, 2008, the results of its operations for the year completed on this date, in accordance with the budgetary and generally accepted accounting principles." (Comptroller General's Office, 2009, page 37).

There are multiples reasons in the text of the reports that indicate the limitations in applying GAS and expressing exceptions. These ranged from problems of lack of balance adjustments that were the responsibility of SICOIN to the lack of revelation of unrecorded liabilities. The reports do not contain an analysis of relative importance or materiality, nor does it have a classification or quantification of the causes for not having a "clean" audit report or one without "exceptions." In accordance with GAS and best practices, although such conclusions are within the scope of the Comptroller, they must be sustained and their reasons justified for not receiving a "negative or adverse opinion."

Each finding that is included in the reports consists of sections called "comments of those responsible," "subsequent comments by the auditor," and "legal and administrative actions." In the last case, the consequences of errors or alleged irregularities and decisions that the CGO adopted are clarified. When economic sanctions are applied, the corresponding value of the fines is recorded.

Score A. The financial statements of the budget execution along with the opinion of the CGO are sent to legislature in accordance with the legal standard within the maximum timeframe of 150 days after December 31 of each year.

iii) Evidence of follow-up on audit recommendations

The reference period for the analysis of this dimension concerns the last audited fiscal year (2008).

The Organic Law of the CGO and the Government Auditing Standards establish the form and timeframe to present the report resulting from the audits as well as the follow-up. In practice, this is fulfilled because the institutional authorities suggest their point of view and corrective actions, which are included in the CGO reports.

To date, the CGO does not have a follow-up system to supervise the level of assimilation of its recommendations and resolution of the causes that

led to negative decisions, decisions with exceptions, or abstentions. Moreover, statistics are not available in the CGO management report, which could reveal the level of assimilation or improvement of quality on budget execution information. Although in the following year's reports, the status of recommendations is included in the previous report, there is no data concerning the final resolution of the reported issues. In the annual report for 2008, the follow-up result with regard to reported issues in the preceding report was recorded. The revelations are realized through simple paragraphs that do not provide information to establish external control effectiveness. In addition, it must be kept in mind that in the last three years the type of decision issued – with exceptions – as well as the nature of the findings have been recurrent.

Score B. A formal response is presented in a timely manner, but there is no evidence for a systematic follow up.

To establish the condition of the external control, we use as a base the legal framework characterized by GAS and whose compliance was analyzed by comparing existing evidence in the audit plans, reports, and other documents that were supplied to us with the viewpoints of the officials of the CGO participating in the evaluation.

An audit quality system control has not been designed or implemented and has not been practiced by the CGO to supervise external control quality. These circumstances limit the possibility that the CGO adjusts its work to best practices and standards.

Indicator	Score	Justification
ID-26	C+	Scoring method M1
(i)	C	An audit of the entities of the central government which are responsible for at least 50% of the total expenditure is performed at least annually. The audits predominantly consist of transaction tests, although the reports identify the existence of significant problems. Audit standards are revealed only in a limited manner.
(ii)	A	The audit reports are presented to legislature within four months after the completion of the period under study, and in the case of the financial statements, within four months after reception by the CGO.
(iii)	B	A formal response is presented in a timely manner, but systematic follow-up tests are rare.

As mentioned in the indicator on internal control, in future projects and as part of SAG and other initiatives, it is noteworthy that a monitoring system on findings concerning internal control will be implemented, entering into effect in 2010. This will permit a more proactive approach in the identification of corrective actions of systemic problems.

On February 11, 2009, a reform initiative to the CGO Organic Law was presented to the Legislative Directorate of Congress. The posited reforms consist of: (i) Strengthen the competency of the CGO so that it can fiscalize the adequate use of public funds;

(ii) Expansion of attributions to exercise the pre-qualification function, control, and registry of private institutions that are contracted by the state; (iii) creation of a fiscalization unit for public works so that the quality of public expenditure can be fiscalized; (iv) Increasing the support that CGO receives from tax revenues; (v) Appointment and separation of the

Heads of the IAUs prior to authorization by the CGO; (vi) Modification of the scales for pecuniary sanctions, an increase in the minimum and maximum amounts as well as the maximum percentage of reductions.

ID-27. Legislative scrutiny of the annual budget law

The reference period for the analysis of this indicator concerns the last completed fiscal year (2008).

Although the function for the legislature in the scrutiny of the Annual Budget Bill is defined, there are no technical methods to conduct an analysis on it.

i) Scope of the legislature's scrutiny

The Draft of the General Budget of State Revenues and Expenditures is submitted to the Presidency of the Legislative Branch by the Executive Branch through the Ministry of Public Finance. The draft budget, presented as a bill, is known by the Congress Plenary and is transferred to the Commission of Public Finance and Currency for evaluation. The result of the evaluation is recorded in a decision, which includes past records, considerations by the Commission with a technical analysis, and proposals for modification. The decree accompanies the decision.

The technical analysis of the draft budget is performed in conjunction with officials of the government bodies that participate in the formulation process. The principal entities are the Ministry of Public Finance (Technical Directorate for Budgeting), Superintendency of Tax Administration, Bank of Guatemala, and the Secretariat of Planning and Programming of the Presidency. In addition, civil society, non-governmental organizations, and research centers among others are invited in order to present the analysis on the draft budget. The evaluation encompasses revenues and expenditures which entails an analysis of fiscal policies and macroeconomic variables that served as the basis in the projection of the budget total. This examination is carried out with a multi-year focus of three years.

It is conducted within the 90 days that Congress has to approve it. Although the fiscal policies are presented and justified before Congress during a review and approval process of the proposal, they are not discussed jointly at the moment of their definition. Thus even if Congress is in disagreement, it cannot change them, only being allowed to propose minor changes to the budget proposal due to a lack of time for reformulation of the budget.

This methodology favors a democratic dialogue through the exchange of information, reflection, and analysis, giving the officials an opportunity to justify the requested amounts in the budget. Moreover, the methodology facilitates the transfer of information to the deputies on the realities of the nation as well as the various projects of budgetary expansion to the actual budget bill. This process facilitates evaluation and analysis of the draft budget.

Upon completion of the analysis and decision, the Legislative Commission transfers the draft budget to the Congress Plenary for its approval or modification. Subsequently, it is sent to the President of the Republic for his sanction or veto.

During the last three years, this Commission has received bills related to the General Budget Bill of State Revenues and Expenditures during the second week of September of the previous year, and in all three cases, it has issued a decision before the end of November.

The audit decision of the Budget Bill of 2007 was sent to the Legislative Directorate without the signature of the President of the Commission because a group of deputies who are members of the Finance Commission produced a different decision without his knowledge.

Score C. The examination of fiscal policies, fiscal framework, and mid-term priorities by Congress is incipient, though the budget is reviewed in detail.

ii) Extent to which the legislature's procedures are well-established and respected

As the Organic Budget Law establishes, the budget bill is presented to Congress no later than September 2nd of the previous year to which it pertains. Starting on this date, ninety days are available for the analysis. This timeline has been followed by the Executive Branch.

Silence by Congress, according to the law, indicates that the budget from the previous year will go into effect. The technical decision of the Commission is submitted to Congress, which decides whether to authorize the recommendation by the Commission and finally votes on its approval.

Except for the preparation and presentation stages by the Executive Branch as well as the evaluation by the Legislative Branch in the time available, there are no formally established procedures to conduct the technical evaluation. Thus, the definition of the factors to be analyzed and the scope of the examination, among others, are at the discretion of the evaluators. Although the review process of the budget is not formally established either, there is a Legislative Commission specialized for this analysis, which has powers established in the Organic Law that permits them to summon any public official to explain or uphold pertinent aspects of the budget proposal. Despite the existence of some procedures, they are not comprehensive.

Score C. There are no comprehensive procedures formally established for the technical review of the budget bill by the legislature.

Note: The existing procedures described in the Political Constitution of the Republic as well as the regulatory framework of the budget are referenced in the preparation and presentation process of the draft budget to Congress, not the details of the evaluation procedure realized by Congress, which is the objective of this dimension. The Organic Law of Congress does not regulate these aspects, leaving the responsibility to organize their management to the Commissions (Article 27).

iii) Adequacy of time for the legislature to provide a response to budget proposals

As mentioned above, the members of the Commission do not have formal procedures. Consequently, they take actions based on their experience and knowledge in order to judge whether the time established by law

is sufficient for conducting analysis and proposing modifications pertinent to the draft budget.

During the analysis stage, there is an active exchange with the officials responsible for the budget formulation at the Ministry of Public Finance.

Score A. Congress has 90 days to review and budget bill.

iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature

Rules for in-year budget amendments are clearly established by law¹⁵³. Furthermore, the Annual

Budget Bill includes additional standards on specific aspects of the ongoing fiscal year. Table 3.27.1 presents a summary of the relevant legal basis for the budget modifications process¹⁵⁴.

153 Political Constitution of the Republic of Guatemala, Art. 238 and Organic Budget Law Arts. 28 and 32 (Decree 101-97)

154 Source: Budget Modification Manual—Ministerial Accord 216 of 2004

Table 3.27.1 Regulatory framework for budget modifications

Type of Required Modification		Legal Basis		Instrument representative of the modification
		Document	Article	
Additions and/or decreases in the budget		Political Constitution of the Republic of Guatemala	Art. 240	Decree of Congress Government Accord (analytic distribution)
Inter-institutional Transfers		Organic Budget Law	Art. 32.1	Government Accord
When the transfers of allocations require the approval of the Technical Directorate for Budgeting in the following cases:			Art. 32.2	Ministerial Accord issued by the Ministry of Public
Creation, increase or decrease through transfers	Items in group 0 "Personnel Services." Item 911 "Emergencies and Public Calamities". Item 914 "Unforeseen Expenditures"		Point a)	
Modification	Of financing sources.		Point b)	
Allocation transfers	Of a program or category equivalent to the other. Between investment projects of the same or different programs and/or subprograms.		Point c)	
When the transfer of allocations occur within the same institution, in the following cases:		Organic Budget Law	Art. 32.2	Ministerial Resolution of the interested ministry or Resolution of the HEA of the, dependency, or secretariat.
Allocation transfers	Between subprograms of the same program or between specific activities of the same program or subprograms.		Point a)	
	Between groups not controlled by the program or equivalent category, subprogram, or project.		Point b)	
	Between items not controlled by the same expenditure group of the program or equivalent category, subprogram, or project.	Point c)		

In addition to the rules mentioned in Table 3.27.1, there are regulations that the procedures must follow at the administrative level and in the information systems, once the expansion or decrease in the General Budget of the State Revenues and

Expenditures has been approved by Congress. In practice, these rules are followed, with the exception of the rules limited by the Constitution, allowing for wide administrative reallocations.

Indicator	Score	Justification
ID-27	C+	Scoring method M1
(i)	C	Examination by the Legislative Branch includes details of the expenditures and revenues, but only in the stage in which the detailed proposals are definitive.
(ii)	C	There are some procedures for the examination of the budget by the Legislative Branch, but they are not comprehensive and are only partially complied.
(iii)	A	The Legislative Branch has at least two months to examine the budget proposals.
(iv)	B	There are clear rules regarding in-year budget amendments by the Executive Branch that are usually respected, though they allow for wide administrative reallocations.

Score B. The rules for in-year budget amendments are clearly established by law and are respected, though they allow for wide administrative reallocations.

The lack of a formal technical structure for the development of responsibilities, grounded in professional resources and technical tools, has significantly influenced

the performance of this indicator. With the support of the Netherlands Institute, currently there are reform projects for the Organic Budget Law and the Organic Law of Congress.

ID-28. Legislative scrutiny of external audit reports

This indicator evaluates the effectiveness of the fiscalizing function of Congress on the management of the Executive Branch based on analysis and information concerning management provided by the CGO.

two months, that is, by May 30 of each year. In accordance with its attributions, Congress approves or disapproves, all or in part, the details and justification of all the public finance revenues and expenditures.

Although the CGO presents the annual report to Congress in accordance with the terms established by law, the legislature does not make a formal pronouncement on the budget execution included in the reports.

The Commission of Public Finance and Currency constitute the “technical arm” of Congress, who is in charge of the examination of the CGO reports. However, because the legal framework does not define the procedures and timeliness of the evaluation, it takes around three months even if a technical evaluation already is in place. Subsequently, a policy review is performed without a time estimate for the reviews. For example, the last approved liquidation was that corresponding to fiscal year 2003. For the subsequent years from 2004 to 2007, the liquidation was not approved and there were no decision to support the technical analysis conducted by the Commission. The liquidation for 2008 is still undergoing technical analysis, which was presented in August 2009.

i) Timeliness of examination of audit reports by the legislature

The reference period for the analysis of this dimension concerns the audit reports presented to Congress for the last three fiscal years (2006, 2007, and 2008).

The rules establish the available time and deadlines to present the accountability report to Congress, but the same cannot be said for the approval of the budget liquidation.

The Constitution establishes that the Executive Branch must annually present to Congress an accountability report of the State. Each minister must formulate the annual budget liquidation report and submit it for consideration by the CGO within the first three months of each year, no later than March 30. Once the reports are received, the CGO reports to Congress through a decision issued within

Score D. In the last three years, the Legislative Branch has not made pronouncements on the CGO reports on budget liquidation.

ii) Extent of hearings on key findings undertaken by the legislature

The reference period for the analysis of this dimension concerns the management of the two months previous to the assessment (2008 and 2009).

Congress summons the Comptroller General at the initiative of the deputies to approach diverse themes that are not necessarily derived from the reports issued by the CGO. With regard to the reports, the focus is on whether the CGO has effectively complied with the actions that establish the rules for important or irregular findings. The Commission of Finance meets periodically with the CGO to follow up on the imposed

sanctions. Through a specific summoning of officials representing the entities that report significant findings, clarifications are requested on the identified findings. If the clarifications are weak, they can conduct an interpellation. Similarly, through a summoning of the Commission, the officials of the entities involved in the findings must respond to the charges established by the CGO.

The technical scope of the examination realized by the Commission of Finance is not based on formally established procedures. The procedures are only applied at the discretion of its members. Thus, calls for hearings are optional for the Commission and Congress (for interpellations).

Score C. Hearings are conducted occasionally with representatives of the entities that report significant findings.

iii) Issuance of recommended actions by the legislature and implementation by the executive

The reference period for the analysis of this dimension concerns the management of the twelve months previous to the assessment (2008 and 2009). In accordance with Article 241 of the Constitution, Congress approves or disapproves the annual budget liquidation based on the CGO report and decision. In the event of disapproval,

Congress must ask for the reports and pertinent explanations, and if the causes are punishable, it will report to the Office of the Public Prosecutor.

As a result of the evaluation process realized by Congress, a Legislative Accord is issued, in which the entities whose budget execution is approved or disapproved are identified. However, as mentioned for the previous dimensions, there is no documentary evidence of the work performed.

Score D. Congress does not formulate recommendations.

Indicator	Score	Justification
ID-28	D+	Scoring method M1
<i>(i)</i>	D	The Legislative Branch does not conduct an examination of the audit reports or it is delayed more than 12 months to complete.
<i>(ii)</i>	C	In-depth hearings on the principal conclusions are conducted occasionally. These hearings consist of only some audited entities, or at times, they are conducted only with MINFIN officials.
<i>(iii)</i>	D	The Legislative Branch does not formulate recommendations.

With the support of the Netherlands Institute, a privileged motion (Agreement between the Commission of Public Finance and Currency and the Commission of Probity) has been prepared. The motion proposes to delegate the attribution concerning annual evaluations of fiscalization of the budget execution to the Commission of Probity in order to support a culture of transparency. The

transfer of responsibilities stems from the fact that the Commission of Public Finance participating in the scrutiny process of the Budget Bill, a circumstance which implies a conflict in making pronouncements on its execution. This change will allow for the independence of tasks for the analysis of the budget formulation and of that related to audit of the execution.

3.7. Donor practices

D-1. Predictability of direct budget support

This indicator evaluates the extent to which the use of procedures of direct budgetary support is preferred in donor management and the extent to which donor practices have been adequate to ensure predictability in the availability of funds by the government. The reference period for the analysis of this indicator concerns the last three completed fiscal years (2006, 2007, and 2008).

i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six months prior to the government submitting its budget proposals to the legislature
Direct budgetary support consists of all aid provided to the National Treasury in support of the overall public budget and for specific sectors, which include resources originating in donations and loans.

For resources coming from loans, estimations of the disbursements are agreed upon at the time

of negotiation and are reviewed annually based on execution. This is not the case for resources coming from donations, except in cases such as the Spanish Agency of International Development Cooperation (AECID), which starting in 2007, has sent letters of commitment to executing units so that they include the funds in their budget bills.

Based on available information and schedules agreed with the donors, the Ministry of Public Finance produces projections for the following fiscal year. Table 3.D1.1 details the budgeted and executed values for the last three years.

Reasons for the deviations consist of delays in the signing of agreements and accords, delays in the adoption of agreed measures with the government, and delays in the execution of projects and in the compliances of agreed goals.

Table 3.D1.1 Amounts of direct budget support (millions of Quetzals)

Donor	2006			2007			2008		
	Budg.	Disb.	Var.	Budg.	Disb.	Var.	Budg.	Disb.	Var.
Central American Bank for Economic Integration	1622.0	1521.1	-6.22%	1622.0	1538.2	-5.17%	0.0	0.0	
Inter-American Development Bank	243.3	455.8	87.34%	243.3	1079.4	343.65%	772.0	753.4	-2.41%
World Bank	811.0	463.4	-42.86%	808.7	771.7	-4.58%	772.0	744.4	-3.58%
TOTAL	2676.3	2440.3	-8.82%	2674.0	3389.3	26.75%	1544.0	1497.8	-2.99%

Source: Directorate of Public Credit of MINFIN
Nota: Budg. = Budgeted funds; Disb. = Disbursed amount; Var. = Difference between disbursed and budgeted funds as a proportion of budgeted funds

For the period analyzed, in six of the nine cases, disbursements were less than that planned, of which only three cases were less than 5% than the expected amount. In two of the cases, disbursements were significantly higher than that

expected. Upon analyzing the overall budgetary assistance, in only one of the three years were disbursements less than 5% of the budgeted amount, and in one of the years, they were higher.

Score A. Direct overall budgetary support provided by international donors was less than 5% of the budgeted amount in only one of the last three years.

ii) In-year timeliness of donor disbursements

Based on schedules agreed with the donors generally for the annual amounts and without being disaggregated quarterly, the Ministry of Public Finance produces projections for the following fiscal year. The date on which the disbursements are to be made

is not determined beforehand, but is decided when conditions for the disbursement have been satisfied (approval, previous conditions, etc.). Even though disbursements are made, they are not predictable with the anticipation required by the PEFA standard and it cannot be determined with they are made as planned.

Score N/S. The dimension cannot be scored because there is no agreement with the donors on disbursement plans with established dates or quarterly disbursement estimations.

Indicator	Score	Justification
D-1	N/S	Scoring method M1
(i)	A	Direct budgetary support has been less than 5% of the budget amount in no more than one of the last three years.
(ii)	N/S	Cannot be scored.

D-2. Financial information provided by donors for budgeting and reporting on project and program aid

The reference period for the analysis of this indicator concerns the last completed fiscal year (2008).

depending on the destination of the aid – Budget Support or Projects, and the form of execution.

It should be noted that, among the principal donors, the Government of Spain and the European Community utilize centralized and decentralized modalities for the management of funds.

In the centralized modality, international aid agencies are the ones that manage the funds, that is, they are not delivered to the government. In the case of Spain, funds do not enter the budget system, but form part of the bilateral assistance agreement. Products from the aid are delivered to the government for registry in the corresponding accounts of the central government or subnational accounts, regardless of whether they are budgeted or not. In the decentralized modality, funds may or may not be delivered to the government,

- a. In the case of AECID: For Budget Support, AECID delivers funds, normally sectoral, to the government through the “Common Fund” (defined in footnote 24 of this document). Objectives of the program and indicators are established. The disbursements are annual and are dependent on the expected levels that the indicators achieve.
- b. For Specific Programs: AECID delivers funds to the government in special accounts at BANGUAT outside of the “Common Fund” and later are transferred to the expenditure fund of the executing unit. The resources are executed and the expenditures are subsequently registered in SICOIN. The disbursements are

- realized prior to the accountability process.
- c. Execution through Spanish NGOs that execute assistance programs with funds received from the Government of Spain. They form part of the bilateral cooperation agreement but they are not budgetary and are not executed by AECID. Normally, they are destined to programs in the subnational sector.
- d. Execution through multilaterals: Spain delivers funds to multilateral organizations for the development of projects administered by them. Though these funds form part of the bilateral cooperation agreement, they are not part of the funds executed by AECID.

In the European Community, the funds are delivered to the government in the special account at BANGUAT outside of the “Common Fund” and are later transferred to the expenditure account of the executing unit. The resources are executed and the expenditures are subsequently registered in SICOIN. The disbursements are realized prior to the accountability process.

In both centralized and decentralized cases, there may or may not be a government counterpart. Table 3.D2.1 shows the principal donors with their total amount of aid for 2007 through 2009.

Table 3.D2.1 Use of national procedures in aid for the government

Use of National Procedures - (in millions of Quetzals)					
Donor	Budgetary support		Donations and projects		Total Aid
	Disbursed	Nat. Proced.	Desemb.	Nat. Proced.	
Year 2006					
Central American Bank for Economic Integration	1,521.1	yes	224.0	NO	1,745.1
Inter-American Development Bank	455.8	yes	555.1	NO	1,010.9
World Bank	463.4	yes	767.2	NO	1,230.7
European Economic Community	0.0		157.3	NO	157.3
Government of Spain	0.0		60.8	NO	60.8
Government of Holland	0.0		8.0	NO	8.0
Government of Canada	0.0		0.1	NO	0.1
Kreditanstalt Fur Wiederaufbau (KfW)	0.0		58.1	NO	58.1
Others	0.0		322.1	NO	322.1
TOTAL	2,440.3		2,152.7		4,593.0
Proportion of Aid Administered through National Procedures					53.13%
Year 2007					
Central American Bank for Economic Integration	1,538.2	yes	357.0	NO	1,895.2
Inter-American Development Bank	1,079.4	yes	589.9	NO	1,669.2
World Bank	771.7	yes	284.7	NO	1,056.4
European Economic Community	0.0		146.0	NO	146.0
Government of Spain	0.0		70.2	NO	70.2
Government of Holland	0.0		5.9	NO	5.9
Government of Canada	0.0		0.1	NO	0.1
Kreditanstalt Fur Wiederaufbau (KfW)	0.0		33.1	NO	33.1
Others	0.0		210.7	NO	210.7
TOTAL	3,389.3		1,697.5		5,086.8
Proportion of Aid Administered through National Procedures					66.63%
Year 2008					
Central American Bank for Economic Integration	0.0		208.6	NO	208.6
Inter-American Development Bank	753.4	SI	330.0	NO	1,083.4
World Bank	744.4	SI	250.8	NO	995.2
European Economic Community	0.0		176.4	NO	176.4
Government of Spain	0.0		50.3	NO	50.3
Government of Holland	0.0		33.4	NO	33.4
Government of Canada	0.0		28.6	NO	28.6
Kreditanstalt Fur Wiederaufbau (KfW)	0.0		17.0	NO	17.0
Others	0.0		91.3	NO	91.3
TOTAL	1,497.8		1,186.5		2,684.3
Proportion of Aid Administered through National Procedures					55.80%

i) Completeness and timeliness of budget estimates by donors for project support

In general, programs are negotiated with the executing entities and not with the Ministry of Public Finance. As part of the negotiation, an agreement is reached regarding a disbursement and execution plan, which forms part of the bilateral cooperation agreement and serves as the basis during the execution program.

Support for projects includes resources coming from both donations and loans. The resources from loans and the timeliness of the disbursements are negotiated when the agreement is signed, and reviewed and adjusted annually according to their execution. Information is provided so that it can be included in the draft budget.

For resources coming from donations, there are no budget estimates of the aid disbursements for projects, at least three months beforehand, except for what was mentioned above for AECID. Budget estimates are realized by the executing units based on the budgets of the previous fiscal years at the level of project execution and according to the terms included in the agreements. In the cost estimates, the donors normally utilize a classification by items or project components, which differs from the budget classification of the government.

For example, in the assistance program for the Ministry of Education signed with the Government of Canada, disbursement conditions, supervision conditions, and formal monitoring are not stated. Only the destination of the funds is established (bilingual education).

Score C. At least half of the donors, which include the five principal donors (see Table 3.D2.1), provide timely budgetary estimates of disbursements for their projects. The breakdown of proposed expenditures by the donors is not necessarily consistent with the budget classification of the government.

ii) Frequency and coverage of reporting by donors on actual donor flows for project support

The available reports are prepared by the executing unit and not by the donors, usually monthly. In these reports, the status of physical and financial progress of the program is reported.

For all entities of the government, the Annual Budget Bill for 2008 and 2009 made it obligatory to present to the Directorate of Public Credit a physical and financial progress report of programs and projects executed with resources from external donor aid, regardless of whether they are reimbursable or not.

Score D. Donors do not present quarterly reports on executed disbursements.

Indicator	Score	Justification
D-2	D+	Scoring method M1
(i)	C	At least half of the donors (including the five most important) provide complete budgetary estimates of the aid disbursements for projects for the following fiscal year at least three months before the fiscal year starts. In the estimates, the classifications of the donors can be used, which may not be consistent with the budget classification of the government.
(ii)	D	Donors do not present quarterly reports within two months of completion of each quarter on all executed disbursements with respect to at least 50% of all budgetary estimates for projects with external financing.

D-3. Proportion of aid that is managed by use of national procedures

The reference period for the analysis of this indicator focuses on the last completed fiscal year (2008).

i) Overall proportion of aid funds to central government that are managed through national procedures

Funds provided by the donors for direct budget support are always administered through national systems. Regarding funds to support programs and projects with resources from loans, they are generally not administered according to national procedures. In the case of resources from donations, the use of national systems is optional. Funds to support programs with either loans or donations do not actually utilize the national system of external control (external audit). Such services are realized by a third party, an independent auditing firm. Table 3.D2.1 details the total aid provided by the donors in the last three years and the

proportion administered through national systems.

For funds executed through the decentralized modality, usually national procedures are applied through SICOIN and complemented with financial systems required by the donors. In all cases, annual audits are conducted by independent auditing firms.

Decentralized execution through multilaterals and NGOs generally use the procedures of the executing entity, which may or may not be attached to national procedures.

In the case of AECID, funds do not enter the “Common Fund” in the centralized modality. Such funds are executed through SICOIN. The “Administrative and Monitoring Procedures Manual” does not counter the state procedures, but rather clarifies the executor-AECID relationship.

Score C. From 2006 to 2008, more than 50% of the aid was executed by national procedures (Table 3.D3.1).

Indicator	Score	Justification
D-3	C	Scoring method M1
<i>(i)</i>	C	At least 50% of the aid funds for the central government are administered according to national procedures.

4. Reform process of the public sector

4.1. Description of recent and ongoing reform measurements

During the last ten years, Guatemala has carried forward reform and modernization processes in the public finance management, which have contributed to greater transparency and better use of financial resources.

Among the principal advancements, the development and implementation of the Integrated Financial Management System (SIAF) can be highlighted, through which the formulation, registry, and execution of the budgetary resources are monitored and managed. The purchasing and contracting system (GUATECOMPRAS) has allowed for greater transparency in the processes of purchasing and procurement in the public sector. Under this same principle, the government has expanded coverage of both systems at the municipal level, enabling financial statistics in the SPNF in a consolidated manner.

Since then, the State of Guatemala has achieved notable progress that has contributed to improved performance at the institutional level through the gradual implementation of technological tools and a series of modifications to the regulatory framework that governs public finance management. Despite these advances, progress has not been as significant in all sectors.

Diagnosis of the financial management (CFAA/CPAR) realized in 2005 showed the first indices of the general state of the public finance management system.

Among the positive aspects identified in the report, which was subsequently updated in 2007, the following can be highlighted: the capacity of the government in the budget planning and execution processes, timely presentation of fiscal reports to Congress, and the implementation of SIAF and SICOIN, which have contributed to the production of timely information on the majority of the government finances.

Moreover, the principal recommendations for

improvements, gathered into a recommended plan of action, focused on the following: strengthening of the budget system regarding commitment registry and execution controls; improvements in the control of arrears and fiscal reports; strengthening of the state procurement and contracting system (GUATECOMPRAS) through the gradual expansion of the governmental purchasing tool online; strengthening of the budget planning capacity through multi-year planning; and strengthening of external controls and institutional capacity of the General Accounting Office.

Of the aspects outlined in the Mid-Term Budget Framework (MPMP in Spanish), the process of “results-based multi-year planning,” initiated in 2003, was strengthened by achieving a stronger link between budget planning and sectoral policies, including an exhaustive estimate of the costs. Some of the more relevant developments in the last two years in the legal and institutional framework include:

- The creation of the Vice Ministry of Fiscal Transparency and Evaluation through a restructuring of the Ministry of Public Finance.
- The approval in January 2009 of the Procedures Manual for the registry of non-reimbursable resources through which a unique donations account was created in order to exercise better control over public resources executed through trusts or international organizations.
- The regulation of financial execution through trusts by issuing the Manual for Execution through Trusts and the regulatory framework included in the Budget Bill for 2009.
- Coverage extension of SIAF, which currently functions through a web-based technology and operates in all the

- agencies of the central government as well as in the majority of the decentralized entities, covering about 300 agencies.
- There are new financial administration procedures that have been implemented in all municipalities. This new framework for financial management and accountability is called SIAF MUNI. A tool for municipal financial management is under development - SIAF GL, or SIAF Local Government – which is currently implemented in 89 municipalities.
 - The electronic procurement system GUATECOMPRAS is operational in all agencies of the central government and is being expanded to decentralized entities and municipalities. Though the application does not allow for online transactions, such as electronic bidding and purchasing, the system has enabled greater access to information related to procurement in the public sector of Guatemala.

Transparency and struggle against corruption

In the last few years, the public sector has oriented its efforts to improving transparency and accountability. The current administration implemented a plan of action based on three main strategic fiscal policy axes (First Report on the Fiscal Policy in Guatemala. MINFIN, 2008, page 2): (i) access to public information; (ii) regulatory framework for fiscal and financial transparency; and (iii) formation and training in fiscal and budgetary transparency. The second axis proposes “to increase transparency in public spending, contributing to an improved accountability process and reducing the likelihood of inefficiency and corruption.” Consequently, the institutional framework of the Executive Branch was modified and the Commission on Transparency was created in the Vice Presidency

of the Republic (March 2008) and the Vice Ministry of Fiscal Transparency and Evaluation was created in the Ministry of Public Finance (December 2008)¹⁵⁵. This Vice Ministry is in charge of the implementation of the aforementioned plan of action.

The aforementioned advances, together with the promotion of spaces such as the web portal for citizen consultations, SICOIN-Web, and the web portal for fiscal and municipal transparency, have contributed to the improved perception on transparency and the struggle against corruption in the Guatemalan public sector. An important milestone is the approval and regulation of the Information Access Law (Congress of the Republic. Decree 57, 2008), which went into effect in April 2009.

Approval of the Information Access Law represents an important step to make the use of public resources more transparent. Noteworthy is that the law calls for the creation of Information Access Units (UAI in Spanish) within each public institution and the periodic publication of trade information, effective April 2009.

The corruption perceptions index (CPI) for 2008 reflects a significant improvement in the ranking of Guatemala at 96th place, up from the 111th place in 2006, which grouped Guatemala with countries that have widespread corruption. Moreover, with the Latin American budgetary transparency index of 2007, Guatemala scored 50 points, an improvement from 43 points in 2005, and reaching the same level as Mexico while surpassing Bolivia, Ecuador, Nicaragua, Colombia, and Venezuela.

However, despite progress in anticorruption laws and regulations, there are still significant challenges concerning governance and anticorruption in the public sector, where corrupt practices persist that affect the management of public services¹⁵⁶.

¹⁵⁵ This is an important strength that MINFIN implemented concerning administration of trusts with public resources, and thus, fiscal transparency and evaluation. The Directorate of Trusts is in the process of implementing systems that will evaluate and follow up on execution through trusts.

¹⁵⁶ “The Regional Challenge of the Struggle against Corruption,” offprint Chapter Eight, Guatemala, Transparency International, October 2008. Table 8.3 experiences of corruption in public services.

Chart 4.1.1 Recent anti-corruption laws and regulations

Dimension	Comment
1) Access to information	Accord 645/ 2005 on rules to access public information in the Judicial Branch and dependencies. Promulgation of the Information Access Law 57-2008 (*)
2) Public function	Law 89/2002 of Probity and Responsibility of Public Officials. Government Accord 197/2004 on ethical standards for the organization
3) Watchdogs	Organic Law 31/2002 of the Comptroller General's Office Resolution 007/2002 creates the Commission on Combating Corruption in the Justice Sector Accords 469/20002 and 27/2003 create the National Commission for Transparency and Against Corruption
4) Money laundering and tax evasion	Law 19/2002 of Banks and Financial Groups Law 18/2002 of Financial Supervision Accord 40/2006 creates the unit specialized against criminal organizations dedicated to drug trafficking and/or money laundering or other assets and crimes against tax order (UNILAT)
5) Public contracting	Accords 80/2004 and 664/2005 reform the Regulation of the Law of State Contracting and create the system "GUATECOMPRAS" General Budget Bill of State Revenues and Expenditures 92/2005 regulates the use of GUATECOMPRAS
6) Financing of parties and campaigns	Law 10/2004, Electoral and Party Policies (private financing is regulated). Accord 19/2007 of the Supreme Electoral Tribunal, Regulation on Control and Fiscalization of Political Party Financing
(*) Originally not included in the report Source: Information obtained from "The Regional Challenge of the Struggle against Corruption," offprint Chapter Eight, Guatemala, Transparency International, October 2008	

4.2. Institutional factors that support planning and application of reforms

The modernization process of the public sector and financial management reform in Guatemala started in the mid-1990s, as one of the four principal axes of the Peace Accords signed in 1996. Goals were set to improve public finance management and increase public revenues for the purposes of eventually achieving greater allocation of expenditure to social sectors. Progress in the development of financial management tools has been supported by the successive administrations of the country. The project has successfully set up the tools developed as the backbone of financial execution, comprised of a regional case study of lessons in implementation. The regulatory framework has accompanied the efforts of the Government of Guatemala to control and make transparent the use of public resources. The objectives declared for future reform processes in public finance management include results-based management, strengthening the control framework for public resource management, expansion of and

strengthening the use of budgetary frameworks in the medium term, and coordination and linking of the sectoral and financial strategic planning. In order to consolidate it as an effective tool of public resource management, this process must assimilate and consolidate best practices of execution and standards within the government agencies that complement and consolidate the efforts realized by the governing bodies of the system. In this phase, leadership from MINFIN is necessary in governing the use of public resources. However, in order to succeed, the participation and leadership of budget executing agencies are required to assimilate best practices and standards as well as conduct public resource management at a higher level of efficiency. In this context, the PEFA assessment process provides the opportunity to contribute to the identification and prioritization of strategic guidelines for the continuation of the improvement process in public resource management in Guatemala.

Annex 1. Indicator data

Annex A1.1 2006 fiscal year budget execution – Primary expenditure

		Data for 2006				
Institution	Voted	Budget		Difference	Absolute value of the difference	Percentage %
		Accrued				
Ministry of Education	5,217,410,830	4,920,843,297	(296,567,533)	296,567,533	5.68%	
Ministry of Communications, Infrastructure and Housing	3,458,139,268	3,999,958,907	541,819,639	541,819,639	15.67%	
Public Debt Services (amortization)	2,961,638,138	2,732,244,592	(229,393,546)	229,393,546	7.75%	
Secretariats and Other Dependencies of the Executive	2,464,558,027	2,186,004,277	(278,553,750)	278,553,750	11.30%	
Ministry of Public Health and Social Assistance	2,076,981,295	2,236,441,606	159,460,311	159,460,311	7.68%	
Ministry of Governance	2,001,190,854	1,675,956,090	(325,234,764)	325,234,764	16.25%	
Judicial Branch	1,437,796,448	1,467,030,560	29,234,112	29,234,112	2.03%	
Ministry of Agriculture, Livestock, and Foods	1,305,241,395	1,550,377,573	245,136,178	245,136,178	18.78%	
Ministry of National Defense	1,110,891,670	992,547,295	(118,344,375)	118,344,375	10.65%	
Legislative Assembly	329,620,000	335,085,250	5,465,250	5,465,250	1.66%	
Ministry of Culture and Sports	264,716,438	251,730,190	(12,986,248)	12,986,248	4.91%	
Ministry of Public Finance	240,369,690	217,869,126	(22,500,564)	22,500,564	9.36%	
Ministry of Foreign Affairs	236,521,728	223,115,055	(13,406,673)	13,406,673	5.67%	
Ministry of Economy	212,302,128	172,193,765	(40,108,363)	40,108,363	18.89%	
Comptroller General's Office (*)	156,192,018	157,298,796	1,106,778	1,106,778	0.71%	
Presidency of the Republic	135,321,624	128,624,966	(6,696,658)	6,696,658	4.95%	
Ministry of Labor and Social Security	68,517,311	62,336,478	(6,180,833)	6,180,833	9.02%	
Ministry of Energy and Mines	47,047,843	35,906,918	(11,140,926)	11,140,926	23.68%	
Ministry of Environment and Natural Resources	40,589,492	43,209,922	2,620,430	2,620,430	6.46%	
Attorney General's Office	36,742,309	34,799,316	(1,942,993)	1,942,993	5.29%	
Remaining institutions		10,215,316,179	9,847,624,642	(367,691,537)	367,691,537	3.60%
Total expenditure	34,017,104,685	33,271,198,620	(745,906,065)	745,906,065	2.19%	
Composition of the variance	34,017,104,685	33,271,198,620		2,715,591,462	7.98%	

Annex A1.2 2007 fiscal year budget execution – Primary expenditure

Data for 2007						
Institution	Budget			Absolute value of the difference	Percentage %	
	Voted	Accrued	Difference			
Ministry of Education	5,217,410,830	5,415,556,110	198,145,280	198,145,280	3.80%	
Ministry of Communications, Infrastructure and Housing	3,458,139,268	5,038,162,498	1,580,023,230	1,580,023,230	45.69%	
Public Debt Services (amortization)	2,961,638,138	2,166,014,979	(795,623,159)	795,623,159	26.86%	
Secretariats and Other Dependencies of the Executive	2,464,558,027	2,055,355,792	(409,202,235)	409,202,235	16.60%	
Ministry of Public Health and Social Assistance	2,076,981,295	2,547,700,780	470,719,485	470,719,485	22.66%	
Ministry of Governance	2,001,190,854	1,756,371,680	(244,819,174)	244,819,174	12.23%	
Judicial Branch	1,437,796,448	1,754,147,717	316,351,269	316,351,269	22.00%	
Ministry of Agriculture, Livestock, and Foods	1,305,241,395	1,405,439,135	100,197,740	100,197,740	7.68%	
Ministry of National Defense	1,110,891,670	1,043,038,204	(67,853,466)	67,853,466	6.11%	
Legislative Assembly	329,620,000	378,182,156	48,562,156	48,562,156	14.73%	
Ministry of Culture and Sports	264,716,438	277,755,740	13,039,302	13,039,302	4.93%	
Ministry of Public Finance	240,369,690	236,923,190	(3,446,500)	3,446,500	1.43%	
Ministry of Foreign Affairs	236,521,728	263,925,115	27,403,387	27,403,387	11.59%	
Ministry of Economy	212,302,128	193,506,667	(18,795,461)	18,795,461	8.85%	
Comptroller General's Office ^(*)	156,192,018	198,367,375	42,175,357	42,175,357	27.00%	
Presidency of the Republic	135,321,624	143,337,298	8,015,674	8,015,674	5.92%	
Ministry of Labor and Social Security	68,517,311	108,090,609	39,573,298	39,573,298	57.76%	
Ministry of Energy and Mines	47,047,843	37,048,470	(9,999,373)	9,999,373	21.25%	
Ministry of Environment and Natural Resources	40,589,492	45,003,707	4,414,215	4,414,215	10.88%	
Attorney General's Office	36,742,309	40,268,952	3,526,643	3,526,643	9.60%	
Total expenditure	10,215,316,179	10,552,473,362	337,157,183	337,157,183	3.30%	
Composition of the variance	34,017,104,685	35,656,669,534	1,639,564,849	1,639,564,849	4.82%	
Composition of the variance	34,017,104,685	35,656,669,534	4,739,043,587	4,739,043,587	13.93%	

Annex A1.3 2008 fiscal year budget execution – Primary expenditure

Institution	Data for 2008			Difference	Absolute value of the difference	Percentage %
	Voted	Accrued	Budget			
Ministry of Education	6,500,046,382	5,792,571,189	(707,475,193)	707,475,193	10.88%	
Ministry of Communications, Infrastructure and Housing	3,000,071,103	4,248,259,290	1,248,188,187	1,248,188,187	41.61%	
Public Debt Services (amortization)	2,386,229,346	1,969,112,436	(417,116,910)	417,116,910	17.48%	
Secretariats and Other Dependencies of the Executive	2,020,257,051	2,345,842,047	325,584,996	325,584,996	16.12%	
Ministry of Public Health and Social Assistance	3,000,031,879	2,684,541,535	(315,490,344)	315,490,344	10.52%	
Ministry of Governance	2,610,249,904	2,323,588,199	(286,661,705)	286,661,705	10.98%	
Judicial Branch	1,973,611,732	2,208,728,810	235,117,078	235,117,078	11.91%	
Ministry of Agriculture, Livestock, and Foods	1,230,513,485	1,149,831,750	(80,681,735)	80,681,735	6.56%	
Ministry of National Defense	1,265,303,130	1,258,702,730	(6,600,400)	6,600,400	0.52%	
Legislative Assembly	403,785,650	412,535,055	8,749,405	8,749,405	2.17%	
Ministry of Culture and Sports	331,454,375	269,910,026	(61,544,349)	61,544,349	18.57%	
Ministry of Public Finance	227,366,000	227,688,533	322,533	322,533	0.14%	
Ministry of Foreign Affairs	250,427,473	279,276,522	28,849,049	28,849,049	11.52%	
Ministry of Economy	229,849,074	339,711,851	109,862,777	109,862,777	47.80%	
Comptroller General's Office ^(*)						
Presidency of the Republic	163,821,624	168,228,647	4,407,023	4,407,023	2.69%	
Ministry of Labor and Social Security	351,570,786	261,115,898	(90,454,888)	90,454,888	25.73%	
Ministry of Energy and Mines	45,992,295	46,653,915	661,620	661,620	1.44%	
Ministry of Environment and Natural Resources	41,432,118	50,455,333	9,023,215	9,023,215	21.78%	
Attorney General's Office	47,053,536	42,487,733	(4,565,803)	4,565,803	9.70%	
Total expenditure	12,216,786,584	12,219,341,669	2,555,085	2,555,085	0.02%	
	38,295,853,527	38,298,583,166	2,729,639	2,729,639	0.01%	
Composition of the variance	38,295,853,527	38,298,583,166		3,943,912,296	10.30%	

Annex A1.4 Budgeted and collected internal revenue for 2006

Type of revenue	Year 2006		
	Voted	Executed	Compliance
TOTAL REVENUES	37,703,952,843	37,412,342,888	99%
Internal revenue	28,304,395,439	29,214,818,713	103%
Current Revenues	28,265,138,744	29,158,918,788	103%
Tax revenue Includes: direct taxes and indirect taxes	25,834,690,000	27,238,115,392	105%
Contributions to social security and provision. Includes: Contributions of workers to pensions and employer's contribution to pension funds	579,771,308	585,093,860	101%
Non-tax revenue. Includes: Duties; Rates; Leasing of buildings, equipment and installations; Fines; Default interest; and other non-tax income	309,337,707	356,966,221	115%
Sale of public administration goods and services	258,943,574	252,104,068	97%
Property income. Includes: Default interest; Dividends and/or utilities; Leasing of land and properties; and Duties on intangible goods	124,424,311	356,541,167	287%
Current transfers. Includes: Private sector donations; Foreign government donations; and Donations from International bodies and institutions	1,157,971,844	370,068,079	32%
Other Revenues	39,256,695	55,899,925	142%
Revenue originating from Internal or External Financing	9,399,557,404	8,197,524,176	87%

Source: General Budget Bill of State Revenues and Expenditures for fiscal year 2006 (Congress of the Republic, Decree 92, 2005);
Liquidation Report on the Budget of State Revenues and Expenditures, fiscal year 2006 (MINFIN.DCE, 2007)

Annex A1.5 Budgeted and collected internal revenue for 2007

Type of revenue	Year 2007		
	Voted	Executed	Compliance
TOTAL REVENUES	37,703,952,843	41,315,456,041	110%
Internal revenue	28,304,395,439	33,583,671,888	119%
Current Revenues	28,265,138,744	33,570,629,862	119%
Tax revenue Includes: direct taxes and indirect taxes	25,834,690,000	31,543,333,559	122%
Contributions to social security and provision. Includes: Contributions of workers to pensions and employer's contribution to pension funds	579,771,308	658,626,722	114%
Non-tax revenue. Includes: Duties; Rates; Leasing of buildings, equipment and installations; Fines; Default interest; and other non-tax income	309,337,707	391,815,656	127%
Sale of public administration goods and services	258,943,574	281,634,582	109%
Property income. Includes: Default interest; Dividends and/or utilities; Leasing of land and properties; and Duties on intangible goods	124,424,311	270,075,605	217%
Current transfers. Includes: Private sector donations; Foreign government donations; and Donations from International bodies and institutions	1,157,971,844	425,143,739	37%
Other Revenues	39,256,695	13,042,026	33%
Revenue originating from Internal or External Financing	9,399,557,404	7,731,784,154	82%

Source: General Budget Bill of State Revenues and Expenditures for fiscal year 2006 (Congress of the Republic, Decree 92, 2005);
Liquidation Report on the Budget of State Revenues and Expenditures, fiscal year 2007 (MINFIN.DCE, 2008)

Annex A1.6 Budgeted and collected internal revenue for 2008

Type of revenue	Year 2008		Compliance
	Voted	Executed	
TOTAL REVENUES	42,535,455,246	40,328,483,475	95%
Internal revenue	35,528,430,780	35,547,020,035	100%
Current Revenues	35,497,320,780	35,519,490,554	100%
Tax revenue Includes: direct taxes and indirect taxes	33,083,200,000	33,358,147,535	101%
Contributions to social security and provision. Includes: Contributions of workers to pensions and employer's contribution to pension funds	644,449,000	746,506,000	116%
Non-tax revenue. Includes: Duties; Rates; Leasing of buildings, equipment and installations; Fines; Default interest; and other non-tax income	411,594,598	403,460,129	98%
Sale of public administration goods and services	238,741,402	360,354,509	151%
Property income. Includes: Default interest; Dividends and/or utilities; Leasing of land and properties; and Duties on intangible goods	187,921,908	185,068,555	98%
Current transfers. Includes: Private sector donations; Foreign government donations; and Donations from International bodies and institutions	931,413,872	465,953,826	50%
Other Revenues	31,110,000	27,529,481	88%
Revenue originating from Internal or External Financing	7,007,024,466	4,781,463,441	68%

Source: General Budget Bill of State Revenues and Expenditures for fiscal year 2008 (Congress of the Republic, Decree 70, 2007);

Liquidation Report on the Budget of State Revenues and Expenditures, fiscal year 2008 (MINFIN.DCE, 2009)

Annex A1.7 Public servers under the regime of the Civil Service Law

Items 011 and 022 as of January 30, 2009
By ministry, secretariats and other dependencies of the Executive Branch

MINISTRY	TOTAL	BUDGET ITEM	
		011	022
TOTAL	218,584	208,877	9,707
Presidency	1	1	0
Vice Presidency	79	71	8
Foreign Relations	562	562	0
Governance	30,280	29,777	503
Public Finance	1,463	856	607
Education	153,600	147,479	6,121
Public Health	20,738	20,419	319
Labor and Social Provision	753	699	54
Economy	430	371	59
Agriculture	745	570	175
Communications	3,846	3,604	242
Energy and Mines	344	335	9
Culture and Sports	1,272	983	289
Environment	219	151	68
Secretariats and other Dependencies	3,894	2,822	1,072
Attorney General's Office	358	177	181

Notes: This table does not include posts budgeted in Line 021 "Supernumerary Personnel" 53,263 as of January 2009.
 011 Permanent Personnel, 022 Contract Personnel. It does include full-time and part-time posts.

Source: Analytic Budget of Salaries of the Technical Directorate for Budgeting and the archives of the Department of Administration of Posts, Remunerations, and Administrative Audits of ONSEC.

Decentralized entities

ENTITY	TOTAL	LINE	
		011	022
TOTAL	2,549	2,362	187
National Council for the Protection of Antigua (CNPAG in Spanish)	145	141	4
Comptroller General's Office *	766	766	0
Volunteer Fire Corps (CVB in Spanish)	451	413	38
Railways of Guatemala (FEGUA in Spanish)	22	0	22
Inspector General of Cooperatives (INGECOP in Spanish)	153	153	0
Institute of Agricultural Science and Technology (ICTA in Spanish)	249	212	37
National Institute for Public Administration (INAP in Spanish)	73	62	11
National Institute of Cooperatives (INACOP in Spanish)	230	230	0
National Statistics Institute (INE in Spanish)	345	270	75
Free Industry and Commerce Zone (ZOLIC in Spanish)	115	115	0

Note:

Only the decentralized entities that ONSEC administers.

* The Comptroller General's Office created its own regimen. The last computation registered in ONSEC is shown.

Source: ONSEC

Annex A1.8 List of effective tax legislation

Number	Description	Publication Date
Decree 25-71 of the Congress of the Republic	Unified Tax Register and General Taxpayer Control Act	31-08-2006
Decree 58-90 of the Congress of the Republic	Law against Customs Fraud and Smuggling. Reform 2006. Consolidated text.	21-09-2006
Decree 6-91 of the Congress of the Republic	Tax Code. Reform 2006. Consolidated text.	04-08-2006
Decree 26-92 of the Congress of the Republic	Income Tax Law – ISR in Spanish-	18-05-2006
Government Accord 206-2004	Regulation of the Income Tax Law	28-10-2006
Decree 27-92 of the Congress of the Republic	Value Added Tax Law. Reform 2006. Consolidated text.	04-08-2006
Government Accord Number 424-2006	Regulation of the Value Added Tax Law	04-08-2006
Decree 37-92 of the Congress of the Republic	Tax Law on Revenue Stamps and Special Stamped Paper for Protocols	31-08-2006
Government Accord 737-92	Regulation of the Tax Law on Revenue Stamps and Special Stamped Paper for Protocols	31-08-2006
Decree 38-92 of the Congress of the Republic	Tax Law on the Distribution of Crude Oil and Petroleum Derived Fuels	03-06-2006
Government Accord 663-2005	Regulation of the Tax Law on the Distribution of Crude Oil and Petroleum Derived Fuels	03-06-2006
Decree 70-94 of the Congress of the Republic	Tax Law on Vehicle Circulation	28-10-2004

Number	Description	Publication Date
Decree 44-2000 of the Congress of the Republic	Law on the Abolition of Fiscal Privileges and Benefits on the Expansion of the Taxable Base and Tax Regularization	25-09-2006
Decree 79-2000 of the Congress of the Republic	Specific Tax Law on the Distribution of Cement	31-08-2006
Decree 09-2002 of the Congress of the Republic	Specific Tax Law on Distribution of Isotonic Soft Drinks or Sports Drinks, Juices and Nectars, Yogurt, Concentrated or Powdered Preparations for the Production of Packages Beverages and Natural Water	28-10-2004
Government Accord 120-2002	Regulation of the Specific Tax Law on Distribution of Isotonic Soft Drinks or Sports Drinks, Juices and Nectars, Yogurt, Concentrated or Powdered Preparations for the Production of Packages Beverages and Natural Water	28-10-2004
Decree 16-2003 of the Congress of the Republic	Reform to the Value Added Tax Law on Drug Exemption	28-10-2004
Decree 18-04 of the Congress of the Republic	Reforms to the Income Tax Law	28-10-2004
Decree 19-04 of the Congress of the Republic	Tax Law on Extraordinary and Temporary Support of the Peace Accords	08-01-2008
Decree 21-04 of the Congress of the Republic	Tax Law on the Distribution of Distilled Alcoholic Beverages, Beers, and Other Fermented Beverages	28-10-2004
Governmental Accord 205-2004	Regulation of the Tax Law on the Distribution of Distilled Alcoholic Beverages, Beers, and Other Fermented Beverages	28-10-2004
Decree 20-2006 of the Congress of the Republic	Legal Provisions for the Strengthening of the Tax Administration	04-08-2006
Presentation of Decree 20-2006 of the Congress of the Republic	Presentation of the Legal Provisions for the Strengthening of the Tax Administration	04-08-2006
Government Accord 425-2006	Regulation of the Legal Provisions for the Strengthening of the Tax Administration	04-08-2006

Number	Description	Publication Date
Principal Internal Tax	Summary table of the most important taxes and some of the fundraising bases	26-03-2007
Decree 80-2000 of the Congress of the Republic	Reforms to the Income Tax Law, Decree 26-92 of the Congress of the Republic and its Reforms	14-02-2008

Source: www.sat.gob.gt

- The following laws associated with procedures to impose sanctions also apply:
- Decree 119-96 of the Congress of the Republic. Administrative Litigation Law and its reforms;
 - Decree 2-89 of the Congress of the Republic. Judicial Body Law and its reforms.

Customs legislation is regulated principally by the Central American Uniform Customs Code (CAUCA) and the Regulation of the Central American Uniform Customs Code (RECAUCA), both of which were approved by the Council of Ministers of Economic Integration in April 2008 under the integration accords of Central America, coordinated by the Secretariat of Economic Integration of Central America (SIECA in Spanish) in conjunction with the customs administration of each country. This legal body regulates the customs operations through a set of operational procedures of the different customs regimes such as importations, exportations, customs transit, customs warehouse, and other suspension and temporary regimes. It should be noted, however, that CAUCA and RECAUCA do not establish a regime of sanctions for customs faults and offenses. A bill has been presented to the Congress of the Republic of Guatemala under the tax reforms promoted by the current administration.

Annex A1.9 Audit results of entities of the central government

Entities of the Central Administration Legal and Administrative Actions

Concept	2008		
	No.	%	Value in Quetzals
Sanctions	775	95	147,728,543.62
Pressing Charges	32	4	29,266,142.08
Criminal complaints	12	1	5,699,574.04
Total	819	100	182,694,259.74

Chart 1 de 11

Source: Comptroller General's Office

Charts extracted from "Executive Summary of the Audit Report for Budget Liquidation of State Revenues and Expenditures for Fiscal Year 2008
Summary of results- Entities of the Central Administration"

Entities of the Central Administration Corrective Actions Issued

Concept	2007		
	No.	%	Value in Quetzals
Sanctions	521	92	111,731,662.97
Pressing Charges	35	6	18,660,056.67
Criminal complaints	14	2	59,823,206.77
Total	570	100	190,214,926.41

Chart 2 de 11

Source: Comptroller General's Office

Charts extracted from "Executive Summary of the Audit Report for Budget Liquidation of State Revenues and Expenditures for Fiscal Year 2007
Summary of results- Entities of the Central Administration"

Annex A1.9 Audit Results of Central Administration Entities – Year 2008

No.	Entities	Number of Findings			Quantity and Value of Legal and Administrative Actions										Total	
		Internal Control	Compliance	Total	Sanctions		Pressing Charges		Complaints		Quantity	Value in Q.				
					Quantity	Value in Q.	Quant.	Val. in Q.	Quant.	Val. in Q.	Quantity	Value in Q.				
1	Presidency of the Republic															
1.2	Vice Presidency of the Republic	1	0	1	1	2,000.00	-	-	-	-	1	2,000.00				
1.3	Secretariat of Administrative Affairs and Security of the President	4	5	9	9	44,000.00	-	-	-	-	9	44,000.00				
2	MINISTRY OF FOREIGN AFFAIRS	1	2	3	3	44,742.18	-	-	-	-	3	44,742.18				
3	MINISTRY OF GOVERNANCE	16	21	37	37	3,823,600.04	-	-	-	-	37	3,823,600.04				
4	MINISTRY OF NATIONAL DEFENSE	1	9	10	10	156,289.15	-	-	-	-	10	156,289.15				
4.1	Presidential Guard	3	2	5	5	152,125.42	-	-	-	-	5	152,125.42				
5	MINISTRY OF PUBLIC FINANCE					-	-	-	-	-	-	-				
5.1	Financial Directorate	2	2	4	4	322,670.30	-	-	-	-	4	322,670.30				
5.2	Directorate of State Accounting	7	3	10	10	136,000.00	-	-	-	-	10	136,000.00				
5.3	Directorate of Public Credit	3	2	5	5	36,000.00	-	-	-	-	5	36,000.00				
6	MINISTRY OF EDUCATION															
6.1	Directorate of Personnel	1	4	5	4	12,000.00	-	-	1	1,264,710.90	5	1,264,710.90				
6.2	General Directorate of Physical Education	3	0	3	2	24,000.00	-	-	1	67,272.00	3	91,272.00				
6.3	Project Coordinating Unit	1	2	3	3	16,000.00	-	-	-	-	3	16,000.00				
6.4	General Directorate of Community Participation and Support Services	0	2	2	1	40,917.50	-	-	1	90,000.00	2	130,917.50				
6.5	Directorate of Financial Administration Unit	2	7	9	9	328,029.61	-	-	-	-	9	328,029.61				
6.6	Departmental Directorate of Education in Guatemala	5	1	6	6	22,317.86	-	-	-	-	6	22,317.86				

Source: Comptroller General's Office

Charts extracted from "Executive Summary of the Audit Report for Budget Liquidation of State Revenues and Expenditures for Fiscal Year 2008 Summary of results- Entities of the Central Administration"

Chart 3 de 11

Annex A1.9 Audit Results of Central Administration Entities – Continuation of Year 2008

Source: Comptroller General's Office

Chart 4 de 11

No.	Entities	Number of Findings		Quantity and Value of Legal and Administrative Actions						Total		
		Internal Control	Compliance	Total	Sanctions		Pressing Charges		Complaints		Quantity	Value in Q.
					Quantity	Value in Q.	Quantity	Value in Q.	Quantity	Value in Q.		
6.7	Departmental Directorate of Education in Chimaltenango	1	0	1	1	6,000.00	-	-	-	1	6,000.00	
6.8	Departmental Directorate of Education in Esquintla	0	2	2	2	20,000.00	-	-	-	2	20,000.00	
6.9	Departmental Directorate of Education in Solola	2	0	2	2	16,000.00	-	-	-	2	16,000.00	
6.1	Departmental Directorate of Education in Quetzaltenango	1	0	1	1	2,000.00	-	-	-	1	2,000.00	
6.11	Departmental Directorate of Education in Suchitepequez	0	3	3	3	16,020.20	-	-	-	3	16,020.20	
6.12	Departmental Directorate of Education in Retalhuleu	0	1	1	1	6,378.70	-	-	-	1	6,378.70	
6.13	Departmental Directorate of Education in San Marcos	0	1	1	1	8,000.00	-	-	-	1	8,000.00	
6.14	Departmental Directorate of Education in Huehuetenango	1	0	1	1	4,000.00	-	-	-	1	4,000.00	
6.15	Departmental Directorate of Education in Baja Verapaz	1	0	1	1	2,000.00	-	-	-	1	2,000.00	
6.16	Departmental Directorate of Education in Alta Verapaz	3	1	4	4	10,000.00	-	-	-	4	10,000.00	
6.17	Departmental Directorate of Education in Izabal	2	1	3	3	10,000.00	-	-	-	3	10,000.00	
6.28	Departmental Directorate of Education in Chiquimula	0	1	1	1	2,000.00	-	-	-	1	2,000.00	
7	MINISTRY OF PUBLIC HEALTH AND SOCIAL ASSISTANCE											
7.1	Administrative Department	4	15	19	19	364,000.00	-	-	-	19	364,000.00	
7.2	Area of Health Headquarters in Northwestern Guatemala	1	0	1	1	4,000.00	-	-	-	1	4,000.00	
7.3	Area of Health Headquarters in Northeastern Guatemala	0	3	3	3	16,000.00	-	-	-	3	16,000.00	
7.4	Area of Health Headquarters in Southern Guatemala	0	1	1	1	12,000.00	-	-	-	1	12,000.00	
7.5	Head of Area of Health in Chimaltenango	1	2	3	3	44,000.00	-	-	-	3	44,000.00	

Charts extracted from "Executive Summary of the Audit Report for Budget Liquidation of State Revenues and Expenditures for Fiscal Year 2008"

Annex A1.9 Audit Results of Central Administration Entities – Continuation of Year 2008

Source: Comptroller General's Office

Chart 5 de 11

No.	Entities	Number of Findings			Quantity and Value of Legal and Administrative Actions								Total	
		Internal Control	Compliance	Total	Sanctions		Pressing Charges		Complaints		Quantity	Value in Q.		
					Quantity	Value in Q.	Quantity	Value in Q.	Quantity	Value in Q.	Quantity	Value in Q.	Quantity	Value in Q.
7.6	Area of Health Headquarters in Esquintla	3	3	6	5	74,226.64	1	10,700.00	-	-	6	84,926.64		
7.7	Area of Health Headquarters in Santa Rosa	6	4	10	9	302,187.50	-	-	1	33,577.63	10	335,765.13		
7.8	Area of Health Headquarters in Quetzaltenango	2	1	3	3	30,000.00	-	-	-	-	3	30,000.00		
7.9	Area of Health Headquarters in Huehuetenango	3	2	5	5	26,000.00	-	-	-	-	5	26,000.00		
7.10	Area of Health Headquarters in Quiché	2	3	5	5	30,000.00	-	-	-	-	5	30,000.00		
7.11	Area of Health Headquarters in Alta Verapaz	0	3	3	3	36,000.00	-	-	-	-	3	36,000.00		
7.12	San Juan de Dios Hospital	7	6	13	13	263,205.41	-	-	-	-	13	263,205.41		
7.13	Roosevelt Hospital	6	7	13	13	833,646.24	-	-	-	-	13	833,646.24		
7.14	Hospital of Amatlán	3	5	8	8	72,443.65	-	-	-	-	8	72,443.65		
7.15	Hospital of Esquintla	2	1	3	3	14,000.00	-	-	-	-	3	14,000.00		
7.16	Hospital of Tiquisate	2	2	4	4	26,000.00	-	-	-	-	4	26,000.00		
7.17	Hospital of Cullapa	5	2	7	7	106,928.46	-	-	-	-	7	106,928.46		
7.18	General Hospital of the West	1	2	3	3	20,000.00	-	-	-	-	3	20,000.00		
7.19	Hospital of Huehuetenango	5	3	8	8	60,000.00	-	-	-	-	8	60,000.00		
7.20	Hospital of Chiquimula	4	5	9	9	64,000.00	-	-	-	-	9	64,000.00		
7.21	Medication Accessibility Program	3	3	6	6	343,278.57	-	-	-	-	6	343,278.57		
8	MINISTRY OF LABOR AND SOCIAL PROVISION	15	14	29	29	513,552.17	-	-	-	-	29	513,552.17		
9	MINISTRY OF ECONOMY	11	16	27	27	667,067.37	-	-	-	-	27	667,067.37		

Charts extracted from "Executive Summary of the Audit Report for Budget Liquidation of State Revenues and Expenditures for Fiscal Year 2008 Summary of results- Entities of the Central Administration"

Annex A1.9 Audit Results of Central Administration Entities – Continuation of Year 2008

Entities	Number of Findings		Quantity and Value of Legal and Administrative Actions						Total	
	Internal Control	Compliance	Sanctions		Pressing Charges		Complaints		Quantity	Value in Q.
			Quantity	Value in Q.	Quantity	Value in Q.	Quantity	Value in Q.		
MINISTRY OF AGRICULTURE, LIVESTOCK AND FORESTRY	5	40	37	119,693,371.32	8	26,025,124.54	-	-	45	145,718,495.86
MINISTRY OF COMMUNICATIONS, INFRASTRUCTURE AND TRANSPORT	0	3	3	20,000.00	-	-	-	-	3	20,000.00
General Directorate of Roads	11	6	16	810,911.07	1	1,553,239.04	-	-	17	2,364,150.11
Executing Unit of Road Maintenance	0	3	3	102,196.44	-	-	-	-	3	102,196.44
General Directorate of Civil Aeronautics	5	5	10	2,318,908.78	-	-	-	-	10	2,318,908.78
State Unit for Construction of Buildings	9	8	17	456,000.00	-	-	-	-	17	456,000.00
National Institute of Seismology, Volcanology and Meteorology	0	1	1	2,658.32	-	-	-	-	1	2,658.32
Fund for the Development of Telecommunications	0	1	1	15,017.84	-	-	-	-	1	15,017.84
Unit for Development of Popular Housing	4	9	13	333,026.00	-	-	-	-	13	333,026.00
MINISTRY OF ENERGY AND MINES	1	9	10	75,039.21	-	-	-	-	10	75,039.21
MINISTRY OF CULTURE AND SPORTS	8	12	19	4,938,315.32	1	141,570.00	-	-	20	5,079,885.32
ATTORNEY GENERAL'S OFFICE	0	4	4	177,508.77	-	-	-	-	4	177,508.77
SUPERINTENDENCY OF TAX ADMINISTRATION	0	15	15	676,000.00	-	-	-	-	15	676,000.00
INDIGENOUS DEVELOPMENT FUND	4	10	12	161,781.79	1	261,000.00	1	161,472.51	14	161,781.79
SECRETARIATS AND OTHER DEPENDENCIES OF THE EXECUTIVE BRANCH										
Secretariat General of the Presidency of the Republic	1	2	3	11,447.00	-	-	-	-	3	11,447.00
Presidential Commission for Human Rights	7	3	10	46,391.92	-	-	-	-	10	46,391.92
Private Secretariat of the Presidency	0	0	0	-	-	-	-	-	-	-

Chart 6 de 11

Source: Comptroller General's Office
 Charts extracted from "Executive Summary of the Audit Report for Budget Liquidation of State Revenues and Expenditures for Fiscal Year 2008
 Summary of results- Entities of the Central Administration"

Annex A1.9 Audit Results of Central Administration Entities – Continuation of Year 2008

No.	Entities	Number of Findings			Quantity and Value of Legal and Administrative Actions						Total	
		Internal Control	Compliance	Total	Sanctions Quantity	Sanctions Value in Q.	Pressing Charges Quantity	Pressing Charges Value in Q.	Complaints Quantity	Complaints Value in Q.	Quantity	Value in Q.
17.4	Secretariat of Executive Coordination of the Presidency	12	20	32	31	943,648.00	1	17,321.43	-	-	32	960,969.43
17.5	Secretariat of Social Communication of the Presidency of the Republic	1	0	1	1	4,000.00	-	-	-	-	1	4,000.00
17.6	Secretariat of Social Wellbeing of the Presidency of the Republic	1	12	13	13	593,533.47	-	-	-	-	13	593,533.47
17.7	Secretariat of Peace	7	6	13	13	244,000.00	-	-	-	-	13	244,000.00
17.8	National Office of Civil Service	3	7	10	10	77,736.42	-	-	-	-	10	77,736.42
17.9	National Council of Protected Areas	4	1	5	5	59,000.00	-	-	-	-	5	59,000.00
17.10	Secretariat of Planning and Programming of the Presidency	0	1	1	1	63,195.85	-	-	-	-	1	63,195.85
17.11	National Council of Youth	3	2	5	5	34,000.00	-	-	-	-	5	34,000.00
17.12	Executive Secretariat of the Commission against Drug Addictions and Illicit Trafficking	1	0	1	1	4,000.00	-	-	-	-	1	4,000.00
17.13	National Secretariat of Science and Technology	0	3	3	3	12,854.00	-	-	-	-	3	12,854.00
17.14	Secretariat of Social Works of the First Lady	0	2	2	2	13,343.75	-	-	-	-	2	13,343.75
17.15	Secretariat of Strategic Analysis	11	5	16	14	195,024.24	1	25,077.91	1	15,000.00	16	235,102.15
17.16	Authority for the Rescue of Lake Amatitlan	1	0	1	1	2,000.00	-	-	-	-	1	2,000.00
17.17	Presidential Secretariat of Women	1	0	1	1	8,000.00	-	-	-	-	1	8,000.00
17.18	Secretariat of Agrarian Affairs of the Presidency	3	2	5	5	80,000.00	-	-	-	-	5	80,000.00
17.19	Presidential Commission against Discrimination and Racism against Indigenous Peoples	1	3	4	4	48,512.33	-	-	-	-	4	48,512.33
17.20	Presidential Commission on Food and Nutritional Security of the Presidency	0	0	0	-	-	-	-	-	-	0	-
17.21	Authority for the Sustainable Management of the Lake Atitlan Basin and its Environments	2	1	3	3	18,115.50	-	-	-	-	3	18,115.50

Chart 7 de 11

Source: Comptroller General's Office
 Charts extracted from "Executive Summary of the Audit Report for Budget Liquidation of State Revenues and Expenditures for Fiscal Year 2008
 Summary of results- Entities of the Central Administration"

Annex A1.9 Audit Results of Central Administration Entities – Continuation of Year 2008

No.	Entities	Number of Findings		Quantity and Value of Legal and Administrative Actions						Total		
		Internal Control	Compliance	Total	Sanctions		Pressing Charges		Complaints		Quantity	Value in Q.
					Quantity	Value in Q.	Quantity	Value in Q.	Quantity	Value in Q.	Quantity	Value in Q.
17.22	Executive Secretariat of the Coordinating Instance of Modernization of the Justice Sector	10	2	12	12	94,000.00	-	-	-	-	12	94,000.00
17.23	Advocacy for Indigenous Women	12	5	17	17	209,795.03	-	-	-	-	17	209,795.03
18	MINISTRY OF ENVIRONMENT AND NATURAL RESOURCES	2	3	5	5	103,584.28	-	-	-	-	5	103,584.28
19	STATE OBLIGATIONS IN CHARGE OF THE TREASURY	4	0	4	4	39,000.00	-	-	-	-	4	39,000.00
	Total Central Administration Entities	281	381	662	642	141,871,543.62	14	28,034,032.92	6	1,632,033.04	662	171,537,609.58

Chart 8 de 11

Source: Comptroller General's Office
 Charts extracted from "Executive Summary of the Audit Report for Budget Liquidation of State Revenues and Expenditures for Fiscal Year 2008
 Summary of results- Entities of the Central Administration"

Annex A1.9 Audit Results of Entities of the Central Administration – Year 2007

No.	Entities	Type of Decision	Number of Findings			Quantity and Value of Legal and Administrative Actions						Total						
			Internal Control	Compliance	Total	Sanctions	Pressing Charges	Complaints	Quantity	Value in Q.	Quantity	Value in Q.						
1	Presidency of the Republic																	
1.2	Vice Presidency of the Republic			1	1		1											12,000.00
	Secretariat of Administrative Affairs and Security of the President																	
1.3	MINISTRY OF FOREIGN AFFAIRS		3	2	5		5											147,217.30
2	MINISTRY OF FOREIGN AFFAIRS			2	2		2											10,000.00
3	MINISTRY OF GOVERNANCE			12	35		35											8,109,686.92
4	MINISTRY OF NATIONAL DEFENSE																	
4.1	Presidential Guard			2	11		11											175,245.86
4.2	Directorate of Finance of the Army		1	4	5		5											22,000.00
5	MINISTRY OF PUBLIC FINANCE																	
5.1	Financial Directorate			8	12		12											73,822.63
5.2	Directorate of State Accounting		4	2	6		6											80,000.00
5.3	Directorate of Public Credit	caveats	1	4	5		5											144,000.00
6	MINISTRY OF EDUCATION			1	3		3											38,000.00
6.1	General Directorate of Physical Education		2	7	9		9											42,000.00
6.2	Project Coordinating Unit			7	7		7			5	287,993.34							51,000.00
6.3	Departmental Directorate of Education in Guatemala		1	1	2		2											64,000.00
6.4	Departmental Directorate of Education in Chimaltenango			3	3		3											12,000.00
6.5	Departmental Directorate of Education in Escuintla				2		2											4,000.00
6.7	Departmental Directorate of Education in San Marcos			3	3		3											22,000.00
6.8	Departmental Directorate of Education in Chiquimula			1	1		1											8,000.00
7	MINISTRY OF PUBLIC HEALTH AND SOCIAL ASSISTANCE																	
7.1	Administrative Department		2	1	3		3											26,000.00
7.2	Area of Health Headquarters in Northwestern Guatemala			2	2		2											50,000.00
7.3	Head of Area of Health in Chimaltenango		1		1		1											8,000.00
7.4	Area of Health Headquarters in Escuintla			1	1		1											40,000.00
7.5	Hospital of Mental Health		1		1		1											150,000.00

Source: Comptroller General's Office
 Charts extracted from "Executive Summary of the Audit Report for Budget Liquidation of State Revenues and Expenditures for Fiscal Year 2007
 Summary of results- Entities of the Central Administration"

Annex A1.9 Audit Results of Entities of the Central Administration – Continuation of Year 2007

No.	Entities	Type of Decision	Number of Findings		Quantity and Value of Legal and Administrative Actions						Total		
			Internal Control	Compliance	Total	Sanctions		Pressing Charges		Complaints		Value in Q.	
						Quantity	Value in Q.	Quantity	Value in Q.	Quantity	Value in Q.		
7.6	Hospital of San Vicente		1	1	1	1	4,000.00				1	4,000.00	
7.7	Hospital of Chimaltenango		2	2	2	2	24,000.00				2	24,000.00	
7.8	Hospital of Coban		3	1	3	3	22,000.00				3	22,000.00	
7.9	National Cemetery		3	3	3	3	60,000.00				3	60,000.00	
8	MINISTRY OF LABOR AND SOCIAL SECURITY		9	12	21	20	3,225,570.89			1	273,390.00	21	3,498,960.89
9	MINISTRY OF ECONOMY		3	5	8	8	257,437.14					8	257,437.14
10	MINISTRY OF AGRICULTURE, LIVESTOCK, AND FOODS		10	19	29	22	64,436,181.11		3	10,527,389.51	4	58,609,226.07	
11	MINISTRY OF COMMUNICATIONS, INFRASTRUCTURE, AND HOUSING			1	1	1	20,000.00					1	20,000.00
11.1	General Directorate of Roads		2	8	10	9	19,562,047.30	1	96,293.26			10	19,658,340.56
11.2	Executing Unit of Road Maintenance		1	3	4	4	41,444.52					4	41,444.52
11.3	General Directorate of Transportation	caveats		1	1	1	4,000.00					1	4,000.00
11.4	General Directorate of Civil Aeronautics		2	3	5	5	1,226,490.32					5	1,226,490.32
11.5	State Unit for Construction of Buildings		1	6	7	2	115,000.00	5	973,018.95			7	1,088,018.95
11.6	Unit for Development of Popular Housing			5	6	3	148,658.94					6	2,007,446.32
11.7	General Directorate of Road Protection and Security		1		1	1	4,000.00					1	4,000.00
12	MINISTRY OF ENERGY AND MINES		4	6	10	10	181,011.61					10	181,011.61
13	MINISTRY OF CULTURE AND SPORTS		2	2	2	2	903,533.32					2	903,533.32
14	ATTORNEY GENERAL'S OFFICE		7	5	12	12	604,863.80					12	604,863.80
15	SUPERINTENDENCY OF TAX ADMINISTRATION (COLLECTION)		9	6	15	15	142,000.00					15	142,000.00
16	INDIGENOUS DEVELOPMENT FUND		2	1	3	3	38,790.18					3	38,790.18
17	SECRETARIATS AND OTHER DEPENDENCIES OF THE EXECUTIVE BRANCH												
17.1	General Secretariat of the Presidency of the Republic		2		2	2	6,000.00					2	6,000.00
17.2	Presidential Commission for Human Rights Coordinator		2	9	11	11	225,427.07					11	225,427.07
17.3	Private Secretariat of the Presidency		3		3	3	31,000.00					3	31,000.00
17.4	Secretariat of Executive Coordination of the Presidency		6	18	24	21	1,643,304.38	3	1,679,692.02			24	3,322,996.40

Chart 10 de 11

Source: Comptroller General's Office
 Charts extracted from "Executive Summary of the Audit Report for Budget Liquidation of State Revenues and Expenditures for Fiscal Year 2007
 Summary of results- Entities of the Central Administration"

Annex A1.9 Audit Results of Entities of the Central Administration – Continuation of Year 2007

No.	Entities	Type of Decision	Number of Findings			Quantity and Value of Legal and Administrative Actions						Total	
			Internal Control	Compliance	Total	Sanctions	Pressing Changes	Complaints	Quantity	Value in Q.	Quantity	Value in Q.	
17.5	Secretariat of Social Communication of the Presidency of the Republic		1		1	1	20,000.00					1	20,000.00
17.6	Secretariat of Social Wellbeing of the Presidency of the Republic			1	1	1	50,405.51					1	50,405.51
17.7	Secretariat of Peace		2	5	7	7	235,743.31					7	235,743.31
17.8	National Office of Civil Service			3	3	3	20,173.60					3	20,173.60
17.9	National Council of Protected Areas		2	2	4	3	182,688.12	1	10,687.67			4	193,375.79
17.10	Authority for the Rescue of Lake Amatlan			7	9	9	208,198.87					9	208,198.87
17.11	Secretariat of Planning and Programming of the Presidency			1	1	1	4,485.02					1	4,485.02
17.12	National Council of Youth		2	7	9	9	61,757.79					9	61,757.79
17.13	Executive Secretariat of the Commission against Drug Addictions and Illicit Trafficking			1	1	1	539.21					1	539.21
17.14	National Secretariat of Science and Technology		8	1	9	9	236,700.64					9	236,700.64
17.15	Secretariat of Social Works of the First Lady	caverts	7	3	10	10	70,000.00					10	70,000.00
17.16	Secretariat of Strategic Analysis		1	2	3	2	250,625.08	1	11,027.70			3	261,652.78
17.17	Secretariat of Agrarian Affairs of the Presidency		2		2	2	16,000.00					2	16,000.00
17.18	Presidential Commission against Discrimination and Racism against Indigenous Peoples		3	8	11	11	134,665.88	3	76,939.47			11	211,605.35
17.19	Presidential Commission on Food and Nutritional Security of the Presidency			1	1	1	14,447.76					1	14,447.76
17.20	Authority for the Sustainable Management of the Lake Atlixan Basin and its Environments			6	6	6	92,794.41					6	92,794.41
17.21	Executive Secretariat of the Coordinating Instance of Modernization of the Justice Sector		1	1	2	2	59,885.46					2	59,885.46
17.22	MINISTRY OF ENVIRONMENT AND NATURAL RESOURCES			3	7	7	145,889.20					7	145,889.20
18	STATE OBLIGATIONS IN CHARGE OF THE TREASURY			2	2	2	4,000.00					2	4,000.00
19	Total Central Administration Entities		167	227	394	394	104,055,733.15	29	16,996,506.83	6	58,904,116.07	394	179,956,356.05

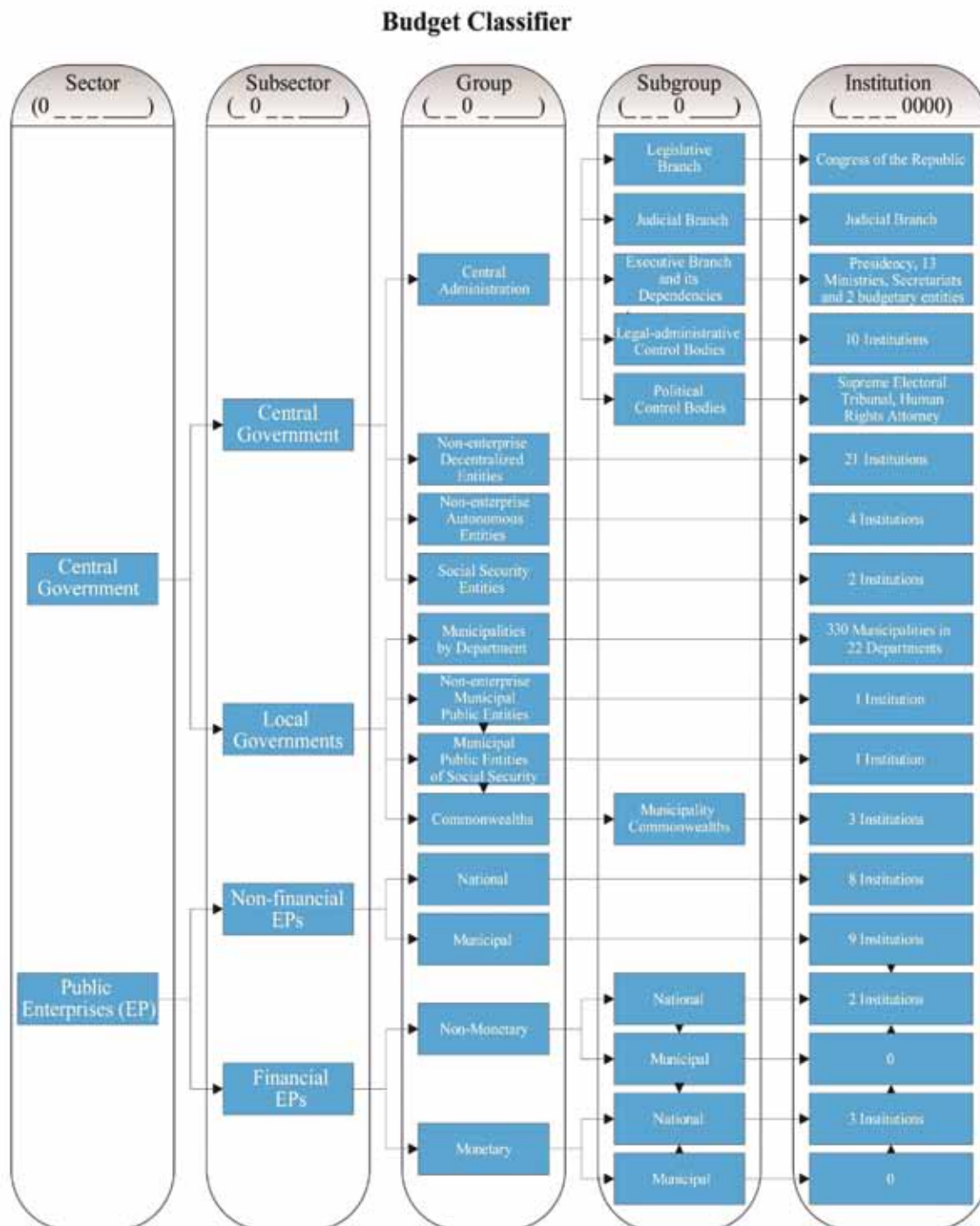
Chart 11 de 11

Source: Comptroller General's Office
 Charts extracted from "Executive Summary of the Audit Report for Budget Liquidation of State Revenues and Expenditures for Fiscal Year 2007
 Summary of results- Entities of the Central Administration"

Annex A1.10 Responses of the Interviewed Internal Audit Units

Resources	Entities			
	Ministry of Public Finance	Ministry of Communications, Infrastructure and Housing	Ministry of Public Health and Social Assistance	Ministry of Education
Personnel	Lack of sufficient, competent personnel	Insufficient to cover needs	Insufficient to cover needs	Sufficient
Training	No training in 2008	No plan for any training	No plan for any training	No plan for any training
Technicians	<ul style="list-style-type: none"> • Risk analysis is not used • No comprehensive conclusion on SCI • No quality control system 	<ul style="list-style-type: none"> • Risk analysis is not used • No audits on management and technology • No comprehensive conclusion on SCI • No quality control system 	<ul style="list-style-type: none"> • Risk analysis is not used • No audits on management and technology • No annual management report conclusion on SCI • No quality control system 	<ul style="list-style-type: none"> • No evidence that sustains the risk analysis • No audits on management and technology • No comprehensive conclusion on SCI • No quality control system
Technology	No specialized tools	No specialized tools	No specialized tools	No specialized tools

Annex A1.11 Structure of Institutional Budget Classifier



Source: Budget Classifications Manual, 4th edition, 2008.

Annex A1.12 Excerpts from the Public Information Access Law

Article 10

Mandatory public information. Obligated subjects must maintain at least the following information updated and available to any interested persons at all times in accordance with their functions, which may be consulted directly or through electronic portals:

- 1. Organic structure and functions of each of the dependencies and departments including their regulatory framework;*
- 2. Address and telephone numbers of the entity and of all dependencies that comprise it;*
- 3. Directory of the employees and public servers including non-private, official telephone numbers and email addresses; the obligated remain free of this obligation when the national security system, criminal investigation, and state intelligence are placed at risk;*
- 4. Number and name of officials, public servers, employees, and advisors that work in the obligated subject and all its dependencies including salaries that correspond to each position, honoraria, allowances, bonds, per diem, and any other economic remuneration received for any purpose. They remain free of this obligation when the national security system, criminal investigation, and state intelligence are placed at risk;*
- 5. The mission and objectives of the institution, its annual operational plan, and the results obtained in compliance with them;*
- 6. Administrative and operational manuals of procedures;*
- 7. Information on the budget of revenues and expenditures allocated for each fiscal year; programs and all modifications of which the production and/or execution are the entity's responsibility including internal and external transfers;*
- 8. Monthly reports on budget execution of all lines of all operational and administrative units of the entity;*
- 9. Detailed information on the deposits constituted by*

public funds originating in ordinary and extraordinary revenues, taxes, private funds, loans, and donations;

- 10. Information related to quotation and bidding processes for the procurement of goods that are utilized for education, health, security, and rural development programs as well as all those that are characterized by the delivery of goods to the direct or indirect beneficiaries, indicating the quantities, unit prices, amounts, corresponding budget lines, characteristics of the providers, details of the procurement processes, and the content of the contracts;*
- 11. Information on the contracts of all goods and services that are utilized by the obligated subjects, identifying the amounts, unit prices, costs, corresponding budget lines, characteristics of the providers, details of the procurement processes, and the content of the contracts;*
- 12. List of national and international trips authorized by the obligated subjects that are financed by public funds, regardless of whether they are for public officials or for any other person, including the objectives of the trips, personnel authorized to travel, destination, and costs of airfare and per diem;*
- 13. Information related to the inventory of real and personal property that are owned by each of the obligated subjects;*
- 14. Information on the contracts of maintenance of equipment, vehicles, estate, plants and installations of all the obligated subjects including the amount and duration of the contract as well as information on the provider;*
- 15. Allocated amounts, access criteria, and patterns of beneficiaries of subsidy programs, grants, or transfers granted with public funds;*
- 16. Information related to the contracts, licenses, or concessions for usufruct or exploitation of state goods;*
- 17. Lists of prequalified enterprises for the execution of public works, sale of goods and provisions of services of any natures, including*

information related to the social reason, authorized capital, and information that corresponds to the line for which they were prequalified;

18. List of current works or works executed totally or partially with public funds or with resources originating in loans granted from any state entity, indicating the exact location, total cost of the project, financing source, duration of execution, beneficiaries, executing enterprise or entity, name of the official responsible for the project, content, and specifications of the corresponding contract;

19. Contracts of leasing property, equipment, machinery, or any other goods or services, specifying the characteristics, motives of the lease, general dates of the lease, amount, and duration of the contract;

20. Information on all contracts that are realized through quotation and bidding processes and their respective contracts, identifying the number of operations corresponding to the electronic registry systems of the goods and services contracts, date of procurement, name of provider, procured total, duration of contract, and date of approval of the contract;

21. Total destination of the fiscal year of the resources from trusts comprised of public funds including information related to quotations or biddings realized for the execution of the resources and administrative and operational expenditures of the trust;

22. List of direct purchases realized by the dependencies of the obligated subjects;

23. Final reports on government or private audits of the obligated subjects in accordance with the corresponding review periods;

24. For public or private international entities that manage or administer public funds, they must make public obligatory information described above, related only to the purchases and contracts that are realized with these funds;

26. Those responsible for the archives of each one of the obligated subjects must publish at least once a year through the *Diario de Centro América* a report on: operations and purposes of the archive, registry systems and information categories, and

procedures and access facilities to the archive;

27. Index of the information duly classified in accordance with this law;

28. State entities and institutions must maintain an updated report on the data related to the sociolinguistic relevance of the users of the services in order to adapt the loans;

29. Any other information that may be useful or of relevance to comply with the purposes and objectives of this law.

Article 11

Mandatory public information of the Executive Branch. The Executive Branch must make public at the least the following information, in addition to the public information described in this law:

1. The execution of the budget allocated by ministry, vice ministry, general directorates, and decentralized institutions;

2. List of advisors with their respective remunerations of each institution mentioned above;

3. Report on expenditures and per diem of the delegations of each institution for trips abroad, destination, objectives, and achievements.

Article 12

Mandatory public information of the Judicial Branch. The Judicial Branch must make public at the least the following information, in addition to the public information described in this law:

1. Convictions rendered on *res judicata* for human rights crimes and crimes against humanity;

2. Convictions rendered on *res judicata* for crimes related to public fund management;

3. Convictions rendered on *res judicata* for crimes committed by officials and public employees;

4. The execution of the budget allocated to the Supreme Court of Justice, Appeals Chamber, Courts

of First Instance of Execution and Judgment, and Justices of the Peace of the entire country;

5. List of advisors with their respective remunerations of each court mentioned above;

6. Report on expenditures and per diem of the delegations of each institution for trips abroad, destination, objectives, and achievements.

Mandatory public information of the Legislative Branch. Congress of the Republic of Guatemala must make public at the least the following information, in addition to the public information described in this law:

- 1. The execution of the budget allocated by legislative bloc and commission;*
- 2. List of advisors and assistants of the Board of Directors, legislative blocs, political groups in Congress, commissions and deputies with their respective remunerations;*
- 3. Draft agenda of the ordinary and extraordinary sessions in the plenary and commissions 24 hours beforehand;*
- 4. Bills;*
- 5. Decisions issued by each commission on the bills;*
- 6. Decrees;*
- 7. Accords;*
- 8. Operative paragraphs;*
- 9. Resolutions;*
- 10. Minutes of the meetings of the working committees; and*
- 11. Congressional Record of the Plenary Sessions. (Congress of the Republic. Decree 57, 2008, pages 6, 7, 8)*

Annex A1.13 Information contained in the Draft Budget submitted to the Congress of the Republic

Macroeconomic assumptions

The macroeconomic assumptions of the draft budget and the approved budget form part of the Multi-year Budget, which, in the current fiscal year, is defined for the period 2009-2011. This budgetary framework presents the details of the macroeconomic assumptions including GDP estimates at current and constant prices as well as the corresponding growth rates for this period. Because the monetary policy is aimed at achieving an inflation target, the policy describes in detail for each of the years, leaving the determination of the exchange rate endogenous and flexible. Finally, the macroeconomic assumptions include nominal growth rates of exportations (FOB value) and importations (CIF value). Information on these assumptions is found on the MINFIN website at <http://www.minfin.gob.gt/archivos/proypre09/inicio.htm>. Moreover, the approved budget is published in the Diario de Centro América, which is also accessible on the website: www.dca.gob.gt. For example, for the 2009 budget, publication of the approved budget in the newspaper occurred on December 22, 2008. Documentation that accompanied the draft budget is fairly complete and comprehensible, though for the public who does not have economic knowledge, it may be complicated to understand the consistency of the macroeconomic policies on the basis of documents and figures.

Fiscal deficit

The draft budget shows a budgetary deficit, which is defined as the difference between total revenues and total expenditures in the budget, including an estimate of the current deficit or surplus and an estimate of the primary deficit/surplus. The concept of deficit only includes the entities that form part of the budget and, as expenditures, include the transfers from the central government to the autonomous entities including trusts, decentralized entities, and public enterprises. Thus, there is

no consolidated estimate of deficit/surplus for the non-financial public sector as established by international standards. This absence can lead to an overestimation or underestimation of the fiscal position of the non-financial public sector, if only the budgetary deficit/surplus is considered. The estimate of the budgetary deficit is accessible online at <http://www.minfin.gob.gt/archivos/proypre09/inicio.htm>.

Financing of the deficit

Documentation that accompanies the draft budget presents details on the financing sources, divided into internal sources (increase of internal debt), external sources (increase of external debt), and other unspecified sources. However, the approved budget communicated through the Diario de Centro América does not describe such information and only includes the details of the authorization for the issuance of bonds. With regard to the draft budget, the description of financing of the budgetary deficit is available online: <http://www.minfin.gob.gt/archivos/proypre09/inicio.htm>

Public debt

The draft budget shows a flow of financing funds, but not the debt balance, including details at least for the beginning of the current fiscal year. These do not form part of the draft budget and approved budget, which only describes the debt service but not the corresponding balances.

Financial assets

The details of the financial assets are not shown in the draft budget for the start of the fiscal year. This information does not appear in the approved budget either. Only the flow of property income is included.

Results of the previous budget

The section “Global Charts” of the draft budget shows figures of budget execution from the previous fiscal year (2007 in this case), in the same but summarized format as that of the proposed budget (2009). These figures, however, show official values without presenting actual execution, given that different practices of parallel execution or registry omissions can take place. This was particularly notable in the 2007 budget execution. Subsequently, the existence of elevated floating debt was described (ID-4).

Budget for the current fiscal year

The current fiscal year’s budget is presented in the same format as the draft budget and that of the decree that was approved by Congress. It should be noted that the draft decree and the approved decree consist of the same format but do not include information that accompanies the draft budget, which is more comprehensible and provides a reasonable framework for the understanding and support of the draft budget. The draft decree of the

approved budget is presented in the same format and is available online at <http://www.minfin.gob.gt/archivos/presu2009/inicio.htm> and www.dca.gob.gt.

Summarized information of revenues and expenditures

Summarized budget data corresponding to revenues and expenditures according to the principal entries of the classifications utilized (see ID-5) include data from the previous and current fiscal year. They are presented in the accompanying documentation but not in the approved decree.

Proposed reforms and their impact

In the documentation that accompanies the draft budget, expenditures are prioritized and principal reforms or changes to revenue policies are set. In particular, the multi-year budgetary framework contains an explanation of the budgetary consequences to new policy initiatives and is available online at <http://www.minfin.gob.gt/archivos/proypre09/inicio.htm>.

Annex A1.14 Methodology to analyze the sustainability of public debt

Evaluation of sustainability of public debt in Guatemala on the basis of methodologies proposed by international financial bodies

Consistent with the search for appropriate economic and financial fundamentals, documents have been analyzed that are related to indicators of fiscal vulnerability, liquidity and sustainability of debt will contribute to the macroeconomic stability of Guatemala.

1. Methodology proposed by the International Monetary Fund (IMF) and the International Development Association (IDA) of the World Bank

To conduct this evaluation, a methodology proposed by the International Monetary Fund (IMF) and the

World Bank¹⁵⁷ was utilized as a reference framework on the sustainability of debt based on thresholds indicative of the debt burden associated with the quality of political and institutional performance of the country. The indicators linked to debt balance and service provide a guide for future debt burden and reflect the risks for solvency in the long term.

Policy performance is measured by the Country Policy and Institutional Assessment (CPIA) index, compiled annually by the World Bank. The countries are divided into three performance categories: strong, medium, and poor. According to the CPIA scores for 2008, Guatemala was categorized as “medium.” The following table shows the matrix of indicators of debt with thresholds applicable to Guatemala.

Chart 1: Empirical limits (thresholds) of debt according to the CPIA index of the World Bank

	Present value of debt in percentages			Debt service in percentages	
	GDP	Exportations	Public Revenues	Exportations	Public Revenues
Median policy	40%	150%	250%	20%	30%

Source: IMF and IDA, *Staff guidance note on the application of the joint Fund-Bank debt sustainability framework for Low-Income Countries*. (Washington, D.C.: IMF, October 2008).

The debt ratios, considered together with key economic and financial variables, facilitate the identification of possible risks related to public debt and the definition of strategies for prudent management.

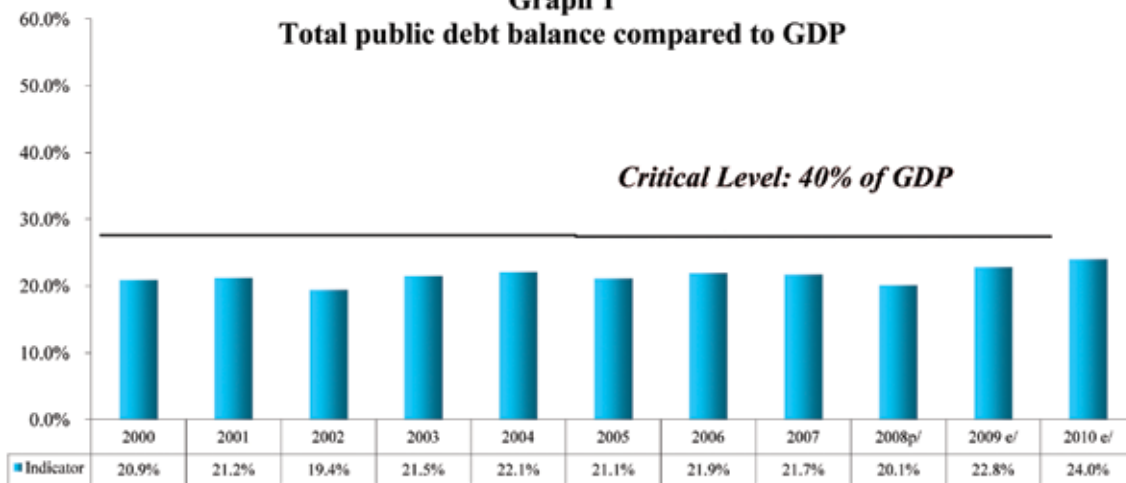
The following graphs show the nominal balance indicators of public debt in Guatemala in relation to GDP, exportations of goods and services, as well as public revenues. Comparatively, the percentages

exhibited by Guatemala are below the internationally recognized parameters.

The relationship between public debt at the end of the year and the annual nominal GDP is used to measure the debt level and change with regard to the resources base that the economy generates. For Guatemala, Graph 1 shows the behavior of this indicator from 2000-2010, and the debt levels can be observed to be below the parameter.

157 IMF and IDA, *Staff guidance note on the application of the joint Fund-Bank debt sustainability framework for Low-Income Countries*. (Washington, D.C.: IMF, October 2008).

Graph 1
Total public debt balance compared to GDP

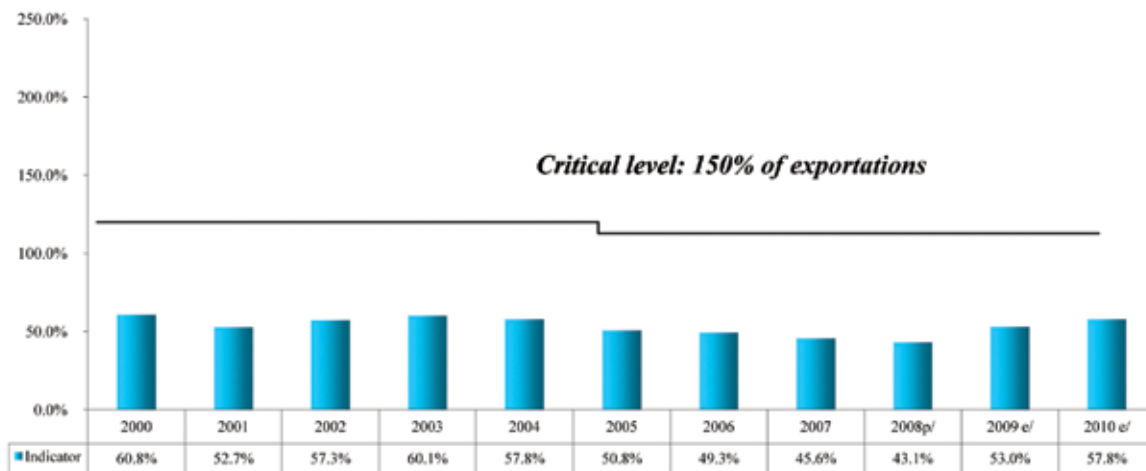


Notes: Consists of debt of the central administration, rest of the guaranteed public sector and Bank of Guatemala (until 2004, by anticipated payment). p/ Preliminary figure. e/ Estimated figure.
Source: MFP / Directorate of Public Credit.

To measure the capacity of the government to respond to public debt with those who are not residents, the indicator called “external debt balance concerning exportations of goods and services” is used and reflects the rapidity and stability of growth of the debt

of one of the principal sources of the nation’s foreign exchange revenues. For Guatemala, the percentages presented in Graph 2 indicate a moderate increase for this indicator.

Graph 2
External public debt balance on exportations of goods and services

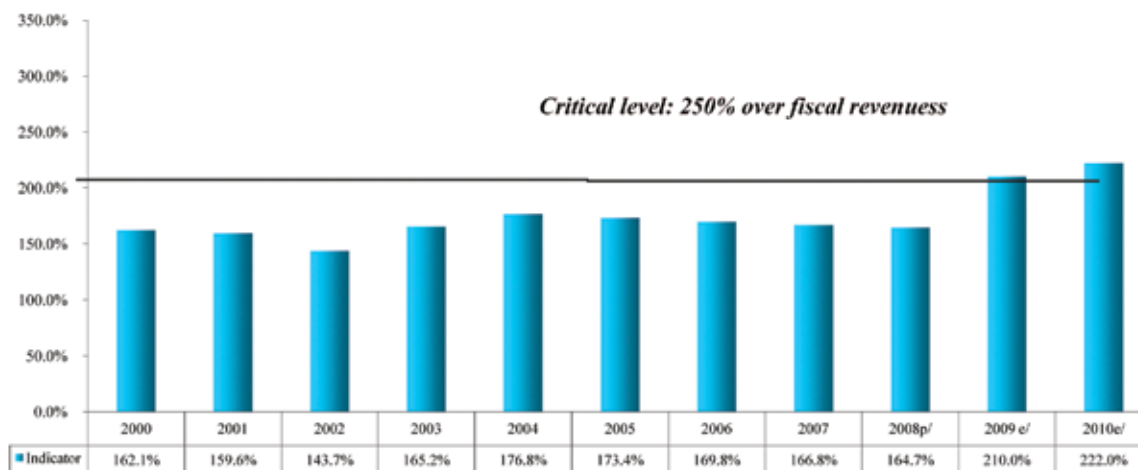


Notes: Consists of external debt of the central administration, rest of the guaranteed public sector, and Bank of Guatemala (until 2004, by anticipated payment). Excludes external debt from CORFINA-CELGUS because this obligation was not approved by Congress.
p/Preliminary figure. e/Estimated figure.
Source: MFP / Directorate of Public Credit.

Graph 3 shows the indicator of debt balance (internal and external) of the central administration with respect to fiscal revenues that allows an assessment on the solvency of the government to respond to public credit obligations. In the case of Guatemala, this indicator remains close to the parameter, which is can be attributed to the low fiscal revenues due to a growing demand in social investment. In 2009 and 2010, it is estimated that a significant increase in the

indicator will be seen caused by significant falls in tax revenues for these years as an effect of the world financial crisis. However, as the global economy begins a process of recuperation, in the medium and long term, the national economy will probably show an improvement in performance and tax collections will increase. It is estimated that this indicator will likely converge with the values observed prior to 2009.

Graph 3
Debt balance of the central administration on fiscal revenues



Notes: p/Preliminary figure. e/Estimated figure.
Source: MFP / Directorate of Public Credit.

As the government has contracted new financing, payment of debt service increases, which impacts the solvency of the Treasury. Thus, analysis of debt sustainability is complemented through the behavioral evaluation of the debt service indicators with respect to exportations of goods and services and of fiscal revenues.

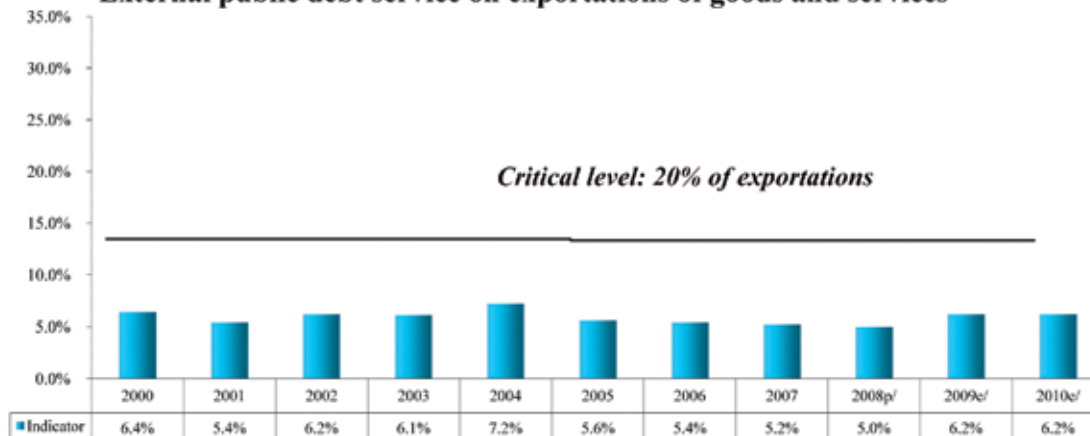
The external debt service indicator with respect to currency flow on account of exportations of goods and services shows the extent to which the debt service payment is vulnerable to changes in the flow of currency revenues on account of exportations. For Guatemala, this indicator represents ranges much lower than the sustainability parameter of

20% (see Graph 4).

Graph 5 shows the relationship of public debt service with respect to fiscal revenues and measures the capacity of the government to comply continuously with these obligations. Even though this indicator has been maintained within the parameter considered to be sustainable, in 2009 and 2010, a significant variation was anticipated, which can be explained by the downward estimates of the fiscal revenues in the context of an international economic crisis. In the medium and long term, it is hoped that this indicator returns to the levels observed before the crisis as the global economy recuperates.

Graph 4

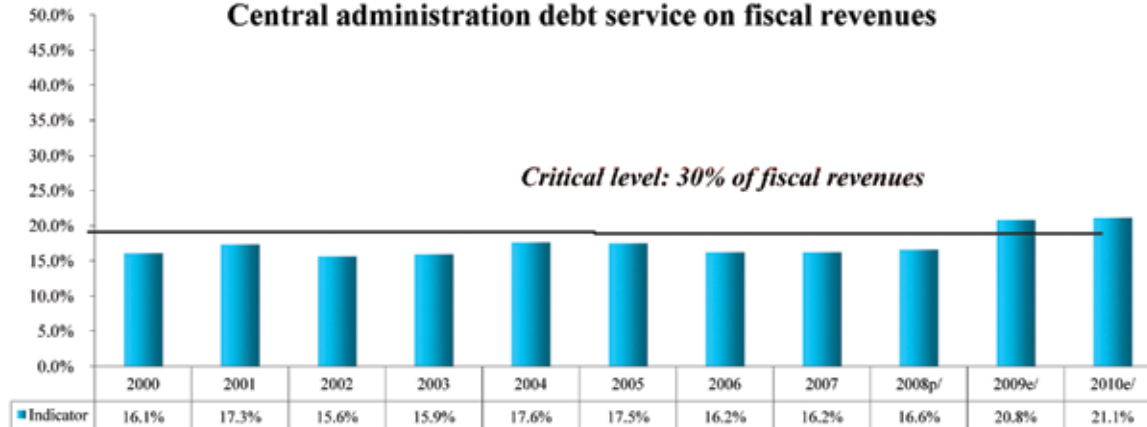
External public debt service on exportations of goods and services



Notes: Consists of debt service of the central administration, rest of the guaranteed public sector, and Bank of Guatemala (by anticipated payment until 2004). Excludes external debt service payment of CORFINA-CELGUSA as this obligation was not approved by Congress. In 2007 the principal payment of the Eurobond GUA-07 was excluded, as it does not cause budgetary involvement according to the additional provisions that regulated the budget execution for fiscal year 2007 (point k, Article 7, Decree 11-2007 of the Congress of the Republic) p/Preliminary figure. e/Estimated figure
 Source: MFP / Directorate of Public Credit.

Graph 5

Central administration debt service on fiscal revenues



Notes: Consists of debt service of the central administration. Excludes external debt service payment of CORFINA-CELGUSA, as this obligation was not approved by Congress. In 2007 the principal payment of the Eurobond GUA-07 was excluded, as it does not cause budgetary involvement according to the additional provisions that regulated the budget execution for fiscal year 2007 (point k, Article 7, Decree 11-2007 of the Congress of the Republic) p/Preliminary figure. e/Estimated figure
 Source: MFP / Directorate of Public Credit.

2. Methodology published by the Inter-American Development Bank (IDB)

In another methodology presented in a study published by the Research Department of the IDB¹⁵⁸ evaluation of the sustainability of debt concerns the depreciation of the actual exchange rate on fiscal accounts.

According to empirical evidence included in the study, it is not exceptional for countries where the public sector debt is highly denominated in foreign currency while the majority of government revenues are collected in the national currency through activities that non-tradable sectors conduct, that is, goods which can only be consumed within the economy in which they are produced and cannot be imported or exported. In this case, the balance of the public sector is susceptible to a currency mismatch because the monetary composition of the debt and that of production may have substantial differences in the valuation of the debt relative to the GDP after a depreciation of the actual exchange rate has occurred.

Any analysis of sustainability is highly susceptible to movements of the actual exchange rate. Key to this analysis is the relation of the public sector debt to the GDP, which can be expressed as:

$$b = (B / eB^*) / (Y / eY^*) = 1$$

in which:

b = a constant of the ratio of debt to GDP

B = public sector debt in national currency

B* = public sector debt in foreign currency

Y = production of non-tradable sectors

Y* = production of tradable sectors

e = actual exchange rate (defined as the tradable price relative to the non-tradable).

In this formula, a value 1 indicates that the monetary composition of debt and product perfectly match, but a zero value indicates a high level of mismatch. The following formula shows the case in Guatemala:

$$b = (0.40 / 0.60) / (0.66 / 0.34) = 0.34$$

The data provide evidence that the monetary composition of public debt in Guatemala has a certain level of mismatch in the composition of production in tradable and non-tradable goods, which represents a vulnerability factor for fiscal balance, as significant increases can be generated in the ratio of public debt to GDP.

Thus in order to match the monetary composition of the debt to the production structure of tradable and non-tradable goods, a debt structure denominated in 67% in quetzals is recommended, which should result in the following:

$$b = (0.67 / 0.33) / (0.66 / 0.34) = 1$$

158 Calvo, Guillermo, et.al. "Sudden Stops, the Real Exchange Rate and Fiscal Sustainability: Argentina's Lessons", Inter-American Development Bank, Research Department. (Washington: IADB, May 23, 2003).

Annex A1.15 Allocation method of constitutional contributions to municipalities

Distribution of constitutional contribution to the municipalities is realized in accordance with the Municipal Code (Congress of the Republic, Decree 12, 2002). Article 119 states that the Specific Commission is in charge of conducting the mathematical calculation for the distribution of constitutional contribution, which is comprised of the following: a) the Secretary of SEGEPLAN; b) the Director of DTP of MINFIN; c) the President of the National Association of Municipalities; and d) the President of the Guatemalan Association of Mayors and Indigenous Authorities (AGAAI in Spanish). For the transparent allocation of

resources, the Municipal Code establishes the criteria to use in calculating the distribution of constitutional contribution such as: a) 25% distributed proportionately to the population of each municipality; b) 25% distributed equally to all municipalities; c) 25% distributed proportionately to ordinary income per capita of each municipal jurisdiction; d) 15% distributed directly proportional to the number of villages (aldea) and hamlets (caserío); and e) 10% distributed directly proportional to the inverse of ordinary income per capita of each municipal jurisdiction. At the level of each municipality, the following formula is used:

$$SC_{ij} = \left[\begin{matrix} \text{Pago} \\ \text{Enero} \end{matrix} \right] + \left[\frac{1}{4} \right] \left[\frac{IP_{ij}}{\sum_{i=1}^n IP} \right] [MD] + \left[\frac{3}{20} \right] \left[\frac{ACi_j}{\sum_{i=1}^n AC} \right] [MD] + \frac{1}{4} \left[\frac{ni_j}{\sum_{i=1}^n N} \right] [MD] + \left[\frac{1}{10} \right] \left[\frac{1}{\frac{\sum_{i=1}^n IP}{IPi_j}} \right] [MD] + \left[\frac{\frac{1}{4} MD}{\sum_{i=1}^n m} \right]$$

Where: SCij =Constitutional position of the ij-th municipality; IP: Income per capita; AC: ij-th village (aldea) or hamlet (caserío); nij: population of the ij-th municipality; m: municipalities; MD: amount to be distributed.

To apply these criteria of distribution, the Specific Commission must have official information on the population variables as well as the composition of municipal revenues. Article 120 of the Municipal Code specifies the following sources of information: a) Supreme Electoral Tribunal which reports on the number of municipalities at the time the calculation is performed; b) National Statistics Institute which must report on the total and rural population of each municipality, estimated for the year previous to that for which the calculation is being made; and c) Institute of Municipal Development which must report on the ordinary municipal revenue collected in the previous year. The Specific Commission meets in April to realize execution of the annual

allocation. Municipalities during the months of January, February, March, and April operate based on the effective transfers realized in the previous fiscal year. Once the Specific Commission publishes the allocation corresponding to the fiscal year in question, the DTP reconciles the corresponding balances.

With regard to ordinary municipal revenues, Article 121 of the Municipal Code indicates that municipalities have until March 31 of each year to present to the Institute of Municipal Development the budget execution of revenues and expenditures of the fiscal year that ended on December 31 of the previous year. Concerning the timeliness of the transfer of resources to the municipalities, according to Article 118 of the Municipal Code reformed by Decree 56-2002, the financial resources will be distributed to the municipalities every two months by MINFIN.

Annex A1.16 Tax Revenues of the Central Administration 2004-2008

Tax Revenues of the Central Administration 2004-2008 (In percentage of GDP)

Description	2004*	2005*	2006*	2007*	2008*
Direct taxes	2.8%	2.9%	3.3%	3.3%	3.3%
<i>Income</i>	1.7%	2.1%	2.4%	2.5%	2.5%
<i>Property and Wealth</i>	0.0%	0.0%	0.0%	0.0%	0.0%
<i>Solidarity, Extraordinary and Temporary</i>	0.0%	0.0%	0.0%	0.0%	0.0%
<i>Commercial and Agricultural Enterprises</i>	0.4%	0.0%	0.0%	0.0%	0.0%
<i>Extraordinary and Temporary Support for the Peace Accords</i>	0.6%	0.8%	1.0%	0.8%	0.8%
Indirect taxes	8.7%	8.3%	8.5%	8.8%	8.0%
<i>Value Added Tax</i>	5.5%	5.2%	5.4%	5.9%	5.5%
<i>Domestic</i>	2.1%	1.8%	1.9%	2.1%	2.0%
<i>Importations</i>	3.4%	3.4%	3.5%	3.7%	3.5%
<i>Customs Duties on Imports</i>	1.3%	1.8%	1.1%	1.0%	0.8%
<i>Distribution of Oil and its Derivatives</i>	0.9%	0.2%	0.8%	0.8%	0.7%
<i>Revenue Stamps</i>	0.2%	0.2%	0.2%	0.2%	0.1%
<i>Vehicle Circulation</i>	0.1%	0.2%	0.1%	0.1%	0.1%
<i>Petroleum Royalties and Hydrocarbon Shareables</i>	0.3%	0.3%	0.3%	0.3%	0.4%
<i>Departure</i>	0.1%	0.1%	0.1%	0.1%	0.1%
<i>Beverage Distribution</i>	0.1%	0.2%	0.2%	0.2%	0.1%
<i>Tobacco</i>	0.1%	0.2%	0.1%	0.1%	0.1%
<i>Cement Distribution</i>	0.0%	0.0%	0.0%	0.0%	0.0%
<i>Others</i>	0.1%	0.0%	0.0%	0.0%	0.0%
Total	11.5%	11.2%	11.9%	12.1%	11.3%

* Includes returns of VAT from the Fiscal Credit to the export sector.

Source: MINFIN.

Annex A1.17 Legal Framework for loan approvals

Point i) of Article 171 of the Political Constitution of the Republic (National Constituent Assembly, 1985) concerns Congress of the Republic: “To contract, convert, consolidate or make other operations relative to internal or external public debt.

In all cases, it must previously hear the opinions of the Executive Branch and the Monetary Board, and for the Executive, Central Bank, or any other state entity, it can conclude loan negotiations or other forms of internal or external debt as well as issue obligations of all types;”

Article 35 of the Executive Branch Law (Congress of the Republic. Decree 114, 1997) establishes that: *“the Ministry of Public Finance must comply with and enforce all that is related to the legal and financial regime of the state, including the management of internal and external financing, among others.”* Moreover, point p) of the article indicates that the ministry is in charge of *“programming, managing, negotiating, contracting through the delegation of competent authority, registering and fiscalizing external financing operations as well as providing that related to international cooperation in general.”*

Article 57 of the Organic Law of the Bank of Guatemala, Decree Number 16-2002 of Congress of the Republic establishes that: “The opinion of the Monetary Board must be requested whenever the Executive Branch or any other public entity intends to make credit transactions abroad or whenever loan contracts are managed in the interior of the country. The opinion of the Monetary Board will be based on the impact of the operation contemplated on the balance of payments, the volume of circulating medium, and achievement in the medium and long terms of the fundamental objective of the Central Bank.”

In line with the above statement, Article 50 of the Government Accord 240-98 (Regulation of the Organic Budget Law, Debt limit for non-financial decentralized and autonomous entities) indicates that MINFIN will establish for each particular case the debt limit to which each decentralized and autonomous entity can commit.”

Thus, for an autonomous or decentralized state entity to realize credit management with a guarantee by the Republic of Guatemala, it must previously hear the opinion of MINFIN concerning debt capacity. Subsequently, it must follow ordinary treatment of the aforementioned law.

Annex A1.18 Principal laws and regulations that govern the PFM

The Political Constitution of the Republic (National Constituent Assembly, 1985): Second Section, Chapter II, Title IV Congressional Powers, Chapter III of Title V – Control and Fiscalization Regime, regulates the functions of the Comptroller General's Office (CGO), Chapter IV of Title V – Financial Regime, Articles 237, 238, 240, 241, and 257 and Chapter VII of Title V – Municipal Regime.

Decree 101-97, Congress of the Republic, Organic Budget Law, reformed by Decree No. 71-98 of Congress and its Regulation Government Accord No. 240-98, reformed by Government Accord No. 433-2004, regulates the budget systems, integrated governmental accounting systems, treasury system, and public credit system.

The General Budget Bill of State Revenues and Expenditures establishes the revenue and expenditure budgets of the central government and provides specific budgetary rules applicable to the fiscal year in question.

Decree 14-2002 of Congress of the Republic, General Decentralization Law prescribes the rules for the transfer of powers of the central government to autonomous entities.

The Ministry of Public Finance has published several manuals in reference to budget formulation, programming of budget execution, budget classifications, budgetary modifications, organization and basic functions of the Financial Administration Units (FAU) as well as guides for the users of the Integrated Financial Management System (SIAF in Spanish) which was created by Government Accord No. 217-95.

Decree 57, 1992 of Congress of the Republic, State Contracting Law (modified under Decrees 29-97, 34-2001 and 73-2001) and its Regulation (Decree 1056 of 1992) govern public procurements.

External control exercised by the CGO is also regulated by the Political Constitution of the Republic in Decree 31-2002 of Congress of the Republic, Organic Law of the Comptroller General's Office and its Regulation, Government Accord 318-2003. In accordance with the powers granted in the previous rules, the CGO has issued the Auditing Standards for the Government Sector (Comptroller General's Office, 2006), Internal Control Standards (Comptroller General's Office, 2006), as well as manuals and additional guides to exercise internal and external control.

Decree 114, 1997 of Congress of the Republic, Executive Branch Law, outlines the organizational framework of the Executive Branch.

Decree 63-94 of Congress of the Republic, Organic Law of the Legislative Branch, establishes the organizational framework and functions of the Legislative Branch.

Decree 1748 of Congress of the Republic, Civil Service Law, regulates the employment of officials and public employees, while other specific regimes are recognized to be also applicable. Decree 12-2002 of Congress of the Republic, Municipal Code, contains the financial management of the municipalities, modified under Decree 56-2002 through Decree-2002 of Congress of the Republic, General Decentralization Law and Decree 101-97, Organic Budget Law.

Decree 6-91 of Congress of the Republic, Tax Code, and its reform Decree 20-2006 and other specific legislation shape the framework of the functions of the tax and customs administration.

Decree 57-2008 of Congress of the Republic, Public Information Access Law establishes the principles, objectives, and procedures necessary to enforce the right to access public information.

Annex 2. Summary of performance indicators

Indicator / Method	Score of indicator	Score of each dimension				Justification
		I	II	III	IV	
A. PFM OUTTURNS: Credibility of the budget						
ID-1 (M1)	A	A	---	---	---	Dimension i) Score A. In none of the three years analyzed (2006, 2007, and 2008) for this indicator has the actual (accrued) expenditure deviate more than 5% of the budgeted expenditure, though it is possible that in 2007 this limit was exceeded.
ID-2 (M1)	C	C	---	---	---	Dimension i) Score C. Institutional deviation of primary expenditure, calculated based on the PEFA model, exceeded the global deviation of expenditure by more than 5 percentage points (5.79%, 9.11%, and 10.29%) in the three years under study, and in one of those years, it exceeded over 10 percentage points.
ID-3 (M1)	A	A	---	---	---	Dimension i) Score A. Actual collection exceeded or reached the collection goals for 2006 (103%), 2007 (119%), and 2008 (100%).
ID-4 (M1)	D	D	D	---	---	Dimension i) Score D. The existence of arrears whose amount exceeds 2 % of the budget becomes evident. However, it was not possible to determine if the amount reached or exceeded 10 % of the budget, and there is no evidence to discard this possibility, which is the reason why a score C could not be given. Dimension ii) Score D. Information on arrears with the government institutions cannot be determined in a reliable manner.
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and transparency						
ID-5 (M1)	C	C	---	---	---	Dimension i) Score C. Generally, budget classification is based on the 1986 GFSM, but functional classification only utilizes five of the principal functions outlined in <i>Classification of the Functions of Government</i> .
ID-6 (M1)	A	A	---	---	---	Dimension i) Score A. Eight of the nine parameters evaluated by the indicator are included in the budgetary documentation issued to Congress, and of these, seven completely satisfy the information requirements established by the PEFA reference framework.
ID-7 (M1)	C+	C	A	---	---	Dimension i) Score C. The level of expenditure not reported in the fiscal reports exceeds 5% of the total expenditure of the government, but does not exceed 10%. Dimension ii) Score A. The fiscal reports include complete information on revenues and expenditures of the projects financed with loans or donations.
ID-8 (M2)	C	A	D	D	---	Dimension i) Score A. There are clear, transparent, and accepted rules for the allocation of all constitutional resources to the municipalities. Dimension ii) Score D. The information submitted to the municipalities concerning allocation of funds is delayed. Dimension iii) Score D. Less than a fourth of the municipalities complies with the submission of information on budget management to the MINFIN. Consolidation of the municipal fiscal information is not carried out.
ID-9 (M1)	C	C	C	---	---	Dimension i) Score C. Although public companies and autonomous and decentralized entities annually present their financial information to the MINFIN, not all present audited financial statements nor do they issue reports on global fiscal risk. Dimension ii) Score C. The net position of the municipal governments is monitored at least annually by the DCP based on information from INFOM, but no report is produced on global fiscal risk.
ID-10 (M1)	A	A	---	---	---	Dimension i) Score A. The central government makes information public on five of the six elements.

Indicator / Method	Score of indicator	Score of each dimension				Justification
		I	II	III	IV	
C. BUDGET CYCLE						
C i) Policy-based budgeting						
ID-11 (M2)	B	C	A	B	---	<p>Dimension i) Score C. The budget calendar is clear, and although it gives enough time (six or more weeks) to institutions for budget formulation, compliance is not adequate. For the budget formulation for fiscal years 2008 and 2009, institutions were only given two weeks after receiving the Circular on Budget Ceilings to present their budget bill to MINFIN. A "B" score cannot be given under these circumstances.</p> <p>Dimension ii) Score A. Information in the circulars on budget ceilings is exhaustive and clear. The Council of Ministers discusses budgetary allocations and proposes it to the President for approval of the budget ceilings that will be allocated and communicated to the institutions.</p> <p>Dimension iii) Score B. The budget was approved in a timely manner for the years 2008 and 2009, but for 2007 the budget was not approved by Congress.</p>
ID-12 (M2)	B	C	A	C	B	<p>Dimension i) Score C. Although a rotating multi-year budget is produced with a three-year forecast, its link with the definition of budget ceilings is not made clear and the differences are not explained.</p> <p>Dimension ii) Score A. A sustainability analysis on external and internal public debt is conducted annually.</p> <p>Dimension iii) Score C. Although medium-term sectoral strategies exist, in 2008 they were not compatible with fiscal provisions.</p> <p>Dimension iv) Score B. Although investments are selected systematically based on sectoral and institutional strategies coordinated with the plans of the government, and their forward expenditures of operation have been calculated, reported, and taken into account in the sectoral multi-year programming, their inclusion in the budget is not clear.</p>
C ii) Predictability and control in budget execution						
ID-13 (M2)	A	B	A	A	---	<p>Dimension i) Score B. Internal tax legislation is clear and comprehensible for internal principal taxes (VAT and income tax for dependents), but this is not the case for income tax for independent individuals or enterprises.</p> <p>Dimension ii) Score A. Taxpayers can access tax-related information easily and without restrictions. Furthermore, the tax administration has supported facilities through education campaigns to the taxpayers.</p> <p>Dimension iii) Score A. The tax appeal system against the tax administration functions independently and in a transparent manner with a speed much greater than the contentious tax cases, as evidenced in the following comparison: while the administrative contentious cases were delayed on average four years, the appeals before the SAT Board of Directors lasted, in the second instance, 80 days.</p>
ID-14 (M2)	B+	B	B	A	---	<p>Dimension i) Score B. The RTU contains general, basic, and updated information on special taxpayers and MEPECOS, who comprise the tax base, but it cannot be enhanced systematically and directly with commercial information and information on taxable assets of the taxpayers.</p> <p>Dimension ii) Score B. Tax legislation establishes the penalties for non-compliance with obligations and registry in the RTU. These penalties are applied by SAT but are not sufficiently effective, in particular those that are related to the taxpayer registry.</p> <p>Dimension iii) Score A. Audits and tax fraud investigations are realized and monitored in accordance to an Annual Fiscalization Plan, whose production is largely based on risk criteria, criteria of evaluation and risk measurement for principal taxes that are declared and evaluated by taxpayers (Self-Assessment).</p>
ID-15 (M1)	N/S	N/S	B	A	---	<p>Dimension i) Score N/S. Existing information does not allow for the evaluation of this dimension.</p> <p>Dimension ii) Score B. The collected funds by the bank system through an agreement with SAT are transferred to the Treasury on the fifth business day after collection.</p> <p>Dimension iii) Score A. Complete reconciliations of declarations are realized and collection is carried out effectively with the amounts transferred to the National Treasury on a daily basis.</p>

Indicator / Method	Score of indicator	Score of each dimension				Justification
		I	II	III	IV	
ID-16 (M1)	C+	A	B	C	---	<p>Dimension i) Score A. A cash flow estimation, updated monthly, is realized for budget preparation and formulation.</p> <p>Dimension ii) Score B. Information that MINFIN provides to the MDAs to comply with their expenditure commitments is reliable and is communicated at the start of each four-month period.</p> <p>Dimension iii) Score C. A legal framework exists that allows for budget adjustments to be made in a transparent and coordinated manner with the institutional authorities, but they are applied frequently and in significant amounts.</p>
ID-17 (M2)	B+	C	A	A	---	<p>Dimension i) Score C. The registry of data on internal and external public debt is complete, updated, and reconciled every semester. The data is considered to be of good quality. However, minor problems of reconciliation have been produced between the data that show SICOIN and DCP. Monthly reports on management and the state of public debt are issued, including interest payment, amortizations, and stock of original debt and balance.</p> <p>Dimension ii) Score A. All the cash balances of the NT system is calculated and consolidated daily.</p> <p>Dimension iii) Score A. There is a well defined procedure to grant loans and guarantees based on transparent criteria and fiscal goals. Congress is the only authorized entity to approve them.</p>
ID-18 (M1)	D+	D	C	B	C	<p>Dimension i) Score D. Payroll is not reconciled periodically with personnel records.</p> <p>Dimension ii) Score C. In some institutions that operate under the mandate of the Civil Service Law, delays in the updating of payroll records of several months have been identified, mostly of up to three months, but in some cases, over six months. These delays originate retroactive adjustments that occur with some frequency. The adjustments and updates are due to delays in the submission of information by the institutions and irregular practices that allow workers to start working before the necessary approvals.</p> <p>Dimension iii) Score B. All public entities governed by the Civil Service Law or by any other rules have a human resources unit whose sole responsibility is to administer, record, and process institutional payroll, whether through their own systems or through GUATENOMINA. The persons authorized to record changes in personnel archives or payroll are not the same as those that authorize or approve such records. The capacity and base for the introduction of changes to personnel records and payroll are clearly defined. These capacities as well as recording procedures and information updates are documented in the various articles of the Regulation of the Civil Service Law.</p> <p>Dimension iv) Score C. The CGO realizes institution-wide partial reviews that can be considered partial audits of the payroll.</p>
ID-19 (M2)	D+	D	D	B	---	<p>Dimension i) Score D. Existing data are insufficient to quantify the proportion in which competitive methods of contracting are utilized.</p> <p>Dimension ii) Score D. The State Contracting Law and its Regulation establish a variety of exceptions in the use of competitive procedures, leading to a high proportion of expenditures to be realized through procedures for exceptions (see ID-19.i). In practice, the preference in the use of open competitive procedures for state procurement is not clear.</p> <p>Dimension iii) Score B. Although there are procedures to process complaints in the state procurement processes, they are resolved by the same institution that performs the procurement, making the participation of entities foreign to the procurement process unnecessary who could issue an impartial judgment, not compromised by the result of the competition or with the content of the complaint.</p>
ID-20 (M1)	D+	C	C	D	---	<p>Dimension i) Score C. The control mechanisms for expenditure commitments are partially effective. In the last three years, the CGO has reported important cases in which it has issued decisions with exceptions on budget execution of the central government.</p> <p>Dimension ii) Score C. The NGCI have not been applied to the anticipated full extent, and consequently, there is no evidence on the advances of the implementation. The independent evaluations are not systematic, thus there are no reports that refer to the relevance and understanding of the NGCI.</p> <p>Dimension iii) Score D. The UDAI and CGO reports reveal significant and frequent non-compliance with internal control and regulations.</p>

Indicator / Method	Score of indicator	Score of each dimension				Justification
		I	II	III	IV	
ID-21 (M1)	D+	D	C	C	---	<p>Dimension i) Score D. A majority of the entities representative of the central government provide an internal audit function, although its focus is primarily transactional.</p> <p>Dimension ii) Score C. The reports are issued periodically and are sent to the individual responsible for the audit unit, the HEA, and the CGO. The Ministry of Public Finance does not receive a copy of these reports, as this is not stipulated in the GAS (Government Auditing Standards).</p> <p>Dimension iii) Score C. Statistics are not prepared concerning the level of assimilation, but internal auditors reveal that the recommendations are taken into account though not in a timely manner as required.</p>
C iii) Accounting, recording, and reporting						
ID-22 (M2)	B+	A	B	---	---	<p>Dimension i) Score A. Reconciliation of bank accounts of the government is performed monthly (for accounts not administered by the NT) or daily (for accounts administered by the NT). This is shown in the annual budget liquidation reports of the CGO, which identify and penalize deficiencies, omissions, or delays in these processes.</p> <p>Dimension ii) Score B. The monitoring of revolving funds and advance accounts is realized monthly. Liquidation and compensation is realized annually, within the first two months of the new fiscal year, as evidenced in the Annual Budget Liquidation Reports of the CGO.</p>
ID-23 (M1)	C	C	---	---	---	<p>Dimension i) Score C. There is information on resources received by the service delivery units and it is possible to annually report it in an aggregated manner, some in detail but not all. Special surveys are not conducted to obtain the information given that computer systems exist that can provide it directly.</p>
ID-24 (M1)	D+	A	D	D	---	<p>Dimension i) Score A. Comparison of the budget reports with the approved budget is direct and immediate, as they utilize the same formats. The reports show all budget and accounting phases, including the voted budget and its modifications as well as execution in all phases of accrued and paid commitment.</p> <p>Dimension ii) Score D. Frequency of the reports is every four months due to constitutional regulations.</p> <p>Dimension iii) Score D. Information on budget execution registered in SICOIN shows weaknesses that affect its quality.</p>
ID-25 (M1)	D+	D	A	C	---	<p>Dimension i) Score D. Consolidated financial statements of only the central government are prepared, and information on expenditures, revenues, and account balances contain significant omissions.</p> <p>Dimension ii) Score A. MINFIN submits the financial statements of the government simultaneously to Congress and the CGO within the first three months of completion of the fiscal year. The CGO presents to Congress the audited report on these financial statements within five months after the completion of the fiscal year.</p> <p>Dimension iii) Score C. Although there is not specific accounting standard for the public sector which represents a national equivalent to the IPSAS, there is coherence in the presentation of the financial statements through time, keeping the same generally accepted accounting principles valid.</p>
C iv) External scrutiny and audit						
ID-26 (M1)	C+	C	A	B	---	<p>Dimension i) Score C. Transactional audits of the budget execution, internal control, and legal compliance are performed annually on all the entities and bodies of the central government, but without addressing systemic or significant problems.</p> <p>Dimension ii) Score A. The financial statements of the budget execution along with the opinion of the CGO are sent to legislature in accordance with the legal standard within the maximum timeframe of 150 days after December 31 of each year.</p> <p>Dimension iii) Score B. A formal response is presented in a timely manner, but there is no evidence for a systematic follow up.</p>

Indicator / Method	Score of indicator	Score of each dimension				Justification
		I	II	III	IV	
ID-21 (M1)	D+	D	C	C	---	<p>Dimension i) Score D. A majority of the entities representative of the central government provide an internal audit function, although its focus is primarily transactional.</p> <p>Dimension ii) Score C. The reports are issued periodically and are sent to the individual responsible for the audit unit, the HEA, and the CGO. The Ministry of Public Finance does not receive a copy of these reports, as this is not stipulated in the GAS (Government Auditing Standards).</p> <p>Dimension iii) Score C. Statistics are not prepared concerning the level of assimilation, but internal auditors reveal that the recommendations are taken into account though not in a timely manner as required.</p>
C iii) Accounting, recording, and reporting						
ID-22 (M2)	B+	A	B	---	---	<p>Dimension i) Score A. Reconciliation of bank accounts of the government is performed monthly (for accounts not administered by the NT) or daily (for accounts administered by the NT). This is shown in the annual budget liquidation reports of the CGO, which identify and penalize deficiencies, omissions, or delays in these processes.</p> <p>Dimension ii) Score B. The monitoring of revolving funds and advance accounts is realized monthly. Liquidation and compensation is realized annually, within the first two months of the new fiscal year, as evidenced in the Annual Budget Liquidation Reports of the CGO.</p>
ID-23 (M1)	C	C	---	---	---	<p>Dimension i) Score C. There is information on resources received by the service delivery units and it is possible to annually report it in an aggregated manner, some in detail but not all. Special surveys are not conducted to obtain the information given that computer systems exist that can provide it directly.</p>
ID-24 (M1)	D+	A	D	D	---	<p>Dimension i) Score A. Comparison of the budget reports with the approved budget is direct and immediate, as they utilize the same formats. The reports show all budget and accounting phases, including the voted budget and its modifications as well as execution in all phases of accrued and paid commitment.</p> <p>Dimension ii) Score D. Frequency of the reports is every four months due to constitutional regulations.</p> <p>Dimension iii) Score D. Information on budget execution registered in SICOIN shows weaknesses that affect its quality.</p>
ID-25 (M1)	D+	D	A	C	---	<p>Dimension i) Score D. Consolidated financial statements of only the central government are prepared, and information on expenditures, revenues, and account balances contain significant omissions.</p> <p>Dimension ii) Score A. MINFIN submits the financial statements of the government simultaneously to Congress and the CGO within the first three months of completion of the fiscal year. The CGO presents to Congress the audited report on these financial statements within five months after the completion of the fiscal year.</p> <p>Dimension iii) Score C. Although there is not specific accounting standard for the public sector which represents a national equivalent to the IPSAS, there is coherence in the presentation of the financial statements through time, keeping the same generally accepted accounting principles valid.</p>
C iv) External scrutiny and audit						
ID-26 (M1)	C+	C	A	B	---	<p>Dimension i) Score C. Transactional audits of the budget execution, internal control, and legal compliance are performed annually on all the entities and bodies of the central government, but without addressing systemic or significant problems.</p> <p>Dimension ii) Score A. The financial statements of the budget execution along with the opinion of the CGO are sent to legislature in accordance with the legal standard within the maximum timeframe of 150 days after December 31 of each year.</p> <p>Dimension iii) Score B. A formal response is presented in a timely manner, but there is no evidence for a systematic follow up.</p>

Annex 3. Summary of Information Sources

Indicator	Concept	Sources of Information
ID - 1	Aggregate expenditure out-turn compared to original approved budget	<ul style="list-style-type: none"> - Information provided by DTP, NT, and DCE. - Annual budget laws for the fiscal years 2006 and 2008, Political Constitution of the Republic, Organic Budget Law. - Liquidation of the Budget of State Revenues and Expenditures, fiscal years 2006, 2007, and 2008 and their audit reports. - MINFIN WEB information on budget execution 2006, 2007, and 2008.
ID - 2	Composition of expenditure out-turn compared to original approved budget	<ul style="list-style-type: none"> - Information provided by DTP, NT, DCE, and MINEDUC. - Annual budget laws for the fiscal years 2006 and 2008, Political Constitution of the Republic, Organic Budget Law. - Liquidation of the Budget of State Revenues and Expenditures, fiscal years 2006, 2007, and 2008 and their audit reports. - MINFIN WEB information on budget execution 2006, 2007, and 2008.
ID - 3	Aggregate revenue out-turn compared to original approved budget	<ul style="list-style-type: none"> - Information provided by DTP. - Annual budget laws for the fiscal years 2006 and 2008, Political Constitution of the Republic, Organic Budget Law. - Liquidation of the Budget of State Revenues and Expenditures, fiscal years 2006, 2007, and 2008 and their audit reports. - MINFIN WEB information on budget execution 2006, 2007, and 2008.
ID - 4	Balance and monitoring of expenditure payment arrears	<ul style="list-style-type: none"> - Information provided by DTP, NT, DCE, DAEF, ONSEC, and MINEDUC. - Organic Budget Law, Organic Law of the CGO. - Liquidation of the Budget of State Revenues and Expenditures, fiscal years 2006, 2007, and 2008 and their audit reports. - First Report on Fiscal Policy in Guatemala: Diagnosis 2007 and Perspectives 2008. - Procedures Manual for the Registry of Budget Execution of the Central Government
ID - 5	Classification of the budget	<ul style="list-style-type: none"> - Information provided by DTP and DCE. - Manuals on the public finance statistics 1986 and 2001. - Classification of functions of the public administration of the NUs. - Manual of budget classifications for the public sector in Guatemala.
ID - 6	Comprehensiveness of information included in budget documentation	<ul style="list-style-type: none"> - Information provided by DTP, BANGUAT, and the Commission on Finance and Currency of Congress. - Annual Budget Law for fiscal year 2009, Political Constitution of the Republic, Organic Budget Law of Congress. - Manual on the public finance statistics 2001 - Decisions of the Commission on Finance and Currency of Congress on the presentation of the 2009 budget.
ID - 7	Extent of unreported government operations	<ul style="list-style-type: none"> - Information provided by DTP, NT, DCE, DAEF, and MINEDUC. - Liquidation of the Budget of State Revenues and Expenditures, fiscal year 2008 and its audit report. - Third report on fiscal policy in Guatemala: Preliminary closing 2008 and perspectives 2009. - DCE reports on budget execution and accountability through trusts and NGOs
ID - 8	Transparency of inter-governmental fiscal relations	<ul style="list-style-type: none"> - Information provided by DTP and NT - Political Constitution of the Republic, Organic Budget Law and its Regulation - Decrees 27-92 and 32-2001 VAT-Peace - Decrees 38-92, 04-2003, 11-2003, and 38-2005 of Congress of the Republic on Distribution of Fuel - Decree 70-94 Vehicle Circulation - Municipal Code Decree 12-2002 of Congress of the Republic
ID - 9	Oversight of aggregate fiscal risk from other public sector entities	<ul style="list-style-type: none"> - Information provided by DCP, DAEF, and DCE - Organic Budget Law and its Regulation - MINFIN_WEB information on budget execution 2006, 2007, and 2008 - SIAF_MUNI information on budget execution 2008
ID-10	Public access to key fiscal information	<ul style="list-style-type: none"> - Web pages of MFP, CGO, <i>Diario de Centro América</i>, and GUATECOMPRAS

Indicator	Concept	Sources of Information
ID-11	Orderliness and participation in the annual budget process	<ul style="list-style-type: none"> - Information provided by DTP, BANGUAT, SEGEPLAN, DAEF, MINEDUC, and MSPAS. - Public Constitution of the Republic, Organic Budget Law and annual budget laws for fiscal years 2008 and 2009. - Liquidation of the Budget of State Revenues and Expenditures, fiscal years 2006, 2007, and 2008 and their audit reports. - First Report on Fiscal Policy in Guatemala: Diagnosis 2007 and Perspectives 2008. - Strategic Orientations of Public Policy and Budget Standards for the Draft Budget Formulation. - Budget formulation manual for the public sector in Guatemala. - Budget classifications manual for the public sector in Guatemala. - Procedures manual for the registry of budget execution for the administration of the central government. - Circulars of budget ceilings.
ID-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	<ul style="list-style-type: none"> - Information provided by DTP, BANGUAT, SEGEPLAN, DAEF, and MINEDUC. - Organic Budget Law and annual budget laws for fiscal years 2006, 2008, and 2009. - Strategic Orientations of Public Policy and Budget Standards for the Draft Budget Formulation. - Regulatory framework for the planning process and SNIP standards for public investment projects - Manual of project formulation and evaluation. - Circulars of budget ceilings.
ID-13	Transparency of taxpayer obligations and liabilities	<ul style="list-style-type: none"> - Information provided by SAT. - Regulatory tax and customs framework. - SAT procedures manuals.
ID-14	Effectiveness of measures for taxpayer registration and tax assessment	<ul style="list-style-type: none"> - Information provided by SAT. - Regulatory tax and customs framework. - SAT procedures manuals.
ID-15	Effectiveness in collection of tax payments	<ul style="list-style-type: none"> - Information provided by SAT, NT, and DCE. - Regulatory tax and customs framework. - SAT procedures manuals.
ID-16	Predictability in the availability of funds for commitment of expenditures	<ul style="list-style-type: none"> - Information provided by DTP, NT, and DCE.
ID-17	Recording and management of cash balances, debt, and guarantees	<ul style="list-style-type: none"> - Information provided by DTP, NT, and BANGUAT. - Organic Budget Law and annual budget laws for fiscal years 2006, 2008, and 2009. - Political Constitution of the Republic - State information systems: SIGADE, SICOIN.
ID-18	Effectiveness of payroll controls	<ul style="list-style-type: none"> - Information provided by ONSEC, CGO, and DCE. - Political Constitution of the Republic, Civil Service Law. - Liquidation of the Budget of State Revenues and Expenditures, fiscal years 2006, 2007, and 2008 and their audit reports.
ID-19	Competition, value for money and controls in procurement	<ul style="list-style-type: none"> - Information provided by the Normative Directorate of State Contracting and Procurement. - State Contracting Law and its Regulation. - State information systems: GUATECOMPRAS, SIGES, SICOIN.
ID-20	Effectiveness of internal controls for non-salary expenditure	<ul style="list-style-type: none"> - Executive Reports on the Audits of the Liquidation of the Budget of State Revenues and Expenditures, fiscal years 2006, 2007, and 2008. - Audit Reports on the Liquidation of the Budget of State Revenues and Expenditures, fiscal years 2006, 2007, and 2008. - General Internal Control Standards. - Political Constitution of the Republic. - Government Auditing Standards.
ID-21	Effectiveness of internal audit	<ul style="list-style-type: none"> - Audit Reports on the Liquidation of the Budget of State Revenues and Expenditures, fiscal years 2006, 2007, and 2008. - General Internal Control Standards. - Political Constitution of the Republic. - Government Auditing Standards. - Organic Law of the CGO and its Regulation.

Indicator	Concept	Sources of Information
ID-11	Orderliness and participation in the annual budget process	<ul style="list-style-type: none"> - Information provided by DTP, BANGUAT, SEGEPLAN, DAEF, MINEDUC, and MSPAS. - Public Constitution of the Republic, Organic Budget Law and annual budget laws for fiscal years 2008 and 2009. - Liquidation of the Budget of State Revenues and Expenditures, fiscal years 2006, 2007, and 2008 and their audit reports. - First Report on Fiscal Policy in Guatemala: Diagnosis 2007 and Perspectives 2008. - Strategic Orientations of Public Policy and Budget Standards for the Draft Budget Formulation. - Budget formulation manual for the public sector in Guatemala. - Budget classifications manual for the public sector in Guatemala. - Procedures manual for the registry of budget execution for the administration of the central government. - Circulars of budget ceilings.
ID-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	<ul style="list-style-type: none"> - Information provided by DTP, BANGUAT, SEGEPLAN, DAEF, and MINEDUC. - Organic Budget Law and annual budget laws for fiscal years 2006, 2008, and 2009. - Strategic Orientations of Public Policy and Budget Standards for the Draft Budget Formulation. - Regulatory framework for the planning process and SNIP standards for public investment projects - Manual of project formulation and evaluation. - Circulars of budget ceilings.
ID-13	Transparency of taxpayer obligations and liabilities	<ul style="list-style-type: none"> - Information provided by SAT. - Regulatory tax and customs framework. - SAT procedures manuals.
ID-14	Effectiveness of measures for taxpayer registration and tax assessment	<ul style="list-style-type: none"> - Information provided by SAT. - Regulatory tax and customs framework. - SAT procedures manuals.
ID-15	Effectiveness in collection of tax payments	<ul style="list-style-type: none"> - Information provided by SAT, NT, and DCE. - Regulatory tax and customs framework. - SAT procedures manuals.
ID-16	Predictability in the availability of funds for commitment of expenditures	<ul style="list-style-type: none"> - Information provided by DTP, NT, and DCE.
ID-17	Recording and management of cash balances, debt, and guarantees	<ul style="list-style-type: none"> - Information provided by DTP, NT, and BANGUAT. - Organic Budget Law and annual budget laws for fiscal years 2006, 2008, and 2009. - Political Constitution of the Republic - State information systems: SIGADE, SICOIN.
ID-18	Effectiveness of payroll controls	<ul style="list-style-type: none"> - Information provided by ONSEC, CGO, and DCE. - Political Constitution of the Republic, Civil Service Law. - Liquidation of the Budget of State Revenues and Expenditures, fiscal years 2006, 2007, and 2008 and their audit reports.
ID-19	Competition, value for money and controls in procurement	<ul style="list-style-type: none"> - Information provided by the Normative Directorate of State Contracting and Procurement. - State Contracting Law and its Regulation. - State information systems: GUATECOMPRAS, SIGES, SICOIN.
ID-20	Effectiveness of internal controls for non-salary expenditure	<ul style="list-style-type: none"> - Executive Reports on the Audits of the Liquidation of the Budget of State Revenues and Expenditures, fiscal years 2006, 2007, and 2008. - Audit Reports on the Liquidation of the Budget of State Revenues and Expenditures, fiscal years 2006, 2007, and 2008. - General Internal Control Standards. - Political Constitution of the Republic. - Government Auditing Standards.
ID-21	Effectiveness of internal audit	<ul style="list-style-type: none"> - Audit Reports on the Liquidation of the Budget of State Revenues and Expenditures, fiscal years 2006, 2007, and 2008. - General Internal Control Standards. - Political Constitution of the Republic. - Government Auditing Standards. - Organic Law of the CGO and its Regulation.

Non-governmental sources of information

National Economic Research Center

Guatemala Chamber of Commerce

Canadian International Development Agency

Spanish Agency for International Development Cooperation

Central American Bank for Economic Integration

Inter-American Development Bank

International Bank for Reconstruction and Development

European Commission

Municipal Development Institute

Annex 4. Effects of performance on public finance management

Interlinkages among the six dimensions of an open and ordered PFM system as well as the three level of budget results

	Aggregate fiscal discipline	Strategic allocation of resources	Efficient service provision
<p><u>Budget credibility</u></p> <p>The budget is realistic and is implemented as planned.</p>	<p>During the period of 2006 to 2008, a growing tendency was observed toward a significant decrease in budget records, which were caused by the delay, omission, or distortion of expenditure records. Although the recorded figures of budget execution would appear to be adjusted to that which were budgeted, they no longer adequately reflect actual expenditures, as funds pending liquidation and floating debt of significant value exist. The approved budget is only one reference to ensure budgetary credit, losing significance as an instrument of financial administration. This is because it is not maintained due to a delay, omission, or distortion of the expenditure record during the execution of fiscal policy assumptions presented in the draft budget approved by the Legislative Assembly.</p>	<p>For the years under study, high levels of reallocation of budget resources among institutions were observed. This high level of internal budgetary modifications suggests a limited identification of the actually executed budget with the original institutional objectives, with the exception of some priority programs and projects established in the draft budget. This would seem to also suggest that a significant part of the decisions concerning the reallocation of resources is foreign to the sectoral technical criteria used during the formulation process of institutional budgets. Moreover, this practice generates uncertainty in the affected sectors.</p>	<p>The allocation of resources was gravely affected in 2008 when it was necessary to reduce the allocated budget and its execution to principal entities in services provision to communities (education, health, and security) for the transfer to MICIVI with the objective to pay a part of its floating debt.</p>
<p><u>Comprehensiveness and transparency</u></p> <p>The budget and supervision of fiscal risk is universal in scope and the public has access to fiscal and budget information.</p>	<p>Fiscal discipline constitutes a primary factor in budget preparation of the government. However, supervision of budget execution and fiscal risk is weak, encouraging the generation of floating debt in the case of the central government. In the municipal and decentralized sector, supervision is weaker still, as the government only receives some budget or wealth information without having access to the debt balances of the institutions. Furthermore, no monitoring of fiscal risk is realized on the operations of public enterprises.</p> <p>Citizens receive information, though official, does not reflect the reality of the budget execution, due to deficiencies in the expenditure record. Moreover, quality of the information is very general, making it difficult to interpret.</p>	<p>During budget execution, though programmed initially by the executing institutions, the allocation of resources has been subject to non-transparent, discretionary processes in the actual allocation of resources, affecting the management of institutions directly linked to social services provision.</p>	<p>The discretionary decisions on resource allocation by MINFIN to the institutions have led to the loss of control over budget execution, affecting the execution of institutional programs. During the period under study, institutions for primary services provision such as MINEDUC and MSPAS suffered very significant decreases in their operational budget, which negatively impacted the operation of their service providers.</p>

	Aggregate fiscal discipline	Strategic allocation of resources	Efficient service provision
<u>Policy-based budgeting</u>	<p>Budget preparation is complete and clearly identified with public policies, not with its execution, in which parallel, extrabudget execution procedures have been observed that evade or violate these policies.</p>	<p>The period of study was marked by several external circumstances, including a change in government in which priorities and strategic objectives changed. Also in the first phase, resources had to be reallocated to cover emergencies, and in the second phase, they had to be allocated to redefine priorities according to the new government's proposal. Although there were policies, its implementation had to be very flexible.</p>	<p>Due to special external circumstances which weakened or modified the public policies and affected the institutional budgets, public services went through a period of inertial execution, characterized by prioritizing continuity in the operation over efficiency and quality.</p>
<u>Predictability and control in budget execution</u>	<p>Budget regulation in the period 2006 to 2008 has shown to be very fragile concerning budget execution, enabling a break in fiscal discipline and the generation of floating debt.</p> <p>Under the Control Procedures Standards, exceptions are made, and the NGCI have not been implemented in its entirety. Also under the internal audit function, there follows an eminently transactional focus and higher budgeted expenditures can be presented (even in salaries) or revenue leakages that increase deficit, the debt level, or arrears.</p> <p>Certainty in fiscal revenues to finance programs and projects is limited by the impossibility to reach the goal outlined in the Peace Accords of 13.2% of the GDP. This circumstance has been made evident by the repeated attempts of the new administration to propel and approve an integral tax reform.</p>	<p>The uncertainty in the budget management, the alleged fraudulent conduct identified by the CGO as well as the significant and frequent non-compliances of internal control and regulations constitute a risk in the appropriate use of public resources.</p>	<p>Inadequate controls of payroll processes, procurement, and expenditure can lead to corruption, leakages of resources, and patronage.</p>

	Aggregate fiscal discipline	Strategic allocation of resources	Efficient service provision
<u>Accounting, recording, and reporting</u>	<p>Accounting and budget reports are based on information registered in SICOIN, which contains several deficiencies through omission or delay in the registry of transactions by the executing institutions. This information does not contain an exhaustive analysis prior to publication in the reports, as they do not necessarily reflect the reality of budget execution nor explain the differences or deficiencies.</p> <p>The reports do not constitute a significant element for budget monitoring, and thus, represent an element of risk for compliance and monitoring of fiscal discipline by the central administration.</p> <p>With regard to the decentralized sector, this problem is more evident, given that they only report on budget and wealth execution, but cannot monitor other aspects of management such as debt level.</p>	<p>Both budget and accounting reports do not allow for adequate monitoring of resource allocation because the sectoral institutions administer these funds under the modality of revolving funds or transfers. As a consequence, when budget or accounting classifiers allow the details to be observed, the records are produced normally through regularization, and several months may elapse from the time that the resources are transferred to the time that the use of them are made accountable.</p>	<p>Monitoring of the systems of services provision is centralized in the sectoral entities or in the regional entities of the sectors. The budget and accounting reports of the government do not allow for a detailed and continuous follow-up.</p>
<u>External scrutiny and audit</u>	<p>Because the CGO and Congress apply mechanisms of evaluation and control over public finances that do not have the required scope, the objectives and strategies represented in the fiscal policy are not verified with adequate coverage. As a consequence, the Executive Power does not have the opportunity to make timely adjustments to its strategy, based on the results of the independent evaluations.</p>	<p>Partial effectiveness of external control and evaluation of the Legislative Power influences the disposition to realize continuous modifications and transfers within the budget items, postponing previously agreed results.</p>	<p>In general, the relative impact of the management of external control and evaluations of the Executive Branch is generating uncertainty on the quality of public management. Publicly, the scope of management of the CGO has been questioned and it recognizes that in some cases there has been a deficiency of resources to cover the public account tests.</p>

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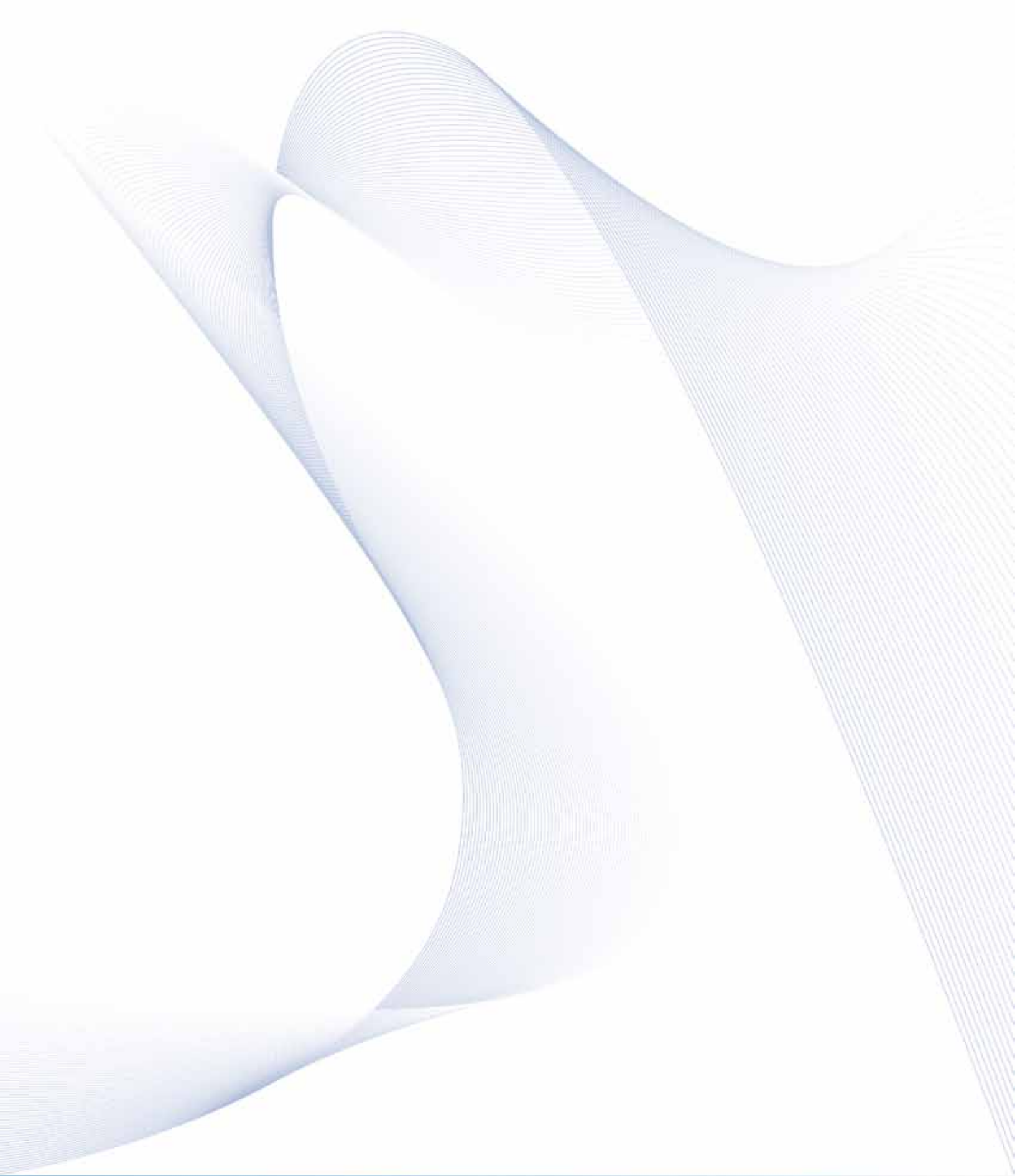
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